

STATEMENT BY  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
OCTOBER 17, 1950

The action of the Board of Governors in amending Regulation W (Consumer Credit), effective October 16, to make it more restrictive was a part of a general program designed to reduce inflationary pressures generated by excessive credit expansion and to contribute to credit conditions appropriate for a growing economy subject to heavy rearmament demands.

Inflationary trends, if unchecked, would lead to disastrous consequences for this country. Inflationary trends cannot be curbed without some inconvenience and sacrifice. The Board believes that the present terms of Regulation W are no more stringent than the current inflationary dangers and the requirements of the defense effort justify.

Since early September when Regulation W was reinstated under the authority of the Defense Production Act, outstanding credit has continued to expand. This expansion has taken place from peak levels and follows extremely sharp increases during the summer. Since mid-June outstanding bank credit has increased by over \$4 billion, a record rate of increase for this period of the year. Expansion of consumer instalment credit has been responsible for contributing heavily to this exceptional growth in the money supply. The reasons for the Board's action in tightening the Regulation were set forth by Chairman McCabe in the following statement:

"The Board's action was based upon consideration of reports from Federal Reserve Banks and other sources in the field in all parts of the country which reflect continued upward pressures on prices in the five weeks since the reissuance of the Regulation was announced on September 8, 1950. While the intensity of these pressures on the market varies somewhat from time to time the fact remains that the underlying inflationary forces are unabated and have been augmented by the continuing growth of bank credit as well as credit in specific areas, including instalment credit. More vigorous application of regulation of instalment credit, coincident with the imposition of the real estate credit controls, is therefore in order so that these and other credit measures may most effectively serve in the effort to hold the line until further fiscal measures, as nearly as possible on a pay-as-you-go basis, and such additional credit measures as may be necessary can be brought into play. This is in accordance with the President's Mid-Year Economic Report of July 26 in which he stated that first reliance should be placed upon fiscal and credit measures and that this would make less necessary resort to direct controls. Likewise, the action is pursuant to the statement of August 18 in which the Reserve System declared its purpose to use all the means at its command to restrain further expansion of bank credit.

"Prospective pressures on productive capacity, manpower supplies, and the price structure arising out of expanded defense and military aid programs will be increasingly heavy. This action was taken in the light of the System's statutory responsibilities, both under the Federal Reserve Act and under the Defense Production Act, to reduce inflationary forces particularly in various credit areas; to help maintain the purchasing power of the dollar; and to assist other agencies in assuring that the needs of the defense program are adequately met."