

TO _____

FROM _____

REMARKS:

4/14/43

Copies of the two memoranda also sent to Mr. McGann, 1501 New House Office Building this morning at 10:50 by special messenger.

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CHAIRMAN'S OFFICE

February 13, 1943.

Honorable Joseph C. O'Mahoney,
United States Senate,
Washington, D. C.

Dear Senator O'Mahoney:

Referring to the telephone conversation I had with you a few days ago, at which time you asked me to provide you with information relative to the availability of investment funds and such information as we had regarding the mortgage credit situation, I am enclosing two memoranda which I trust will serve your purpose.

If there is any further information which you want and which we are able to provide you with, we will be very glad to do so.

With kindest personal regards,

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures 2

MSE:VE:b

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 11, 1943

To Chairman Eccles

Subject: Availability of investment

From Mr. Goldenweiser

funds.

This memorandum is in response to an inquiry which you received about the availability of money for investment in the development of facilities for producing scarce raw materials. The fundamental fact of the matter is that we are beset by scarcities on all sides in the way of materials, of manpower, of transportation, and of plant. The one thing of which there is no shortage is money of any kind. There is an abundance of money both for investment and for current spending. In fact, as you know, the greatest fiscal and monetary problem that is facing us is how to redirect that money into war channels so that it will not exert an inflationary pressure on the shrinking volume of civilian goods.

One way to appraise the volume of money available is by direct measurement of demand deposits and currency outside of banks which in the aggregate represents the country's liquid medium of exchange. Towards the end of 1942 money, as just defined, amounted to 63 billion dollars, compared with 35 billions at the time the European war broke out, and 26.5 billions towards the end of 1929. There is, therefore, by this simple measure a great abundance of money available for investment as well as for other purposes.

Perhaps a more significant way of measuring investment funds available is to start from the total production of goods and services, which is known as the gross national product. This aggregate is estimated for 1943 at 175 billion dollars, compared with 152 billions in 1942 and 120 billions in 1941. Of this total of 175 billion dollars, 36 billions net will be taken by Federal and other taxes, leaving 139 billions available for other purposes. Of this 139 billions, 72 billions can be expended on the available supply of consumers' goods, that is, all the civilian goods that we are expected to have, and any larger expenditure would simply mean a rise in prices, rather than an increase in goods. Over and above that amount there still remains 67 billion dollars for business, social security, and personal savings. It has been estimated that business accumulations and social security savings will aggregate 22 billions, leaving 45 billions available for personal savings. This large sum of 45 billions, if any considerable part of it is spent in the commodity market, is a grave inflationary force. On the other hand, it is available for additional taxation, for the purchase of Government securities, and for such other investments as may be in the national interest.

Whichever way we figure it, it is clear that there is an ample supply of investment funds for any use that is consistent with the public interest.



February 12, 1943

REGULATION OF MORTGAGE CREDIT

In the President's program of national economic policy for preventing a rise in the cost of living, the seventh point related to measures to discourage credit and instalment buying and encourage the payment of debts, mortgages, and other obligations. Various steps have been taken by the Board of Governors of the Federal Reserve System and by other Government agencies to implement this objective. Specific controls have been imposed on short-term consumer debt and statements have been issued discouraging expansion and encouraging liquidation of other debt not necessary for the war effort.

One of the most important fields of individual debt is the financing of home ownership. A period such as the present is favorable for the development of a speculative situation in the purchase of homes. People have increasing incomes which gives them ability to incur obligations for homes; the supply of existing houses is limited, making it more difficult to obtain suitable rental quarters; and ownership of property is favored as a "hedge against inflation."

To permit speculation to develop in the housing market would intensify inflationary pressures already great. It would not only hinder the conduct of the war in various ways but would also create serious problems in connection with post-war adjustments. Borrowing to buy a home, just as any other form of credit, adds to buying power, and to have this happen when the supply of goods, services, and properties available for purchase is limited would have the effect of bidding up prices both of goods and of property. Expansion in debt based upon rising prices would impose obligations upon home owners which they might find difficulty in meeting later in a period when incomes may be reduced. This situation would lead to defaults and to a possible breakdown in the credit system, with widespread consequences.

Various measures may be adopted to prevent the development of such a situation. The most obvious one is the regulation of mortgage credit along the lines already followed in the regulation of stock market loans and consumer credit, i.e. imposition of requirements for substantial margins between loans and value of property and for relatively large instalment payments on the debt. The imposition of rent controls, restricting increases in rental charges, has the effect of discouraging the buying of properties for rental purposes, and is one means of control in this area.

Careful study has been made of the mortgage credit situation; up to the present there is little indication of an excessive expansion in such debt. In fact growth in mortgage debt, which has been characteristic of recent years, has slackened and repayment of debt has increased. Although precise current figures are not available, it is likely that at present repayment of mortgage debt may exceed new debt created. In view of this situation it has not seemed necessary to impose any general controls over mortgage credit, but the situation needs continued watching for signs of speculative credit expansion.

In particular areas, where war activities have caused a concentration of population, there has been a substantial amount of activity in the real estate market. Rent controls have been necessary in these places to prevent excessive charges being imposed upon war workers and also to prevent frequent evictions of tenants in favor of those willing to pay higher rents, with demoralizing results upon the efficiency of the workers.

There was evidence that in some cases rent controls were being evaded by the sale of houses on very lenient terms as to down payments, with regular monthly payments which corresponded to high rents but which would provide only a small equity over a period of a few years. There was evidence also that rental properties were being sold for owner occupancy at rising prices that could be justified only on the basis of a rent level higher than the rent ceiling. These practices made it necessary for war workers in order to obtain homes to make long-term commitments for houses in localities in which they might not live after the war and to assume obligations which they would not be able to maintain with lower levels of income.

In order to prevent such evasion of its maximum rent regulations the OPA adopted an amendment which required that, in those areas where rent regulations are in effect, sales of residential property which require for completion the involuntary dispossession of a tenant must meet two requirements: (1) One-third of the purchase price must be paid down; and (2) three months must elapse between the certification by the Administrator that requirement (1) has been met and occupancy by the purchaser. Exceptions in hardship cases are provided for.

This regulation has apparently had the effect of curtailing sales of real estate in some areas where sales had been active. It is a direct approach to those aspects of the problem that are currently acute. To the extent that they are effective in preventing speculative sales on credit, the existing rent controls may make unnecessary the imposition of more general and broader restrictions on mortgage credit.

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United States Senate

COMMITTEE ON APPROPRIATIONS

February 15, 1943.

Hon. M. S. Eccles, Chairman
Board of Governors
Federal Reserve System,
Washington, D. C.

Dear Mr. Eccles:

Your letter of February 13 with the enclosed memoranda on the availability of investment funds and the regulation of mortgage credit arrived this morning.

I am most grateful for your prompt response and I am sure the information will be of great help to me.

With very best wishes,

Sincerely yours,


Joseph C. O'Mahoney

JCOM:M