

## GOVERNMENT CREDIT

FRIDAY, MAY 23, 1947

HOUSE OF REPRESENTATIVES,  
BANKING AND CURRENCY COMMITTEE,  
*Washington, D. C.*

The committee met at 10 a. m., Hon. Jesse P. Wolcott (chairman) presiding.

Also present: Messrs. Smith, Kunkel, Sundstrom, Buffett, Cole, Stratton, Banta, Spence, Brown, Monroney, Folger, and Buchanan.

The CHAIRMAN. The committee will come to order.

This morning we will start consideration of consumer credit, and in particular of regulation W of the Federal Reserve Board.

We have with us Congressman Harold C. Hagen, of Minnesota, this morning, who has introduced a bill on the subject.

Congressman, you may proceed in any way you desire.

### STATEMENT OF HON. HAROLD C. HAGEN, REPRESENTATIVE FROM THE NINTH DISTRICT OF MINNESOTA

MR. HAGEN. Mr. Chairman and members of the committee, I have introduced in the House of Representatives H. R. 2542, a bill which has been referred to your committee. This bill has been drawn so existing consumer credit regulations, so-called regulation W, as prescribed by the Board of Governors of the Federal Reserve System, shall not apply to future consumer credit transactions.

Regulation W is an emergency wartime regulation. It derives its authority from the Trading With the Enemy Act and the Second War Powers Act. It was intended to restrain inflation and to assist in the rationing of goods in short supply during the war.

I think all good Americans supported it then, and all during the war period. Now, 2 years after the war has ended, we find this war regulation, this specialized, planned economy regulation still in existence. Under the fiction that we are still at war, the Federal Reserve Board is setting the terms on all installment purchases of 12 classes of durable goods, all the way across the Nation: radios, automobiles, washing machines, furniture, rugs, and such items being sold by law-abiding merchants only on terms which have been consciously set by the Federal Reserve Board System in the wisdom of the experts over there, to depress demand and make it hard and difficult for the low-income purchaser, veterans, working people, and so on, to buy these products that have become standard parts of the American home.

To interfere with and manage the way in which Americans spend their money, how American businessmen run their business, on no basis of law excepting an emergency regulation put over in wartime and on authority granted by Congress solely for war purposes is bad government, and, in my mind, detrimental to the economy of the Nation.

I am glad to find that Mr. Marriner S. Eccles sometimes agrees with me on this point. He has been an outstanding proponent of regulation W during the many months when the Federal Reserve Board retention of the regulation has been under fire from business, banking, labor, veterans, and other quarters. However, in reply to a letter from me the other day, he wrote as follows, on May 12:

So far as I am concerned, there is no change in my position which is based on the feeling that a regulation of this sort should rest on legislation in peacetime, and not on an Executive order issued under emergency or war powers. Accordingly, I felt that if Congress adjourned without enacting legislation necessary to carry on the regulation, we should recommend that the order be vacated. I cannot, of course, speak for or commit the President.

This is a truly interesting statement. Here is a man who has kept the war regulation alive for many, many months after the shooting has stopped and most war controls were progressively abandoned in the interests of getting back to a peacetime economy, now making it very clear that the regulation should be abandoned. I wish that he could have come to this conclusion a year ago as well as today.

I think that if I understand the feelings of the Congress today, that we will never vote for the Federal Reserve Board, as far as giving them any authority is concerned, to have permanent power to regulate consumer credit. This Congress wants fewer, not more, controls over the normal life of our people. Therefore, I have introduced this legislation to strip from the board this wartime power which they have retained for themselves in peacetime.

In spite of some statements I have no confidence now that they will surrender this authority voluntarily, because that agency, as many others, has never operated to seek less power over our people, and over, in this case, our credit system, but always more. I have no confidence that a request to the White House for the lifting of the order on which the regulation rests will accomplish anything. In fact, the Board does not need to do this—and this puzzles me: the Executive order of the President is merely permissive. It is a grant of authority to regulate within the discretion of the Board. If the Board desires to do so, it can certainly lift the regulation tomorrow, and end this nonsense forthwith. For it surely must know that Congress will not perpetuate its authority.

Many other Members of Congress agree with me. Your own distinguished chairman has made his position clear in opposition to the regulation. Congressmen Davis of Georgia, and Schwabe of Oklahoma, introduced similar bills to mine and these are now before your committee.

Congressman Eberharter of Pennsylvania, Sadowski of Michigan, Hook of Michigan, Priest of Tennessee, Morrison of Louisiana, and others have spoken out in the Congressional Record against this regulation.

I have here before me clippings from three newspapers on the subject—the New York Times, for instance, criticizes the control of consumer credit by the Board because—

1. The Reserve Board record in recent years has been such as to create more than a suspicion that it was interested in acquiring power for its own sake.

2. The Board has not given convincing evidence that it was pre-

pared at all times to use what power it had fearlessly and without regard to political considerations.

3. There has been no consistent pattern in the matter of credit policy so far as the administration in Washington is concerned.

Then, I have here two labor newspapers, one from a large central labor union group of the American Federation of Labor unions in western Pennsylvania, the other the Commercial Telegraphers Journal. Both of these assail regulation W for the manner in which it discriminates against the workingman in the lower-income groups who have always relied on installment buying to equip their homes and get the major items for good living which they need.

Millions of workers should not be barred from the market for durable goods because they must use credit, this labor editor writes.

I could cite many other articles opposing this legislation, but it is not necessary, even if time permitted.

I find the following business organizations opposing the continuation of regulation W: American Bankers Association, Chamber of Commerce of the United States, American Finance Congress, the National Electrical Wholesalers Association, the National Electrical Manufacturers Association, the Retail Credit Institute, the National Automobile Dealers Association, the National Used Car Dealers Association, the Consumers Bankers Association, the National Association of Credit Jewelers, the National Consumer Finance Association, the Chamber of Commerce of the State of New York, and many local bankers groups as well as others whom I have failed to note here.

All of these important groups of legitimate businessmen, the lifeblood of our real American economy, oppose this harmful, trouble-making regulation. Furthermore, many labor and veterans groups and individuals, as members of these various veterans and labor groups, have adopted resolutions and have written letters to many Members of Congress asking that regulation W be terminated.

At this hearing, you may hear many technical and seemingly important arguments against regulation W. I am not in a position myself to cover these as well as some of the businessmen who will be here representing the various organizations. They will testify on these points before your committee, no doubt, later on.

In closing, I want only to read a statement to which I subscribe most heartily from an expert, in my opinion, on these matters, whose sound judgment and broad thinking I completely respect. I refer again to your own chairman, Congressman Wolcott, who was quoted as follows some time ago in his early opposition to all that regulation W stands for.

And this is really the lifeblood of this whole argument, the brief statement:

Credit is the lifeblood of the American economy. Reasonably easy credit terms result in mass buying and, therefore, mass production, which always lowers prices. We are now running into a situation where we are going to have enormous production with a possible cut in domestic markets, as a result of the Government controls on consumer credit. There is no point in mass production unless these things can be put into the hands of the people, and it is simply impossible to have mass purchases when the law requires stiff down payments with quick payment of the balance.

Therefore, in closing, I wish your committee the utmost success in the present public spirited and most important inquiry on the subject of regulation W and credit controls in general.

In closing I want to thank you for the opportunity of appearing before your Committee in behalf of my own bill and the other bills of a similar nature which have been introduced and which are before your committee.

Thank you.

The CHAIRMAN. Thank you, Mr. Hagen. Do you take the attitude also that this regulation has perhaps outlived its usefulness, though it served a very good purpose during the war, and that at the present time it is somewhat discriminatory?

Mr. HAGEN. I believe that is right. The person who has a lot of money can go in and pay cash for any item he may want to buy. But the working person or the young veteran who is just getting married and has a job and does not have a lot of money in reserve cannot go in and buy a refrigerator, a washing machine, a rug and some furniture in order to set up his household and pay cash for it. He has to pay a small down payment and pay so much a month, and in that way he may get established. But regulation W makes it almost impossible for a man of small means to get started in setting up his household.

The CHAIRMAN. Are there any further questions of Congressman Hagen?

Mr. SMITH. Mr. Hagen, who, besides the Federal Reserve, opposes this bill?

Mr. HAGEN. I am not so sure whether they will oppose it now, but perhaps they will. I have not heard anyone opposing it. There are perhaps a few merchants who may oppose it. I notice in the polls that were taken by various groups, credit groups and retail groups, as to whether or not regulation W should be lifted, and also as to whether or not it should be modified, and thirdly, as to whether or not it should be retained, there are always a certain small percentage who say it should be retained. So, in my mind, it might be 10 or 15 percent of the people who were polled within the last year, on that, who said it should be retained. Perhaps 15 or 20 or 25 percent might say it should be modified.

However, the great majority in most of the polls I have seen, and as indicated by the letters I have received, indicate it should be terminated entirely.

Mr. SMITH. Do you include people who do a credit business? Do you mean to say people who do a credit business, that there is a small percent of those who want this regulation retained?

Mr. HAGEN. The average merchant who sells furniture, and many others, do a good deal of credit business, and some of them are willing that it be retained. But, as I understand it, in many cases, those who do want it retained, they can go to the bank and get their money immediately, anyway, so it probably does not affect the small group who are saying "let us keep it as it is." They probably have not had any difficulty. But that would be a very small percentage.

Mr. SMITH. It would simply depend upon how much credit business they do, and the type of credit business they do, would it not?

Mr. HAGEN. The average businessman is still going to be very careful about this credit, as also the banks, who may support the businessman, in extending him a loan on the basis of these contracts or agreements. But if more people could buy these items, more of them could be manufacturers, and, therefore, the price would come down, and if there is a depression coming up—which some people

think there might be—the average manufacturer cannot plan ahead under the present program. He does not know whether these regulations are going to be lifted or not, or if they are going to be continued, and he cannot plan his program for 2 or 3 years ahead, if he is manufacturing washing machines, say, and with that type of set-up it is difficult for American industry to plan ahead.

Mr. SMITH. What reason does the Federal Reserve give you for retaining this regulation?

Mr. HAGEN. Generally based on anti-inflation. In other words, they are fearful that lifting the consumer credit controls may create a tremendous demand, and because of the shortage of supply, that prices will go up. Well, the average American industry has set its prices. They are trying to get their prices lowered. If they can have a greater demand, they can decrease their prices, because their manufacturing costs would be less. In my opinion, it is going to work just oppositely to what the Federal Reserve claims, in peacetime. In wartime it is different, because they are regulated as to the amount they can produce and the shortages of material. Now, material is plentiful and there is considerable employment in the country, and there is a need for long-term planning of production of durable goods which the people could buy if they had more liberalized credit.

The CHAIRMAN. Are there any further questions?

Mr. KUNKEL. Mr. Hagen, I think that letter you read from Mr. Eccles is an extremely interesting item in view of the permissive character of the Executive order. It seems to me it is entirely inconsistent.

Mr. HAGEN. Well, unless he has just changed his mind recently. This letter was dated May 12, and it would clearly indicate to me that he feels that the regulation is not necessary in peacetime, and they would recommend that the order be vacated.

Mr. KUNKEL. He says he will not continue it unless the Executive order is continued, and yet the Executive order is permissive and allows the authority to rest in the Federal Reserve Board. So he has nothing to worry about from the Executive order and could get rid of it right now. That is why it seems inconsistent.

Mr. HAGEN. It is confusing to me, too, that is why I believe Congress should take a definite action on the matter.

Mr. BUFFETT. I do not think very much of this regulation, but, under the somewhat master-mind theory of government, is it not possible that a regulation like this, by preventing people with small incomes from making purchases on today's inflated market, would give them the opportunity, in 6 months or a year, or a year and a half from now, to buy the things they are urged to buy now, at the lower prices that are supposed to prevail when the inflationary surge is over?

Mr. HAGEN. That could happen. However, a person who signs a contract for a washing machine, for instance, will have the use of that machine, and even if the price should go down 10 or 15 percent, he would still have the use of that machine in the meantime. So he would still be even with the situation, even should the price go down.

Mr. BUFFETT. How much of the advertising and ballyhoo, for instance, today, on war bonds is to buy war bonds and postpone the purchase of these different things that people want, and buy at lower prices later on? If that philosophy is correct, it could be that this regulation is designed to fit in with that.

Mr. HAGEN. But I do not anticipate that things will go up that way, because the manufacturer, knowing that he will produce and sell twice as many washing machines in the next 6 months or a year as he is today, will plan on cutting his prices rather than raising them.

Mr. BUFFETT. Of course, you have this problem, Harold: You are using up the deferred demand in a hurry, when you make credit that easy, and we may work ourselves into a depression period when there will not be buyers for these items simply because we have exhausted the demand in a quick upsurge of production and buying.

Mr. HAGEN. That is true. However, there are many people who are buying these things today so there is not going to be a great rush to buy these things. It is people who are getting married next year or 6 months from now, and people who are setting up households, who will be gradually getting into this market, and the manufacturer will see that and understand it and he will have this steady market.

Mr. BUFFETT. Understand, I am not trying to build up a case for Government regulation. I am simply trying to find out the arguments that might be advanced in favor of it.

Mr. HAGEN. Take a veteran and his wife setting up a house. If they pay 5 or 10 dollars more for a washing machine, presume they might, that housewife would rather have it, anyhow, to relieve her of washing clothes by hand, and that veteran would rather have furniture and a radio in his home and enjoy it even though it might cost him \$5 more. But over the long-time pull, that radio or washing machine will cost him less money if the manufacturer is able to produce twice as many as he would otherwise.

Mr. BUFFETT. And, of course, as long as we have the domestic Truman doctrine of an annual wage raise of 10 or 15 percent every year, the price of washing machines is going to continue to go up.

Mr. STRATTON. The point he made, I think, is very good. There are so many of these young veterans who cannot afford to buy these things unless this regulation is relaxed.

Mr. HAGEN. That is right.

Mr. SUNDBLUM. Mr. Hagen, is it not possible that the Federal Reserve System wanted to keep this power because, as a result of the deficit financing during the war and preceding the war, that we have developed an artificial money market, controlled by the Government, the ratio of reserves have had to be changed because of wartime conditions, and the Federal Reserve were practically out of the market insofar as buying or selling Government bonds in the open market, so that you have really removed most of the controls on credit that the Federal Reserve had, and the only credits they really had were under regulations T, U, and W, and they are perhaps a little reluctant to give up that control although they were never meant to be in the Federal Reserve originally?

Mr. HAGEN. That may be true, however, in addition to that, there is a bureaucratic policy not to give up controls of any kind because they want that authority and control and they want to have the jobs that control and power gives them.

The CHAIRMAN. Thank you, Mr. Hagen.

Is Mr. Selby here? Mr. Paul Selby, as I understand, is executive vice president of the National Consumer Finance Association.

Mr. Selby, you may proceed as you see fit.

**STATEMENT OF PAUL L. SELBY, EXECUTIVE VICE PRESIDENT  
NATIONAL CONSUMER FINANCE ASSOCIATION**

Mr. SELBY. Mr. Chairman and members of the committee, I would like to present to you—

Mr. SMITH. Mr. Chairman, may I ask where the witness is from?

The CHAIRMAN. Will you further identify yourself, Mr. Selby?

Mr. SELBY. Mr. Smith, this witness comes from the great State of Ohio.

Mr. SMITH. I wanted to get that in the record.

Mr. SELBY. I was chief of the division of securities in charge of the administration of all the consumer finance laws of the State of Ohio for 6 years, and for the past year and a half have been executive vice president of the National Consumer Finance Association, formerly known as the Association of Small Loan Companies.

Mr. SMITH. I just want to say to the committee that I am personally acquainted with Mr. Selby and that he has a very high reputation in my great State.

Mr. SELBY. Thank you, Dr. Smith.

The National Consumer Finance Association is the national trade association of the licensed small-loan companies operating in 32 States having adequate regulatory laws for the licensing and supervision of small loan companies.

There are approximately something over 5,000 of these licensed small-loan offices who are authorized to and do business in the principal industrial States of the United States. These companies are united in their opposition to regulation W as now effective, and are opposed to any permanent authority to regulate consumer credit by the Federal Reserve Board.

Some of the reasons for our position are as follows:

First, regulation W was an emergency wartime measure and should now be abolished in a peacetime economy.

Regulation W was promulgated pursuant to an Executive order under the alleged authority of the Trading With the Enemy Act of 1917, as amended, for the stated purposes:

1. To reduce the demand for strategic materials necessary for the war effort;
2. To build up a backlog of purchasing power for postwar use, and
3. To reduce the inflationary pressure for goods and services in general.

And meaning of the first of these stated purposes ceased to exist with the termination of the war and has no application now—that is, to have provided strategic materials for war purposes.

The second objective, the building up of a backlog of savings for postwar use, has also lost its significance. We are in the postwar era now, and the objective to be accomplished is the reverse of that stated in the original purpose. Regulation W was never effective for this purpose, anyway. The recent survey of the Bureau of Agricultural Economics, as announced by the Federal Reserve Board—and I want to insert here that I think that was in the June, July, and August issues of the Federal Reserve Bulletin—shows that more than half of the families of the United States have no accumulated savings, while the top 10 percent holds 60 percent of the liquid savings. Regulation W was ineffective for this purpose even during the time of war.

If I may interpolate, there is a vast accumulation of liquid savings in the United States—over a hundred billion dollars. But 60 percent of it is in the top 10 percent bracket; the lower 40 percent, in the aggregate, hold only 1 percent of the liquid savings. The next 30 percent have only 12 percent. More than half of the families, therefore, have no liquid savings with which to go into the market and supply their pent-up demand for goods.

The third purpose was based upon the theory that the consumer credit contributed to the upswings and the downswings of the economic cycle, and they might have some effect in controlling inflation. This theory is not generally accepted by the economists. Our observation and experience is to the effect that outstandings in consumer credit follow economic trends rather than cause or accentuate them.

Regulation W as now effective applies only to 12 classes of durable goods, known as listed items. The total outstandings in installment sale credit amount to less than \$2,000,000,000. The total outstandings in installment loan credit are only about \$2,500,000,000. The total installment credit amounts to only approximately \$4,000,000,000.

I received this morning—and I notice a number of copies have been made available to the committee—a series of Federal Reserve charts, prepared by the Board of Governors, showing the trends and the curves of consumer credit and the amounts outstanding. The figures to which I refer may be found in an analysis of those charts.

Now, let me repeat that statement: The total installment credit—sales financed and direct loans—in the United States totals approximately only \$4,000,000,000.

With the national income ranging from 165 to 175 billion dollars, the outstanding installment sales and loan credit amounts to something like 2 percent of the national income, and less than 4 percent of the annual purchases by American consumers.

One of these charts shows the annual purchases of nondurable goods to be something in excess of \$100,000,000,000, and the annual purchases of durable goods to be something approximating \$10,000,000,000.

These ratios are too small to support the theory that these consumer credit outstandings have any tangible effect upon the economic cycles or add substantially to inflationary pressures.

The second point is that the rise in consumer credit is not substantial.

In the last few months, outstanding consumer credit has reached the dollar volume which it attained at the peak in 1941—roughly \$10,000,000,000. During that period the population has increased 5 percent, the number of family units has increased 7 percent and the percentage of persons employed has increased even more. The buying power of some consumer units has climbed even higher. The outstandings in total consumer credit today are only 5½ percent of the national income. Prior to the war consumer credit varied in dollar volume, but from 1929 to 1941 approximated 10 percent of the national income. On this historic bases, the normal outstandings in consumer credit would be 16 to 18 or 20 billion dollars instead of the present 10 billion dollars outstanding.

Mr. BUFFETT. How do you arrive at the 16 or 18 or 20 billion dollars?

Mr. SELBY. At 10 billion dollars it was approximately 10 percent of the national income.

Mr. BUFFETT. You are talking about what it should be taking into consideration today's income?

Mr. SELBY. I am considering the 12 to 15 years when we had normal consumer relationships, prior to 1941, at the time that the regulation was imposed on consumer credit.

Mr. BUFFETT. I see. You think it averaged about 8 billion dollars then, and now, with double income, it would average around 16 billion dollars.

Mr. SELBY. In the same ratio. When the national income used to be about 70 billion dollars consumer credit ran about 7 billion dollars. When it was 80 billion dollars, it was about 8 billion dollars. Then we went down to a lower figure in the thirties. Now it is approximately a little more than half of that ratio.

Mr. BROWN. Is the automobile industry supporting this bill?

Mr. SELBY. I am sorry, Mr. Brown, I did not hear the question.

Mr. BROWN. I say, is the automobile industry supporting this bill?

Mr. SELBY. The National Association of Automobile Dealers has gone on record and adopted a resolution, I am told—and I have seen a copy of it—opposing regulation W and the extension of it.

Mr. BUCHANAN. They are the retail dealers?

Mr. SELBY. They are the retail dealers. Now I understand that the distributors, while they cooperated fully with the regulation during the war period, are swinging over to the other side.

The changes in purchasing power and increased economic activity indicate that more consumer credit is needed if we are to maintain sound economic relationships.

Prior to the war the amount of outstanding production credit extended by federally insured banks to business firms and corporations and the outstanding consumer credit roughly paralleled each other in amount. For example: In 1941 production loans by banks amounted to 9.3 billions, when consumer credit was approximately 9.7 billions. Commercial and industrial loans have increased from 6½ to 14 billion dollars since VJ-day, while consumer credit in the same period has gone up to only 10 billions of dollars. American industry has an enormous productive capacity. Supply lines are rapidly being filled, and it is vitally essential that consumer credit be made more available in order to provide consumer purchasing power to take up the enormous output of production and distribution if we are to avoid a break-down in the economy through a lack of consumer purchasing power.

Thirdly, regulation W is highly discriminatory.

The higher income groups during the war and since the war have been able to satisfy their needs by buying all of their requirements for cash, without resorting to the use of installment credit. The American wage earner, the white-collar worker, the school teacher and low-salaried income groups have been and remain unable to accumulate large sums with which to buy for cash. They live on periodic incomes, and their purchasing power, with installment credit available, is tremendous. The well-to-do can buy an automobile, a refrigerator, or household furnishings for cash, without limitation or restriction. The poor must pay down one-third of the purchase price and the remainder in not to exceed 15 months.

Mr. SMITH. Would you mind an interruption at that point, Mr. Selby?

Mr. SELBY. Certainly not, Mr. Smith.

Mr. SMITH. A very important point might be brought out there. Prices, in general, have been rising. Those who have the money to

pay cash for their goods have greatly profited by being able to buy at a low figure, whereas those people who have not had the cash—the poor people you speak of—now must pay those higher prices. Had they had an opportunity to buy those goods on installments they could have availed themselves of the privilege of buying at much lower prices. That has been indeed a bad thing for the working people of our Nation.

Mr. SELBY. It is the most highly discriminatory bit of regulation that has been on the books during the war period.

Mr. BUFFETT. You don't believe, then, Doctor, that prices are going down, as the advertisements tell us?

Mr. SMITH. I have a suspicion that the Federal Reserve is sort of relaxing on this thing, but sort of holding on also. It suspects, perhaps, that a recession is just around the corner somewhere, although they are not so sure about it, and they want to relax a little bit on this regulation W, perhaps, in order to overcome that situation. One never knows where the Federal Reserve stands on some of these matters.

Mr. SELBY. The point is extremely well taken. You never know. They claim it is flexible—that it is the spigot with which you can turn on the ebb and flow of consumer purchasing power and demand. They might cut it off or prohibit it, but no man has the power or the wisdom or the vision to turn it on, to make people use credit. Because the people have good judgment and know how to select their own credit terms, as evidenced through the last few years. Let us look at the situation.

The purchaser of the lowest-priced car today must accumulate at least \$500 to make the down payment and then meet monthly payment requirements of approximately \$80 per month. The wage earner is unable to meet these terms.

The veteran, encouraged to purchase a home or to go into a small business on long-term Government credit of 15 to 20 years, may be able to finance a home but is wholly unable to buy the furnishings to put in the home under the restrictive terms and requirements of regulation W.

Mr. SMITH. With his own money.

Mr. SELBY. Well, he cannot even borrow it for the down payment.

Mr. SMITH. I know. But in one instance the Government hands him the cash, gives him the inflationary dollars and tells him to go ahead, and in the other instance it takes the dollars which he has already earned and prevents him from using them.

Mr. SELBY. So far as we know, regulation W is the only wartime regulation which directly discriminates against low-income groups and is in favor of the rich and well-to-do. Discrimination is abhorrant in Government, and this discriminatory regulation should be abolished.

Fourthly, regulation W creates disrespect for Government.

One of the requirements which applies to every application for an installment loan is that the borrower sign a statement of purpose for which he proposes to use the proceeds of the loan. If for medical, hospital, or educational purposes, he may be exempt from the regulation—if he tells the name of his doctor, or his address, or his hospital, or the educational institution.

Borrowers consider this requirement that they sign a written statement of purpose for which they will use the money as an invasion of

their personal rights. When told that it is a Government requirement, the reaction is unfavorable to Government. Borrowers resent Government prying into personal affairs and demanding of them that they name their doctor, the hospital, or the details of their private spending. They resent as deeply the limitation and restrictions on the free exercise of their own judgment and their ability to make an agreement with a credit grantor as to the terms under which they may borrow.

Fifthly, regulation W is a burden on business.

Every credit grantor is required to comply with the Government regulation requiring the obtaining of statements from borrowers, the making, keeping, and maintenance of records subject to examination by the agents of the Federal Government, and all of the red tape and annoyance incident to the administration of the regulation.

Our companies cooperated fully with the Federal Reserve Board during the war as a patriotic gesture and as evidence of their willingness to do anything to contribute to the war effort. Our people helped in drafting and as consultants with respect to the administration of the regulation. As chief of the Division of Securities in the State of Ohio and as a member of the National Conference of State Small Loan Supervisors, I know from experience that the State supervisory authorities cooperated fully with the Federal Reserve Board, but I also know that the regulation has involved an immeasurable burden upon operators and supervisors alike. Our people feel that it serves no valuable purpose whatsoever and resent the imposition of these unnecessary burdens upon the operation of a business so fully regulated and supervised by State authority.

Sixth, there is no danger of consumer credit running wild if the regulation is removed, which is one argument used in favor of regulation W.

Credit grantors have more at stake in the maintenance of sound credit extension than anyone else. Our companies do business with private funds. They are lending their own money. They are vigorously opposed to overextension of credit. The wage earners of America are honest. Even through the depression years they paid their installment obligations; their record has been splendid during the war, and we have a constantly growing faith in the integrity of the American wage earner and his conscientious desire to meet his obligations. He is cautious. Both the lenders and borrowers are interested in the maintaining of sound budget borrowing. The American people make their money on a series of pay days. Their incomes are monthly or semimonthly. With sound credit, they can budget their purchasing, acquire things of utility and value and raise their standard of living while remaining on a sound economic basis.

Regulation W is an interference with the ordinary buying habits of the honest working people of America. It serves no sound economic purpose and should be abolished without delay, and the authority to encroach upon this field of free enterprise should not be granted for the future.

Mr. Chairman and members of the committee, I have completed my statement.

The CHAIRMAN. We are very glad to have had you with us this morning, Mr. Selby.

Do the members have any questions?

Mr. BUCHANAN. How much do you think the down payment should be? It is now one-third down and the balance in 15 months. To what figure do you think that should be reduced?

Mr. SELBY. The automobile dealers are talking about something in the nature of 20 to 25 percent.

Mr. BUCHANAN. And how many months to pay the balance?

Mr. SELBY. As far as our business is concerned, most of our State laws limit the maximum to about 21 months. Some of them are 25. That is, it allows for either 20 or 24 monthly payments. The credit terms by the sales finance companies are governed by their own judgment in the matter. But that is about the limit to which it should go.

Mr. BUCHANAN. Would you have the same regulations for used-car purposes?

Mr. SELBY. Not regulations. They are not regulations at all. I am against any regulations.

Mr. BUCHANAN. The finance companies would certainly have to have some standard for a down payment and the balance payments. Those are regulations set by the finance companies with dealers.

Mr. SELBY. It seems to me that the Attorney General of the United States had some remarks in the Federal courts a few years ago about agreements in fixing terms, rates, and prices in connection with financing.

Mr. BUCHANAN. Well, that has always existed in the retail automobile market, has it not?

Mr. SELBY. I do not think it should be——

The CHAIRMAN. They are trade practices.

Mr. SELBY. I do not think it should be a matter of agreement at all, but the sound judgment of the credit guarantors and the borrowers and the sales finance people should govern according to the circumstances at the time, and not some Federal bureau which fixes the minimum terms under which they should do business, or the maximum terms.

Mr. BUCHANAN. They have always been rather uniform, though, in the trade.

Mr. SELBY. Well, I think there is substantial uniformity. As far as our companies are concerned, we are regulated by the State laws and it varies from State to State, but within a general rate. I would prefer that the sales finance people and the finance companies who handle sales financing should discuss their own terms. As far as we are concerned, we are not interested in going far beyond what the thing is, but the regulation itself is obnoxious, from the standpoint of compliance with a lot of formalities and embarrassing to the borrower, and limitations upon his operations, particularly in view of the fact that it applies only to the poor-wage earner and lets the higher-bracket individual go scot free.

Mr. BUCHANAN. If you remove the Government regulations, you put on private regulations, or private trade practices, let us say; is that right? That is what takes its place, is it not?

Mr. SELBY. Well, I do not want to disagree with you, but I do not see how it could happen. In our industry we have no agreements. Our limits are fixed by the State statutes under which we operate.

The CHAIRMAN. What is your industry, Mr. Selby?

Mr. SELBY. The small-loan business. We have about 5,000 licensed small-loan companies in 32 States which have small-loan laws and regulations.

The CHAIRMAN. Are you in private business yourself?

Mr. SELBY. No; I am the executive of the national association of these consumer finance companies.

The CHAIRMAN. Then, you are not in private business for yourself?

Mr. SELBY. No; when I refer to our companies, I mean the people who are members of our association.

Mr. SPENCE. What is the average rate of interest charged by the institutions you represent?

Mr. SELBY. Last year the effective rate, as shown by the several reports that I have seen, ran about 2.25 percent per month on the unpaid balances. Now, the ceiling rates are fixed by statute in the various States and are limited by law. Some of them are 3 percent a month on the first bracket of the amount, up to \$100 or \$150. Michigan, I think, passed a new law the other day with a 3-percent rate on \$50, and 2 or 2½ percent to \$300. But those maximum rates are fixed by all of the State statutes under which we operate.

Mr. SPENCE. That is about 30 percent a year.

Mr. BUCHANAN. I think it is 27 percent.

Mr. SPENCE. I understood him to say 2½ percent a month.

Mr. SMITH. Mr. Selby, the record, so far as meeting obligations is concerned, has been very fine, has it not, in this field?

Mr. SELBY. Well, I would say from 1939 to date losses and bad accounts have been negligible.

Mr. SMITH. Less than 1 percent?

Mr. SELBY. Yes; I think the highest in any State ran about 1 percent, and most of them have been a little under. Maybe 1¼ in some States.

Mr. BUCHANAN. And do you have a limit on the amount of the loan, \$300, \$500, \$1,000?

Mr. SELBY. Most of the States that have small-loan laws limit the amount of the loan to \$300, as a ceiling. A few of them permit a higher ceiling on the amount of loan, but limit the small loan rate to the portion within the \$300; and the usual usury rates in the State. Ohio, for example, permits a loan up to \$1,000, but the rate is 8 percent per annum maximum, on any amount over \$300.

Mr. BUCHANAN. And is there a ratio to the man's income, so far as the amount of these loans is concerned?

Mr. SELBY. Not by statute. But by practice, the companies, just as a matter of good business judgment, will not follow a practice of making a loan to a man which requires payments of more than 10 percent of his monthly income. The average is somewhere around 60 or 70 percent usually. Of course, it varies according to the size of the loan. A man has certain fixed expenditures which he must meet—taxes, heat, light, shelter, clothing, food, and it is a portion of the supernumerary income between his necessary expenditures and his income, which is the area in which we are interested, when we grant him a loan.

The CHAIRMAN. There is not too much affiliation between the small-loan business regulations and the Government regulation, except they might borrow \$300 from the small-loan company to make the down payment. And he cannot do that.

Mr. SELBY. You are prohibited from loaning for that purpose. You see, you have to require a statement of purpose from the borrower, and you are prohibited from lending him money for the down payment.

We are limited by the same terms, in making cash loans, for the listed article purchases as any other type of buyer.

The CHAIRMAN. Then, what affiliation is there between the small-loan rate of interest and regulation W?

Mr. SELBY. Well, on the face of it, it would appear to be very little, Mr. Chairman, because of the fact that our loans are not the primary or principal source of financing of automobiles. We furnish the funds for a lot of household appliances and furniture, but automobiles constitute the principal item in this finance. But here is where it gets us: Every loan that we make requires this statement of purpose by the borrower. He has to say, "My wife is in the hospital having a baby, and I want the money to get her out," and name the hospital and the doctor. Then it is exempt. But he has to sign this statement. For every purpose for which he borrows, he has to sign this statement.

Then, if it is for the purchase of a listed article, one of these 12 groups of items, then, our company is prohibited from making the loan unless they comply specifically with the terms and conditions set forth in regulation W. Most of our loans, I would say the majority of our loans, are exempt, after you get the statement of purpose, and embarrass the borrower by asking him all the personal questions about his life that he may not want to disclose.

Mr. KUNKEL. Did you say your rate was 2¼ percent per month under \$300, and then over \$300 the usury rate?

Mr. SELBY. That is about the effective rate charged. It is made up of a composite rate in those States. Three percent on the unpaid principal balance, as an over-all monthly charge, on the first bracket of that loan, \$100 or \$150. Then, it usually goes to 2 percent, some of them 1½ percent, up in the balance of the loan up to \$300.

The CHAIRMAN. Are there further questions?

Mr. McMILLEN. Did you make any charges which might be classified as commissions or service fees?

Mr. SELBY. The small-loan charge is an over-all charge, and we are expressly prohibited from charging, receiving, accepting, or in any manner acquiring any other fees or commissions for any other service rendered. That is the over-all complete charge.

The CHAIRMAN. It is very apparent that we will have to recess. The House is in session on some very controversial legislation. We did not anticipate this when we called these hearings. We are sorry we cannot proceed with them. There will be votes from now on in the House and the Members will have to be on the floor, so we will have to recess this morning.

We will stand in recess until Monday morning at 10 o'clock, when Mr. Goodloe will be back on the Reconstruction Finance Corporation, and then it is our purpose to continue the hearings on regulation W, with the balance of the witnesses scheduled for this morning, and some others, on Tuesday, May 27, at 10 o'clock.

We will continue the hearings on the Reconstruction Finance Corporation with Mr. Goodloe as our witness on Monday morning at 10 o'clock.

The committee will now stand in recess until that time.

(Whereupon, at 11:20 a. m., the committee recessed, to reconvene on Tuesday, May 27, 1947, at 10 a. m. to further consider Regulation W.)

## GOVERNMENT CREDIT

TUESDAY, MAY 27, 1947

HOUSE OF REPRESENTATIVES,  
BANKING AND CURRENCY COMMITTEE,  
*Washington, D. C.*

The committee met at 10 a. m., Hon. Jesse P. Wolcott (chairman) presiding.

Also present: Mr. Smith, Mr. Kunkel, Mr. Talle, Mr. Sundstrom, Mr. McMillen, Mr. Hull, Mr. Stratton, Mr. Scott, Mr. Banata, Mr. Fletcher, Mr. Foote, Mr. Brown, Mr. Patman, Mr. Monroey, Mr. Folger, Mr. Buchanan.

The CHAIRMAN. The committee will come to order.

We will resume hearings this morning on regulation W.

Is Congressman Davis here?

Mr. DAVIS. Yes, Mr. Chairman.

The CHAIRMAN. Mr. Davis, if you care to make a statement you may proceed in any way in which you see fit.

Mr. DAVIS. Unfortunately I have not had the opportunity to attend the committee meetings and I do not know to what extent you have had hearings on this measure. I had understood that you had some hearings prior to today. Is that right, Mr. Chairman?

The CHAIRMAN. We had 1 day of hearings, at which time one member of Congress presented a statement.

Mr. DAVIS. I do not want to take up the time of the committee needlessly, but I do have some facts here on regulation W, and if they would be of any service to the committee I would be glad to give them to you.

The CHAIRMAN. We will be glad to have them, Mr. Davis.

You may proceed.

### STATEMENT OF HON. JAMES C. DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. DAVIS. I have introduced House bill 2443, the purpose of which is to abolish regulation W on March 10 of this year.

That bill has two provisions. The first is to abolish regulation W and the second is to provide that hereafter the Board of Governors of the Federal Reserve System, or any other Federal governmental agency, or official, shall not have—

the power to issue or enforce said above-mentioned regulation and supplements, or any other method of regulation of consumer credit.

I assume that the members of this committee are familiar with the history of regulation W. It was enacted by the Board of Governors of the Federal Reserve System in August of 1941 and was based on a Presidential order dated August 9, 1941. At the time it was estab-

lished there were good reasons, of course, for the adoption of the regulation. It served to channel funds out of the purchase of consumer goods into the purchase of war bonds and thus provided for the manufacture of munitions and war supplies. It also served to keep down inflation in some measure, although I do not think that the effect of regulation W on inflation, one way or the other, amounts to very much.

Since the war is over, it is my opinion, and the opinion of a great many people in my district—business people of one kind or another—that the time for regulation W's usefulness has passed.

In that respect, the automobile dealers, the furniture dealers, the industrial banks, the building and loan associations, and the national banks, all have expressed to me an interest in having regulation W abolished. In that respect not only has that occurred locally in my district, but I have a list, here, of a number of Nation-wide and regional associations and aggregations of business people who have gone on record as favoring the abolishment of regulation W.

This list includes the United States Chamber of Commerce, the National Electrical Manufacturers Association, the National Automobile Dealers Association, the American Finance Conference, the National Association of Credit Jewelers, the American Bankers Association, the Ohio Bankers Association, the National Consumer Finance Association, the Consumer Bankers' Association, the National Retail Furniture Association, the Retail Credit Institute of America, the National Electrical Wholesalers' Association, and I have been informed by the secretary of the Georgia Building and Loan Association that the 65 members of that association are in favor of abolishing regulation W.

I have also—and I would like to offer it for the record—a house concurrent resolution, which was adopted by the House and the Senate of the Legislature of the State of Minnesota. It is a concurrent resolution giving a number of very logical reasons why regulation W should be abolished and expresses the opinion of the two houses of that State to the effect that they are in favor of abolishing regulation W completely, rescinding and repealing it, and that copies of this resolution be forwarded to the President of the United States, the President of the Senate, the Speaker of the House and to each Senator and Representative.

I offer that for incorporation in the record.

The CHAIRMAN. That may be inserted at this point.

(The document above referred to is as follows:)

[H. Con. Res. No. 23]

A HOUSE CONCURRENT RESOLUTION Memorializing the President of the United States and the Congress to abolish Regulation W

(Introduced by Lyse, March 24, 1947; referred to General Legislation)

*Be it enacted by the Legislature of the State of Minnesota:*

Whereas, Federal regulation W was, by Presidential Executive Order No. 8843, dated August 9, 1941, authorized to promulgate, impose, and administer restrictive regulations upon consumer goods and the credit purchases thereof; and

Whereas the war and the emergency out of which was born regulation W has ceased to exist and regulation W has not only become unnecessary but has become a hindrance to full production which is necessary to a healthy economy; and

Whereas the restraints and compulsions embodied in the regulation are manifestly undemocratic and infringe upon the rights of the citizens of this country,

particularly those in the lower-income brackets who need the consumer goods for their existence; and

Whereas regulation W and its compulsions militates against mass production and mass buying which if unrestrained would result in lower prices and full employment and would assist orderly return to a peacetime economy; and

Whereas one of the principal objectives of Government is to assist in the speedy and complete readjustment of all veterans and war workers to a sound civilian life; and

Whereas to obtain those objectives nothing is more basic than the availability to veterans and working people of adequate housing and the essential furnishings such as furniture and appliances; and

Whereas the veterans and the workers should have and deserve the opportunity to use their credit to meet their individual needs and should have the opportunity to purchase the goods they need for a decent living without resorting to their cash savings or their war bonds, and

Whereas regulation W operates unfairly against the veteran and the working men of modest means in favor of the person of wealth; and

Whereas the production of consumer goods has reached a point where they should be available to all citizens without discrimination and without forcing the veterans and working people into the black market; Now, therefore, be it

*Resolved by the House of Representatives of the State of Minnesota, the Senate concurring herein, as follows:* That the President of the United States and the Congress use whatever means they deem effective to immediately rescind, repeal, and completely end regulation W; and be it further

*Resolved,* That the Secretary of State transmit copies of this resolution to the President of the United States, the President of the Senate of the United States, the Speaker of the House of Representatives of the United States, and to each Senator and Representative representing the State of Minnesota in the Congress of the United States.

Mr. DAVIS. I have also had a visit from one of the officials of the American Federation of Labor and was informed by him that while the American Federation of Labor does not propose to adopt any resolution on the subject they nevertheless do feel that it is in the interest of the laboring man that regulation W be abolished and that the influence of the American Federation of Labor is in that direction—that is, in favor of abolishing this regulation.

He gave me—and I have it here—a clipping or excerpt from a labor union paper known as "Union," an official publication of the Regional Conference of Southern Lake Erie A. F. of L. Central Labor Unions, in which that organization places itself behind efforts to abolish regulation W.

I would like to offer that also as a part of my statement.

The CHAIRMAN. That may be included in the record at this point. (The document above referred to is as follows:)

[From Union, January 31, 1947]

#### LABOR PROTESTS CREDIT-BUYING BAN

Millions of American workers are discriminated against by regulation W, which shuts them out of the market for consumer-durable goods. Regulation W holds the door open for purchase of these goods by people with large incomes or people with ready cash, but it does not give the family that must spread the cost of capital improvements in the home over a period of time an equal chance to buy the goods.

Most of the income of working people must be expended to take care of current needs. They buy automobiles, electrical refrigerators, washing machines, and other durable goods to raise their standard of living by budgeting themselves to pay out of current income through the judicious use of credit.

Figures on the distribution of savings among American families just published in the Federal Reserve Bulletin, June issue, reveal how difficult it is for typical American families to build up the liquid assets to make cash purchases of the conveniences of life.

According to these figures gathered at the request of the Federal Reserve Board of Governors by the Bureau of Agricultural Economics of the United States Department of Commerce, the highly publicized wartime savings are very unevenly distributed. Of the liquid assets which were owned at the end of 1945:

The top 30 percent of spending unit (family pools) hold 87 percent.

The next 30 percent of spending units (family pools) hold 12 percent.

The bottom 40 percent of spending units (family pools) hold only 1 percent.

Another way to make this comparison is to say that 23,000,000 families have practically no liquid assets—only 3 percent of the savings. It is this large group of workers in the lower income brackets who feel most heavily the restriction of regulation W. The 10 percent of the families in the top-income brackets who have 60 percent of the liquid resources are not kept out of the market by credit controls.

Even though about 18,000,000 families in the middle income group (\$2,000 to \$5,000) hold substantial liquid resources—about one-third of them would have to disrupt their affairs to buy for cash.

Control of consumer credit through regulation W is not a form of Government action that serves the public good. Millions of workers should not be controlled out of the market for durable goods merely because they must use credit. If goods are in short supply, all potential purchasers should have equal opportunity to buy from the available supply through some form of rationing based on needs. Regulation W disregards needs, and selects only those who have the cash.

Mr. DAVIS. Is there any occasion, Mr. Chairman, for me to go into details as to what regulation W provides, what articles of consumer goods it affects, the percentage of down payment that the purchaser is required to make and the time allowed for the balance of the installments?

The CHAIRMAN. I do not know that we have in the record a list of the 12 articles still under regulation.

Mr. DAVIS. Well, I will be glad to touch on that.

There are three schedules, I believe, which operate under regulation W. The major list of articles regulated by this regulation require the purchaser to make a down payment of 33½ percent and the remaining two-thirds must be paid for in 15 months. That group covers automobiles, including passenger cars and taxicabs. It requires, as I said, a down payment of 33½ percent, with the remainder to be paid in 15 months.

In that same category are cooking stoves and ranges for household use; dishwashers—mechanical ones, for household use—ironers for household use; refrigerators—mechanical—of less than 12 cubic feet rated storage capacity, including food freezers; washing machines designed for household use.

Then, in the next group, there are air-conditioners, room units, radio receiving sets, phonographs or combinations, sewing machines designed for household use and suction cleaners designed for household use—that is, vacuum cleaners for household use.

Then there is the group which has a requirement for a smaller down payment—that is, a down payment of 20 percent, or one-fifth, with the remainder to be paid in 15 months. That group includes household furniture, including ice refrigerators as distinguished from mechanical refrigerators, bed springs, mattresses and lamps and floor coverings. Those articles do not require as much of a down payment although the same length of time is extended for the balance of payments.

Now, as I see it, and as do the people who favor the abolishment of regulation W, to continue this regulation in force will operate against speedy recovery of our peacetime manufacturing and peacetime economy in two ways: First, it makes it difficult for many people who do not have savings on hand whereby they can pay cash for these

items to purchase what they actually need to establish a home. There are many veterans whose homes have been broken up and who have come back and would like to establish a home. They will need practically everything that I have called out and listed in these various categories. And at present prices it will be practically impossible for the average workingman to set up a home and furnish it with the articles needed and to which people have become accustomed, even not taking into consideration the automobile—and now almost every family does want an automobile.

It will make it impossible for the wife and the mother to have these household conveniences which are almost necessities, and it is also a discrimination against the person who does not have money in the bank.

Then, on the other hand, it will have an effect on the output of the factories which manufacture these various articles. It will restrict employment of labor because unless they can run at full capacity and dispose of their output, of course, they will not require a full force to man the plants. In that way it will tend to reduce the number of jobs and tend to create unemployment in this country, whereas if the regulation were removed that would take the brakes off purchasing power and off production and would enable the economy of the country to resume its normal course, I believe, in a much more speedy manner than if this regulation were kept on.

Briefly, those are the reasons that impelled me to introduce this bill to abolish regulation W.

I have a prepared statement which I will be glad to put in the record and not take up any more time of the committee, unless there are some questions the committee wishes me to answer.

The CHAIRMAN. The statement may be included in the record.  
(The statement referred to is as follows:)

**STATEMENT OF REPRESENTATIVE JAMES C. DAVIS, OF GEORGIA, IN RE H. R. 2443**

On March 10, 1947, I introduced H. R. 2443, a bill to cancel regulation W and to prevent regulation of consumer credit by the Federal Government.

Regulation W, issued by the Board of Governors of the Federal Reserve System, was adopted August 21, 1941, to become effective September 1, 1941. It was issued under authority of Presidential Executive Order No. 8843, dated August 9, 1941.

Regulation W now applies to down payment and maturity requirements on 12 major categories of consumer durable goods. Its regulations apply to any person who is engaged in the business of making extensions of installment credit in amounts of \$2,000 or less, or discounting of purchasing obligations arising out of such extensions of credit, whether the person is a merchant, bank, loan company, or finance company.

It affects the business of every dealer in automobiles, stoves, washing and ironing machines, refrigerators, radios, sewing machines, vacuum cleaners, and other listed articles.

It requires that every credit-installment buyer of automobiles, and all other listed articles except certain items of household furniture, must pay at least one third of the purchase price as a cash payment, and must pay the remaining two-thirds of the purchase price in not less than 15 months.

It further requires that every merchant and dealer who makes installment-credit sales of these listed items, and every bank, finance company, or individual, who lends money to buy these articles, or who buys purchase money notes executed for them, must be registered with, and have a license from, the Federal Government to do business, and may be prosecuted for violation of the regulations and punished by a fine of \$10,000 or imprisonment for 10 years, or both.

The enforcement of this regulation necessarily means the making of detailed reports by the businessman, and a force of Federal employees large enough to review all these reports and to enforce the requirements of the regulation.

Regulation W was inaugurated as a temporary wartime measure when there was a need for control of the use of installment credit, because the manufacture and sale of the articles affected were absorbing resources needed for national defense.

The situation has now changed. Instead of decreasing peacetime production, the need now is to increase peacetime production.

Production of these listed items has not yet caught up with the demand for them. However, there is a point in the immediate future where production of these goods will catch up with demand for them, and when that point is reached regulation W will greatly retard sales of these articles. It is undemocratic in its application. The purchaser of a car priced more than \$2,000 is not affected by it, yet a man who buys a lower-priced car is obliged to comply with its strict terms.

There are many veterans and others who want to establish homes, buy furniture, possibly washing machines, refrigerators and the like, and possibly an automobile, and pay for all these items in regular installments from their salaries. Unless regulation W is canceled, many wage earners will be unable to buy these articles. A continuation of regulation W will make it difficult indeed for many housewives to purchase articles which would materially add to the comfort and convenience of the family, such as washing machines, ironing machines, stoves, refrigerators, radios, vacuum cleaners, and many other items of household and kitchen furniture.

The removal of these restrictions will help the American veterans and American workers to reestablish their own homes and their own family lives by their own work and labor and on terms which they can meet. Its removal will cause markets to expand and production to increase. It will give more work to labor and more investment to capital, and will contribute to prosperity to America as a whole.

Last, but not least, one of the beneficial effects of canceling regulation W will be to relieve this section of American business from Government regimentation and to reestablish, to that extent, the American system of free enterprise. The removal of this regulation will be quite a step in the direction of that goal toward which the American people have been looking, namely, that the Government will get out of business and let the American people get back into business.

The CHAIRMAN. Are there any questions by the members of the committee? If not, thank you, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

The CHAIRMAN. If you have any supplementary information we will be glad to have you submit it, Mr. Davis.

Mr. DAVIS. Thank you.

The CHAIRMAN. Mr. Brehrens, you may proceed.

#### **STATEMENT OF M. I. BEHRENS, JR., OF LUDWIG BAUMAN CO., NEW YORK CITY**

Mr. BEHRENS. My name is M. I. Behrens, Jr.; I am vice president and general manager of Ludwig Bauman Co., in New York City.

We were originally a home furnishing store, but today we sell almost all the goods that are sold by a department store—most of it, however, in normal times, which we are now approaching, we hope, on the installment plan.

It might interest the committee to know that I was also, in 1941 and 1942, a consultant to the Federal Reserve System on the subject of regulation W, officially so appointed. In fact, when the regulation first came out it made no provision for add-ons, as they are called, which means additional purchases by customers who already have a balance owing, and I was able to work out to the satisfaction of the system a scheme for handling those additional purchases.

I do not mean to be immodest, but I feel I know something about regulation W and about its effect on the consumer, and that is the

point I want to emphasize. I am going to move rather rapidly because I know your time is short.

I represent here the Retail Credit Institute of America, which has merchant members, store-owner members, in 44 out of the 48 States. We have a couple of other gentlemen here, one of whom is from California, who came here especially to testify before your committee, and I want to give them a chance if I can.

The first point about the regulation itself is that it is ineffectual. It has not, and cannot in the future, in my opinion, do the job. I am not going to bore you by reading the regulation, but I do want to tell you what the objectives of the regulation were. They are specified in the preamble of the regulation itself.

They are a bit fantastic as you look at them today. One was to facilitate the transfer of productive resources to defense industries. Well, that is one by the boards.

Another to assist in curbing unwarranted price advances and profiteering, which tend to result when the supply of such goods is curtailed without corresponding curtailment of demand.

(c) To assist in restraining general inflationary tendencies; to support or supplement taxation to restrain such tendencies and to accumulate the savings available for the defense program.

(d) To create a backlog of demand for consumer durable goods.

Without too much discussion, I submit that those objectives, at any rate, are today archaic. We have passed beyond the stage where any of those things are of much importance.

Now, actually, even during the war—and I know that this is an individual point of view—regulation W was only able to help accomplish those purposes, to whatever extent it may have been able to do so, because the people had money in their pockets. Everyone of us who is in the installment business know that there is a gap between promise and performance. There is never any point in making a consumer promise what he cannot afford to pay. During the war not only were terms of regulation W possible, but most of our business, in our installment store, was done for cash because people had the money.

Of course that is becoming less and less true as time goes on. All of us know the statistics on savings, and so forth, and I am not going to go into them.

The second point is that regulation W was a pretty small tail with which to try to wag the dog of our American economy. As a matter of fact, the total of installment sale credit outstanding at the end of February, according to the last figures of the Federal Reserve itself, which I have seen, was \$1,600,000,000. A little less than \$1,000,000,000 was for automobiles. That is six-tenths of 1 percent of the national income.

Now even that total of somewhat less than a billion is not all regulated at the present time. For example, jewelry, for \$100,000,000. And that is out from under the regulation.

Also, parenthetically, I want to tell you that the Federal Reserve has dropped control of charge accounts, which amount, at the present time, to over \$3,000,000,000. Incidentally, charge accounts at \$3,000,000,000 are at an all-time high in the history of this country, whereas installment credit has not even begun to approach its prewar high of \$1,800,000,000. And do not forget also that that is in the

face of a much larger national income and something like a 17-percent increase in the population since that time.

Those statistics lead us into what I think is the most important point about this regulation, which is that it is unjust. It is the only example that I know of, during the whole war period, of regressive regulation—that is, regulation or legislation which bore more heavily upon that element of the population which hasn't so much money in the bank. The less money you have, in fact, the heavier the regulation bears upon you. Because do not forget that the Federal Reserve System has only been able to regulate extremes.

If the terms at the present time permissible on regulated articles are 15 months, 90 percent of the customers do not ask for 15 months. They do not want and do not need 15 months. But the fellow who asks for it does need it, and he is the fellow you cannot take care of. And I must tell you that all too often he is a veteran. A little simple arithmetic will show you that a veteran who may have to pay in the neighborhood of \$40 to \$50 a month to buy a home, getting the down payment, to a substantial extent, from the Government itself, is prevented by this regulation from making that house into a home. Because if he needs eight or nine hundred dollars worth of furniture to put into the house, he may have to pay \$250 or \$300 down, and his monthly payments will figure out to be equal to his rent—at least for that first year, and that first year is the hardest for him. That is when he is getting started in a new job, perhaps, after 4 or 5 years in the Army.

I could give you example after example of actual customers—with names and addresses—who have come into our place, and we found it impossible to take care of them as we wanted to take care of them because of this regulation.

The attitude of labor toward the regulation has already been covered. We have a 100 percent union shop in our store, and every one of the labor unions who comprise our employees have memorialized the Federal Reserve System or the Congress to please get rid of this regulation because of its effect on labor.

Now, I would like to point out that credit belongs to the consumer. If there is anything I dislike in this world, it is the common phrase, in our trade, of a merchant or a bank granting credit. No merchant ever granted credit to a consumer in his life. He took advantage, for the selfish purposes of his own business, of the credit which the consumer owned. And that is what is being regulated here—the consumer's credit.

Next, the Federal Reserve itself has often pointed out that regulation W is a two-way street. They hope to use it as a means of controlling the business cycle.

I expressed my opinion of that possibility before in relation to the proposition of consumer credit to the whole economy. But there is another little item. I have been following the predictions made by various private and public economists for a number of years and I don't know but what you would have come out better tossing a coin. As a matter of fact, right now most of the economists are predicting gloom and depression. Well, if that is so, then we ought to get rid of regulation W, as far as its restrictive effect is concerned, tomorrow morning. But apparently there are some people who believe that we are still in an inflationary cycle.

Now I am not smart enough, gentlemen, to know who is right. I only know that it is pretty tough for anybody to be right, and it is particularly tough for a group of men sitting in Washington, 3,000 miles or more from some of these consumers, to be right. I want to know just how anybody sitting in the Federal Reserve System offices is going to know when Mrs. Jones comes into our store, and little Willie had to be operated on for appendicitis last month—and she has been a customer of ours for 10 or 12 years and always paid her bills, her husband having worked for the New York Central for some 20 years—just why she cannot get up that \$150 or \$100 for the down payment that she needs to make on a new refrigerator. That is a pretty involved sentence. On the other hand, if she does not get the new refrigerator they will not have any way of keeping the milk cold for little Willie's sister Mary, who is a baby. I want to know how the Federal Reserve System is going to know that. I want to know whether I am going to be able to tell them that and say, "Look, we have just got to take care of Mrs. Jones; she must have this refrigerator; she needs it."

No, gentlemen, it is not a subject for inflexible regulation. Before the war, when there was no regulation whatever in our business—and we were typical—the average installment account took 7 or 8 months to pay. Not 12 months, not 18 months, not 24 months, but the average of 7 or 8 months. But within that average there were the people who needed 18 months and 20 months and 24 months. And it is that fringe that we want to be able to take care of, as we used to in the past.

Once again, I think that people have a right to that credit because it is that credit which has supported American industry, and which, parenthetically, has brought down the prices of refrigerators and automobiles, and Lord knows how many other items, to everybody, even the people who pay cash, because you cannot have mass production without mass distribution.

All you have to do is to study the statistics of the automobile industry and see what happens to the price of automobiles, even at today's levels, compared with what they sold for when automobiles were first produced. You will find that the reduction in price came from mass production, and that mass production was made possible by mass distribution through the installment plan.

I have got to hurry along. I am going to give you one example of mathematics. Let us suppose that Mrs. Jones wanted to come in to our store and have a \$240 balance on her account at \$10 a month, and that we would be willing to do that. For 24 months, gentlemen, \$10 would be subtracted from her purchasing power.

Now, regulation W came along, and originally said: "Oh, no, Mrs. Jones has to pay \$20 a month, not \$10." You will admit at once that for the first 12 months \$10 additional is subtracted from her purchasing power because she has to pay \$20 instead of \$10 every month.

But stop and think for just one minute what happens in the following 12 months. Hasn't she got \$10 a month more to spend than if we had sold her on 24 months' terms? You cannot get away from it. The subtraction from purchasing power caused by regulation W is immediately and inevitably followed by an exactly equal addition to purchasing power. In other words, it is a one-time operation, which you pay for when it is finished.

In that connection I would like to point out that nobody I have ever been able to find out about has been able to start purchasing power. Oh, yes, we can stop it. If we made the requirements of regulation W 100 percent down we would stop some purchasing power.

I remember when first Mr. Hoover, then Mr. Roosevelt, back in the early thirties, tried to talk the people into buying things. There were plenty of savings in the country at the time. Sure, it was less than there were in 1928 or 1929, but there were millions and billions of dollars to spend. But the people would not spend it. As a matter of fact, people without jobs do not spend money. And they do not spend their credit, either.

Those are historic statistics. The use of the installment plan has gone up and down with the business cycle, just as the use of cash has. It is just not possible to turn on the spigott, even though you have turned it off. At least nobody ever has.

Some businessmen favor regulation W. And I want to tell you right now that as far as the selfish needs of our business are concerned I would favor the retention of the regulation. But I have a little more conscience than that. I do not want to pose as a moralist, but I have a little more conscience than that because, as I conceive it, the retailer is in business to serve the consumer. And if we forget about that we are not going to be in business very long.

What these retailers who favor regulation W want is protection against competition, and I very quickly submit that if we get to the stage where we provide Federal protection against competition it will not be long before our system will only be a shell of what we are pleased to call free enterprise.

Furthermore, these same retailers think that their present easy cash position was caused by regulation W. I submit that it was not. I submit that regulation W could not possibly have worked had it not been for the money in the people's pockets. And that is what put money in the bank for the merchant—the fact that the people had money.

I am not going to take up any more of your time. I want you to hear from some of these other gentlemen. I am going to close with one last word. Have we, have you, gentlemen, the legislators of this country—has anyone the right to control the way the working-man spends his credit any more than we have the right to control the way the rich man spends his cash?

Thank you. If you have any questions, I will be glad to answer them.

The CHAIRMAN. Thank you, Mr. Behrens.

Are there any questions of Mr. Behrens?

Mr. BROWN. I just want to say that you have certainly impressed me with your sincerity. I am very sorry I was not here when Congressman Davis from my State testified. I just want you to know that he is held in the highest esteem in my State. I will read his testimony with interest.

Mr. PATMAN. I was here, and I was impressed with his testimony.

The CHAIRMAN. He has given a great deal of study and attention to the matter.

We are glad to have had you, Mr. Behrens. Thank you.

Mr. MONRONEY. I appreciated the testimony of Mr. Behrens and I would like to say for the members of the committee who do not know

him as well as I do that he was chosen as the No. 1 man in the furniture industry for the outstanding service to the retail furniture industry and received the cavalier award for his distinguished services to that industry. Incidentally, he was one of the most alert and aggressive businessmen in combating inflation that I happened to run up against during the 3 or 4 years that we had that problem before this committee.

Mr. BEHRENS. Thank you, Mr. Monroney.

The CHAIRMAN. Are there further questions?

Mr. McMILLEN. What interest do these deferred payments carry in the case where a retailer sells furniture to a housewife?

Mr. BEHRENS. I would say that the most common charge is either one-half of 1 percent per month or six-tenths of 1 percent per month on the original unpaid balance. That is not a simple interest charge. At simple interest that figures out, depending on the length of time—the mathematics are a little involved—to somewhere between 10 and 11½ percent.

Mr. McMILLEN. Is there any service charge in addition to that?

Mr. BEHRENS. No; usually that is it.

Mr. McMILLEN. No additional commission?

Mr. BEHRENS. No.

The CHAIRMAN. Are there any further questions?

Mr. SCOTT. How does regulation W stifle competition? You made that remark during your testimony.

Mr. BEHRENS. Yes. The retailer who does not want to sell on the installment plan, but has been forced into it by competition, would like to give as short terms as possible. Those of us who believe in the installment plan are often willing to give longer terms. Regulation W prevents us from doing that.

Mr. MONRONEY. There are two elements to every sale, and in the installment business the first is the price and the second thing is the length of the terms, in most cases, is it not?

Mr. BEHRENS. Yes.

Mr. MONRONEY. And if the Government is standardizing on the length of terms it eliminates one part of the competitive system.

Mr. BEHRENS. That is right.

The CHAIRMAN. Thank you very much, Mr. Behrens.

We have Judge Padway with us this morning. I think perhaps I owe Judge Padway a personal apology. He has called my office but I have been too busy to arrange an appointment.

Mr. PADWAY. I know you are busy, Mr. Chairman. That is all right.

The CHAIRMAN. Judge Padway, general counsel for the American Federation of Labor. Judge Padway, we are very glad to have you proceed in any way you see fit.

#### **STATEMENT OF JOSEPH PADWAY, GENERAL COUNSEL OF THE AMERICAN FEDERATION OF LABOR**

Mr. PADWAY. Mr. Chairman and members of the committee, I do not want to go into a discussion of the economic and social implications involved in regulation W. I am rather here to report to you how most of our people feel about this regulation. Only yesterday I took the matter up with Mr. Hushing. Mr. Hushing is the chairman of the legislative board of the American Federation of Labor, and its function and business is to read these bills and see what effect they

have on labor and to come to conclusions respecting them—that is, whether they are bills that ought to be supported or otherwise.

The CHAIRMAN. Is that William Hushing?

Mr. PADWAY. Yes. Only yesterday he informed me that he had received information from State federations of labor affiliated with the American Federation of Labor to the effect that they are opposed to regulation W.

The State federations—there are 48 of them—act in the same manner as the American Federation of Labor acts nationally. The State federations act within the borders of their State.

From such personal study as I have been able to give to the subject I am of the opinion that regulation W is not altogether in the interests of labor. I think it would be much better to have the regulation abolished.

There may be arguments that can be made for some control, and some people may go as far, even within our own movement, as to support the retention of regulation W, but on the whole, viewed from the various angles, pro and con, Mr. Hushing and I have come to the conclusion that it would be better to have it done away with.

We are not for controls. We do not want too much Government in our affairs. Just as business does not want too much Government in its affairs, labor feels the same way. This has a tendency, at times, to pry into the personal affairs of workers—the way the regulation is set up—in connection with what they must do to obtain credit when they need that credit.

The regulation as it stands now, in the postwar conditions, is discriminatory. People with a lot of money can get the things that they need, while those with less money, such as wage earners, have found it, in many instances, impossible to obtain the things they need.

Others have been compelled to cash in their savings bonds in order to obtain things they cannot obtain otherwise, whereas if there were no regulation W, or regulations of that nature, they could retain those savings and holdings and obtain their credit and pay out over a period of time for the articles they need and still have their savings and their bonds.

It is not necessary for me to go into a long discussion on the subject. I am not an economist. But I heard Mr. Davis of Georgia testify, and I agree with everything he said. I think that in the short period of time he testified here he made a splendid representation of the entire subject which seems to fit in with my ideas and with the ideas of Mr. Hushing. I assure you that we have only the interests of our workers at heart.

The CHAIRMAN. Thank you very much, Judge Padway.

Are there any questions?

If not, and if you have any supplemental statement you care to file or any further information, we will be glad to have it.

Mr. PADWAY. I will be very glad to. Thank you.

The CHAIRMAN. Thank you very much.

Mr. Kimbrell. Mr. Kimbrell is president of Kimbrell's Inc., of Charlotte, N. C. Is that right?

Mr. KIMBRELL. Yes, sir.

The CHAIRMAN. You may further identify yourself as you wish, and you may proceed.

**STATEMENT OF W. E. KIMBRELL, PRESIDENT, KIMBRELL'S INC.,  
CHARLOTTE, N. C.**

Mr. KIMBRELL. My name is W. E. Kimbrell. I am a furniture merchant. I am from Charlotte, N. C., covering the States of North and South Carolina. I am president of the Retail Credit Institute.

Gentlemen, I have quite a lot of ideas, with reference to regulation W, which are based principally on the experience of operating under regulation W.

Government control of consumer credit, in my judgment, should be abolished. Control of credit at the consumer level, as is attempted under the present regulation W, is a large undertaking. The extension or continuation of such regulation would involve a vast amount of checks to educate hundreds of thousands of credit merchants to enforce the law.

I think that is very true. It becomes more or less a denying instrument, or a disturbance instrument. During the war, patriotism plus a shortage of merchandise were the real enforcement agents. That condition no longer exists. And with the return of keen competition enforcement will become very expensive.

The merchants of the country have a deep conviction that credit control is a breach of their fundamental right of freedom to contract. In peacetime no agent of the Government can expect general observance, except strict enforcement.

I think that this is a very big question. I cannot see the point of taxing the people for something that retards instead of increases business.

What was the effect of consumer credit controls during the war? It was supposed to retard inflation. All we had was inflation. Added to that was a sharp decline in the quality of the merchandise. More jobs and higher wages eliminated any doubtful value this regulation ever had.

Regulation W did not fill the merchants' pockets with money. From accounts receivable that had originally been on their books, before this drought, a swell of money came by. The swell of money came because of the increased earnings, and the number of hours and the number of people who had jobs, all of which helped the people to pay their debts and eliminate them. It was not regulation W. As to what they purchased, and how much they purchased, they could pay because they had the money. So regulation W, insofar as bringing about the cash position of retail or installment merchants are concerned, was not very valuable.

Today regulation W is fast becoming a support toward deflation, as regards commodities still under control and those commodities are largely the ones that make the Nation's homes. We have been taught that the home—where the family has its sanctuary, where the next generation of citizens is growing up—should have first consideration. I contend that regulation W does deny, to a certain extent, the furnishing of a comfortable home.

Yet the home is first discriminated against by regulation W. How can a house become a home unless it has comfortable furnishings? They say you can buy this or that on any kind of credit you can get. But you must have money to get these things you call furniture. Whether or not you have a livable home for yourself and your children

depends on whether or not you have the cash to pay down, and there are a lot of them, at the present time, who do not have it.

Regulation W is discouraging people whom we have been taught to encourage. Even if there were a gain in the business cycle, would that gain offset the harm done in discouraging the having of a livable home?

I think that any possible advantage that regulation W might have on the installment furniture business would be dismissed from everybody's mind if they could see the inner workings of the effort of the people to change their living level by changing their homes or home environments. I cannot help think that many years ago when we went into homes we found that they had iron beds and a straw mattress, and that maybe they were cooking over the fireplace. And from the experience in the furniture industry that I have come through, to go back into those homes and see them clean and comfortable, and to think of what made them so, I find that the cause is that they had the right to use their credit. Had they not had the right to use that credit, those homes would not have changed to the extent they have.

Regulation W is discriminatory and unfair to the durable-goods industry because it unnaturally diverts a portion of its legitimate business to other industries. I think that is very true. Especially of such goods as jewelry and soft goods, and so forth. They can sell on any terms they and the buyer agree upon.

We furniture people are helping a man build his home; helping him change the living level of his home; helping him to have a nice home where a young boy can come and see his daughter, and so forth. He is denied that right. He cannot treat with me on his terms beyond regulation W.

Insofar as regulation W is concerned a \$100 piece of jewelry—and I use jewelry not because I do not like jewelry or have any spite against jewelry dealers but merely as an illustration—can be had on credit for as low as nothing down. But when the family is in need of a new \$100 cooking stove regulation W says the purchaser must pay \$33.34 down or do without it. From that I do not see where we are encouraging the building of homes.

It is difficult in these times of high food prices for a workingman with a family to accumulate the sums that are necessary to purchase the necessities of the home. It is hard to save particularly when you get your pay from day to day, week to week, or month to month, and in the face of the changed living conditions. Yet the other things are very easy to buy. And it is nothing but human nature that a lot of the money that a man intended to save to make the down payment on an article for the home leaked out to some of the things that were easier to buy.

This is class regulation. If you have the money you can buy all you want for credit or cash. If you are poor you are denied the use of your credit in the manner your finances would permit.

Likewise, if you are a furniture merchant you can sell if you get so much down and so much a month. But if you sell jewelry you sell as you please, which means that jewelry sales go up while furniture sales are stagnating.

This would eventually mean a curtailing of durable goods manufacture. The consumer does not like to be regulated either. In the last few months we have been running into more and more problems in trying to explain to the consumer why he cannot buy furniture

except by Government regulation while everything else seems to be free. It is very difficult to explain to the consumer why his home should be penalized.

Credit control during the war was of doubtful value. Today and tomorrow it accelerates deflation in terms of Government cost, but it is more expensive in that it denies the necessities to those who need them most. Reduced production in controlled commodities because of increased manufacturing costs will tend to keep prices high because it will tend to keep production lower. Again we penalize the consumer of durable goods.

If your average consumer does not have the cash, then the returning veteran who has served his country for several years on meager pay certainly has still less. How can he furnish the home which the Congress has arranged for him to purchase on very small terms? To tell a veteran that he can have a house consisting of so many rooms for nothing down and \$30 a month and at the same time require him to pay \$250 or \$300 cash and \$65 a month on \$1,200 worth of furniture is nonsensical.

Most of these boys have to start from scratch when they come back. They do not have a bank roll to start with. When he comes back he can go and buy his wedding outfit on credit. He can go on his honeymoon on credit, and he can buy his house with almost nothing down. But when he goes to furnish it he must have the money.

Regulation W, as most regulations, applies on a national scale and makes no provision for individual and local circumstances. On the consumer level, ability to pay is too varied to be regulated.

I think business might be good in Chicago and at the same time it might be bad in Miami. The 15 months terms of regulation W have a tendency to become a minimum as well as a maximum, whereas without such regulation many more durable goods would be sold on shorter terms. I think that is true.

The reason that regulation W is necessary to prevent runaway prices because of scarcity of merchandise is outdated. The number of items that are unavailable is daily dwindling. Retailers' shelves and floors are full. Reports on inventory increases for months have indicated this. Today scarce items can be counted on the fingers of two hands.

When the regulation was originated, it was accepted as a necessity for the winning of the war. As such, it was gladly accepted and obeyed. We were led to believe that when the war was over. But the war has been over for a number of months. The inflationary pressures caused by consumer credit are greatly exaggerated. Control of credit at this level does not limit buying or prevent runaway prices.

Mr. BROWN. Do you have enough furniture now to supply the demand?

Mr. KIMBRELL. More than enough. As a matter of fact, there are quite a lot of furniture factories curtailing operations now, particularly in some segments of it, such as living-room furniture. I know numbers of them have even closed down and are not even running.

The preservation of our economy, which will promote our production facilities and our fund of skilled labor—and that is the question most of us are concerned with—is a better and safer defense than if the country had pursued a different theory. If the country had pursued

a different theory, would we have had the General Motors, the Firestones, the Fords, and the hundreds of smaller industry which helped us during the war? I wonder.

We should quit regulation and promote higher living standards, particularly with reference to the home.

Again, gentlemen, I say, regulation W should be eliminated, period, and meaning by "period" that it should stop.

Mr. McMILLEN. May I ask a question, Mr. Chairman?

The CHAIRMAN. Mr. McMillen.

Mr. McMILLEN. What becomes of this installment paper after the merchants take it, usually?

Mr. KIMBRELL. In our case we keep it in our safe.

Mr. McMILLEN. I beg your pardon?

Mr. KIMBRELL. In my own case we keep it in our safe. There are some of us who, in some cases, discount that paper to get funds to replenish the cash box.

Mr. McMILLEN. Some merchants bank and rediscount it, I assume.

Mr. KIMBRELL. Some of them do, where it is desired on the part of the merchant.

Mr. McMILLEN. Does very much of it go back to the wholesaler?

Mr. KIMBRELL. No, sir; not that I know of.

Mr. McMILLEN. Is there any difference in the price of this merchandise as between the installment buyer and the cash buyer?

Mr. KIMBRELL. In our case there is 10 percent difference. And that is pretty general through my section of the country. In other words, it is a hundred dollars, you buy it for \$90 cash or you buy it for a hundred dollars on 12 months' or 15 months' terms.

Mr. McMILLEN. In other words, there is a 10-percent difference, and in addition to that there is interest charge for the paper?

Mr. KIMBRELL. No, sir; there is no other charge. And that 10-percent difference is largely taken up by the expense of our repossession losses, turn-backs, or keeping the merchandise serviced until it is paid for, plus collections for accounts that are hard to collect, and running the general office. In other words, 10 percent is very often all consumed, and we get nothing out of it.

Mr. McMILLEN. Is it not true that some of the merchants offer a cash discount for cash sales that an installment buyer cannot take advantage of, in that the installment buyer is required to pay the full price in addition to the interest that is normally charged?

Mr. KIMBRELL. I do not know of anybody who has a discount for cash and then charges interest on top of that. A difference between the cash and credit price, and then interest on top of that. I know of no furniture store that does that.

Mr. McMILLEN. That is all.

Mr. SMITH. Mr. Chairman.

The CHAIRMAN. Dr. Smith.

Mr. SMITH. Regulation W is a purely paternalistic constraint; is it not?

Mr. KIMBRELL. I would judge so.

Mr. SMITH. You have some idea of what is in the minds of the men who compose your Congress. I have heard the Federal Reserve criticized for the manner in which it operates this regulation W, but is that criticism properly directed? Should it not be directed against the Congress of the United States?

Mr. KIMBRELL. In our part of the country, we have been very pleased that regulation W was operated through the Federal Reserve banks. They have been very straightforward to work with. In our case they have checked us time and time again in our stores. Of course, I know in many other stores in our community they have not even heard of them. But we have been very cooperative with them and have had no complaint from them.

Mr. SMITH. But the responsibility is with Congress; is that not true?

Mr. KIMBRELL. Yes, sir.

Mr. SMITH. Thank you.

The CHAIRMAN. Are there further questions?

Mr. FOLGER.

Mr. FOLGER. I do not think Congress is responsible for it.

Mr. BROWN. Was that regulation not issued by the Federal Reserve Board?

The CHAIRMAN. Under the power of the Trading With the Enemy Act.

Mr. McMILLEN. Over all the sales that are made, is it true that there is more profitability to the merchant in installment sales than in cash sales?

Mr. KIMBRELL. No, sir.

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Mr. Talle.

Mr. TALLE. I think you said that the merchants accepted the regulation during the war as a necessity; is that right?

Mr. KIMBRELL. We were under that impression, that the Government thought it was a necessity and, naturally, we were glad to obey.

Mr. TALLE. At this hour, are you convinced that it was a necessity?

Mr. KIMBRELL. No, sir.

Mr. TALLE. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Monroney.

Mr. MONRONEY. You mentioned that jewelry had been taken out from under regulation W. Does that mean that you can sell jewelry on any length of terms at which you choose to sell it now?

Mr. KIMBRELL. Yes, sir. We see people advertising jewelry 50 cents a week, and, of course, our bottom terms are \$1.25 a week.

Mr. MONRONEY. But there is no limit whatever on any kind or amount or anything else, as far as jewelry is concerned?

Mr. KIMBRELL. No, sir.

Mr. MONRONEY. Would there be any limit on clothing, fur coats, or anything like that, on the installment plan?

Mr. KIMBRELL. No, sir.

Mr. MONRONEY. The only limits to which regulation W still applies would be to automobiles and household appliances and home furnishings; is that true?

Mr. KIMBRELL. I think that covers it. Most others have been eliminated from under the regulation.

Mr. MONRONEY. Open book accounts, in department stores, things of that kind, would permit, without violation of the law, complete evasion of this regulation, would they not? I mean you could sell a refrigerator, which would have to come under regulation W, under a contract account, but you could sell it on an open account with the understanding that the customer would not be able to pay for it in 30 days, that there would be no foreclosure or anything, that it could be sold on open account without coming under regulation W?

Mr. KIMBRELL. That is correct.

Mr. BROWN. Do the local finance companies finance purchasers of automobiles?

Mr. MONRONEY. They still come under regulation W if it is for the purpose of an automobile or any of these other articles mentioned in the regulation.

Of all the 12 things that are under regulation W, what would you say were at present in scarce supply?

Mr. KIMBRELL. Washing machines.

Mr. MONRONEY. And automobiles, of course?

Mr. KIMBRELL. Well, I think automobiles are more plentiful than washing machines in proportion to the demand.

Mr. MONRONEY. Any other?

Mr. KIMBRELL. Electric refrigerators would be next, insofar as household furniture is concerned. Radios, for instance, are plentiful.

Mr. MONRONEY. Almost getting into distress position, are they not, because of oversupply at the present time?

Mr. KIMBRELL. Yes, sir; inventories have gotten swollen and, naturally, we have no way to dispose of them.

Mr. MONRONEY. On all but those three things—automobiles, refrigerators, and washing machines—there are threats of price declines, as well, are there not; in most of those other lines?

Mr. KIMBRELL. Yes, sir.

Mr. MONRONEY. So that the taking off of regulation W, in your opinion, would not necessarily raise the selling price of any of those items?

Mr. KIMBRELL. It would not.

Mr. MONRONEY. That is all I have, Mr. Chairman.

The CHAIRMAN. Is there any black marketing under regulation W?

Mr. KIMBRELL. I do not know of any now in the household goods field. There may be some in the automobile field; I do not know.

The CHAIRMAN. It does not readily lend itself to that sort of practice; is that the idea?

Mr. KIMBRELL. That is right. We furniture merchants are sitting in a very peculiar position. We have to sell and resell and resell, and keep selling the same consumer over and over to maintain our volume. We could not afford to go to the black market.

The CHAIRMAN. May I suggest that the black market has taken a very peculiar twist with respect to regulation W? If you go to the bank and borrow money, you have to make a certificate that the money is not going to be used to make a down payment on any commodity which is controlled under regulation W. But if you have got a hundred dollars in your pocket that you want to buy a suit of clothes with, and you want a hundred dollars to make a down payment on something under control, you borrow the hundred dollars to buy the suit of clothes and use the hundred dollars which you have to buy the clothes to make the down payment.

Mr. KIMBRELL. I suspect that there is some of that being borrowed in that manner, and being used as a down payment on household furniture.

The CHAIRMAN. You have to certify that this particular money is not going to be used for that purpose, however.

Mr. KIMBRELL. Yes, sir.

Mr. SMITH. In other words, you cannot destroy people's determination to live.

Mr. KIMBRELL. And you cannot destroy people's determination to have a comfortable home.

Mr. MONRONEY. You are not wedded to the language in the bill that would prohibit the Federal Reserve from taking any possible action regarding the effect on consumer credit, are you? It seems to me as though the bill is so wide that it would prohibit perhaps, in its complete interpretation, the regulation of rediscount rates and other vital functions of the Federal Reserve System.

Mr. KIMBRELL. I did not quite get you, Mr. Monroney.

Mr. MONRONEY. I do not have a copy of the bill here, I do have one bill here, but that is not the one I am referring to. [Reading:]

*Provided*, That from and after the passage of this Act, there shall not be vested in the Board of Governors of the Federal Reserve System or any other Federal Government official or agency the power to issue or enforce said above-mentioned regulation and supplements, or any other method of regulation of consumer credit.

Well, of course, your rediscount rate has certain effect on the regulation of consumer credit, and many other things that your Federal Reserve Board historically has done since its establishment. I would not think that even business would want that nailed down that completely.

Mr. KIMBRELL. I do not think that we retailers would like the law to be changed on any basis except permanent relief being continued.

Mr. MONRONEY. You want to get rid of regulation W?

Mr. KIMBRELL. That is right.

Mr. MONRONEY. You do not want to hogtie the Federal Reserve System on its Federal job of regulating rediscount rates and things of that kind, which undoubtedly do have some effect on consumer credit, however?

Mr. KIMBRELL. No; I do not think that we are making an effort to keep the Federal Reserve Bank from regulating interest rates.

Mr. BROWN. I wish you would get after regulation Q a little bit, too.

(Discussion off the record.)

Mr. McMILLEN. What becomes of the installment buyer's equity in the event that he pays out one-half for the purchase price and is unable to pay anything further? What then happens to his equity in that purchase?

Mr. KIMBRELL. That depends on the basis of the operations of different merchants. In some cases he makes a separate contract; he pays one out and he gets a receipt in full for that, and others it is consolidated to hold it for security to carry it on further.

Then, in case of a misfortune, the chances are that he would have to return it all or pay for it all.

However, I do not think that that is abused in the furniture industry, because, as I said a while ago, we are up against the problem of a continued customer, and not the one-time customer. As to merchandise repossessed or brought back or turned back, or unpaid for, it is a loss to our operations to even receive it. If we feel that we have got to repossess it, or that we have got to take it back, we would rather not sell it, because we know it will be a loss in the end.

Mr. McMILLEN. In the event the purchaser has paid 90 percent and he cannot pay anything more, and it has to be taken back, does that buyer get any of his equity back?

MR. KIMBRELL. No; the buyer does not get his equity back, and the chances are the merchant who sold it loses the 10 percent.

The CHAIRMAN. Are there further questions of Mr. Kimbrell?

If not, thank you very much, Mr. Kimbrell, for your contribution to the subject.

The CHAIRMAN. MR. McMahan.

**STATEMENT OF JAMES I. McMAHAN, McMAHAN FURNITURE CO.,  
SANTA MONICA, CALIF.**

MR. McMAHAN. Mr. Chairman and gentlemen, my name is McMahan, and I come from California, to appear before you, and to just express some of my heartfelt feeling about this most vital problem that confronts us today, and we appreciate the opportunity and likewise we know that you are now serving your chairs on borrowed time, and I will not bother you with the statements that I really had gathered together to make to you here.

I would like to ask you, Mr. Chairman, for the permission of submitting our brief, in the name of the directors of the Retail Credit Institute of America.

(The brief referred to is as follows:)

**ELIMINATION OF REGULATION W OF THE FEDERAL RESERVE SYSTEM**

(Brief of the Directors of the Retail Credit Institute of America, May 27, 1947, in support of the testimony of Messrs. M. I. Behrens, Jr., New York; W. E. Kimbrell, Charlotte, N. C.; and James I. McMahan, Santa Monica, Calif.)

Regulation W of the Federal Reserve System is the instrument of the Federal Government to control and regulate the American citizen's personal right to use his credit as he purchases the products of our economy; in contrast to the right of others possessing sufficient cash to cover their wants, to use it freely and unregulated.

By actual tally, more than 91 percent of the members of the Retail Credit Institute of America believe that such regulation of the consumer by the Federal Government is unwise, unfair, and detrimental to the best interests of the consumer and private enterprise.

By following a simple outline the major objections to such regulation may be brought to light.

**I. REGULATION W**

*Definition*

The regulation was issued by the Federal Reserve System on authority of Executive Order No. 8843, August 9, 1941. Its objective was:

"Whereas the public interest requires control of the use of instalment credit for financing and refinancing purchases of consumers' durable goods the production of which absorbs resources needed for national defense, in order (a) to facilitate the transfer of productive resources to defense industries, (b) to assist in curbing unwarranted price advances and profiteering which tend to result when the supply of such goods is curtailed without corresponding curtailment of demand, (c) to assist in restraining general inflationary tendencies, to support or supplement taxation imposed to restrain such tendencies, and to promote the accumulation of savings available for financing the defense program, (d) to aid in creating a backlog of demand for consumers' durable goods, and (e) to restrain the development of a consumer debt structure that would repress effective demand for goods and services in the post-defense period."

We think that these objectives no longer hold. By the language of the order, the subtopics (a), (b), (c), (d), and (e), are all subsidiary to the general purpose of preserving "resources needed for national defense."

II. THE STATUTORY AUTHORITY—THE TRADING WITH THE ENEMY ACT—OCTOBER 6, 1917, SECTION 5 (B)

The administration gives as its authority for Executive Order No. 8843, section 5 (b) of the act of October 6, 1917 (Trading with the Enemy Act).

Without going into detail, we believe that this act did not contemplate regulation of consumer credit in the United States, certainly not in time of peace; credit transactions between citizens of single States, for purchase of goods sold in a local retail capacity and consumed in the United States usually in the same State where sold. Many have felt that the regulation has no statutory nor constitutional authority but have refused to raise this question during national emergency, patriotically supporting every effort to present a unified war front. Today, the war over, the interpretation of the Trading with the Enemy Act of 1917 as statutory authority for regulation W may be questioned. A typed copy of section 5 (b) of the Trading with the Enemy Act of 1917 is attached at the end of this brief.

There is grave question of underlying constitutionality in time of peace, but we do not intend to explore it at this time.

III. THE PRACTICAL REASONS WHY REGULATION W SHOULD BE ENDED IMMEDIATELY

(a) *It is ineffectual as an economic control*

Consumer credit outstanding, now close to \$10,000,000,000, constitutes only about 11 percent of the national income. Of the \$10,000,000,000 of consumer credit, installment sales credit, credit used directly to buy products is now only \$1,000,000,000, exclusive of automobiles. With automobile credit, the total is about \$1,600,000,000. This is the part of consumer sale credit rigidly controlled today. Twice this amount of credit, more than \$3,000,000,000 in "charge accounts" now, the Federal Reserve System of its own accord has freed of control as no longer "in the public interest."

In requesting continued power to control, the Reserve System indicates that the present coverage of regulation W may be considered essentially the framework of any continuing device. The balance of the present \$10,000,000,000 total of consumer credit is in loans—largely also freed of control by the Federal Reserve, the small portion still controlled being loans to make down payments on goods still controlled. The bitter pill here for the consumer is that in making any loan he must tell the Government just the reasons why, name and address of hospital or doctor he is paying, etc., which results in widespread refusal to disclose the truth—understandingly so. It is obvious that any effect upon the national economy and business cycle of the remaining W control is infinitesimal and ineffectual—just as that upon the recently decontrolled charge accounts was found ineffectual.

Consumers will always pay their accounts fast or slow as their available stream of income payments rises and falls, not by virtue of any artificial regulation from Washington. Regulation can be, and is today, prohibitive to many citizens. It is designed so as to stifle purchasing and does so—but by "class" dividing our fellow citizens. The regulation did not speed payments during the war period, nor hold consumer debt balances low as you may be asked to believe. The Federal Reserve System admits this in its writings. The unusual wartime cash holdings and ready earnings of a large segment of the people accomplished what the regulation has been credited with doing.

Likewise no regulation caused people to refrain from buying the durables not produced during the war. It was the production stoppage obviously that did it. Nor did the regulation stop consumer buying—it merely shifted it to nonregulated lines. See what happened in so many of these "soft lines."

It did not foster savings—the excess of war earnings over heavy pay envelopes did this—if one doubts, he need only study the break-down of "who had how much of the earnings as the war ended."

Nor could any regulation force a citizen temporarily in an unfortunate economic situation, to pay up his accounts more quickly. And as for those with plenty of cash—there never was any attempt to regulate their spending.

The whole substance of the control has been unfortunate and unfair as well as ineffective.

In considering it as an accelerating or retarding influence on the economy, which is what the Federal Reserve System would like to make of it, one must remember that it will never apply at all to the great bulk of credit purchasers, but rather only to those who need credit most, or need special consideration

most. These folk are no less worthy of reasonable individual treatment according to their circumstances than is the cash customer for all his economic independence.

Back during the depression years of the thirties the average installment account in furniture was being paid off in 7 or 8 months. It is those who struggle hardest to achieve an American standard of living, those striving to rise from less advantageous to more advantageous circumstances, who ask more lenient credit, and hence fall prey to the meshes of this sort of regulation. If the terms of regulation W were made doubly severe, statistically the average of installment account repayments would not decrease by more than a month, from 8 months to 7, or from 7 to 6, as the case might be; certainly not enough in the aggregate to change the picture of the national economy. But countless thousands of Americans would be terribly hurt.

Remember, however, that drastic terms under such a regulation, while not changing to any real degree the rate of repayment of outstanding accounts, might well stagnate the purchase of products in the first instance, driving consumers from markets to the extent of dangerously reducing sales and starting a downward spiral of purchasing even by those with cash. First this would apply to the "regulated" industries—later by contagion to others. The dangerous feature in reducing American business, artificially or otherwise in times of peace, is that downward spirals are contagious.

It is noteworthy that not one of the objectives mentioned in its preamble was achieved by regulation W in practice. Every one of them was actually achieved, but by economic conditions upon which regulation had little, if any, effect.

It was most fortunate indeed that business conditions in the country during the war brought this about, for if regulation W had been relied upon alone and the public had really felt the pinch of this control, administering and enforcing it would have been one of the greatest headaches Washington has ever experienced. And this it will be in the future if regulation W continues, because not always will business conditions play into the hands of those who do the regulating. Right now, today, enforcement is getting harder as the public is readily preparing to disregard Washington authority over purchasing for everyday living. Several Reserve officials have been heard to say they personally want no responsibility for enforcement once the regulation actually irks consumers generally.

*(b) The regulation is inconsistent*

One present-day national objective sponsored by the White House, and with which we have no quarrel, is that prices must go downward, "to increase the purchasing power of consumers." A logical aim, but for what? Is it not to permit consumers to raise their standard of living—to buy more products with their money?

Yet the Federal Reserve System seeks to continue regulation W to decrease the purchasing power of the poor—those who need credit. The Reserve System says just this—to reduce demand for goods.

The only logical conclusion one can draw is that we are to drive prices down to permit those with cash to purchase even more than they would otherwise, and achieve this by a regulation to force the poor to purchase less than they want—less than their rightful share, they would say, of America's products.

In passing it seems important to say that an adequate supply of durable products is entirely contingent upon adequate demand, and if demand should buckle, supply itself will never reach high proportions, prices will never come down. So regulation W to a large extent nullifies one of the administration's published purposes, i. e., adequate supply and continuing broad demand, without which there can be no full employment or prosperity.

The contribution of installment selling to the economy has been always mass consumption, making possible mass production. Let mass consumption buckle and depression through loss of mass production will follow. The effect of credit purchasing on prices in the past has always been to decrease them, as is historically known. But the Federal Reserve Governors now would have you believe that the need for regulation W lies in an attempt to cut consumption in order to reduce prices. This would be true in war, when production was artificially prohibited, not today when the pipe lines for practically every product have finally been refilled to overflowing.

The Reserve Governors know that Government economists now predict 6½ million unemployed within 6 months or so. Why? Obviously for lack of adequate demand—while regulation W would continue to stem demand.

So long as regulation W requires high down payments and fast maturity of accounts for durable products, soft goods and other unregulated markets will suffer because consumers, having done without durables through the war, will strain

financially to procure these "regulated" things despite the Government's inferred prohibition, while other markets in oversupply already go begging for business and lay off men. Regulation W is one of the direct causes for the present slow-down of these "unregulated" industries.

(c) *Regulation W commits injustice*

Regulation W can be described from beginning to end with one word, "discrimination," and it attacks rights which are fundamentally our inalienable possession.

(1) Obviously it strikes at the working families of the country and others not well off financially, but equally Americans with all the rest.

(2) It strikes at labor, saying to the working man that he may not have direct open competitive access to markets, where they sell products he makes with his own hands.

(3) It discriminates against new families whose struggle to furnish a home and way of life requires reasonably liberal treatment at the hands of Government and enterprise. It is the things these couples need most that are singled out as the targets of this regulation.

(4) It spells discrimination between the poor and wealthy, saying to the rich; "You with cash may have as many and as much as you want, whenever you want", to the poor, "You may buy only what we permit and have it only when we say."

(5) It discriminates against the veterans who have had no opportunity to accumulate cash during the war, who return home, invited by the Government to acquire low-cost housing with special priority, special loans and privileges. Yet when they come to furnishing these homes, regulation W stands in the way with prohibitive demands for cash in advance and payments many thousands cannot meet.

(6) It discriminates between Americans who habitually choose to use the "charge account" method of buying, charge accounts being unregulated, and the other family which habitually chooses to buy on instalments, the instalment account being drastically regulated.

(7) It discriminates between the stores which habitually offer charge account service and those which habitually serve others, offering the instalment method—and relating to the same American products as far as both types of stores are concerned. Is this fair competitively? Is it a fair business principle?

(8) Regulation W discriminates between those who would purchase from retailers with arrangements to pay later and others who would prefer to borrow and purchase with that cash; for the borrower is subject only to a few questions under the regulation while the purchaser on credit is fixed, hard, and fast in the meshes of down payment and terms on balance.

(9) It discriminates among the products of American industry, inviting the public to patronize some and not permitting free market access to others. Incidentally the products discriminated against are those which the Reserve System's ace economist, Dr. E. A. Goldenweiser, says must be made and consumed in the period ahead in unit quantity 150 percent of the prewar peaks per year or we face unemployment and depression such as we struggled with in the thirties.

(d) *It tampers with inalienable rights of free people*

(1) It discriminates among Americans with respect to the right to make contracts, a right which the Supreme Court of the United States has several times held tantamount to constitutional guaranty; the right to contract for the ordinary things of life, which we English-speaking people wrestled from the British Crown centuries ago, not lightly to be given up at the whim of economic planning.

(2) It denies the right of a man to choose his way of living. Unregulated is the family that finds most of its desires in soft goods, travel, shirts and clothes, jewelry, and luxuries. Regulated is the family which desires beds, furniture, baby carriages, and other things just as necessitous. What a ridiculous way to divide the American people,

(e) *An impossible type of regulation*

(1) *Cannot fit needs of whole Nation.*—Business conditions are never the same in all marketing areas of the Nation. All top analysts recognize this. Regulation W could not apply properly, for the economic effect desired in any one section, without disastrously affecting business and consumers in another. Stiffened to halt in New York, the regulation would unavoidably cripple business already low in some other section.

The use of credit is personalized to the immediate need of individuals. Americans must not be made pawns of economic experimenters. The Federal Govern-

ment must not reach out with over-all control and interfere with the millions of Americans striving individually to achieve their personal living goals, a right so constantly guaranteed them by our Government and the political parties.

In the period of the OPA and the WPB we lived through attempted over-all Federal controls over business margins. The Government found this position untenable and ended the method. Costs of doing business in various communities varied and the costs in different stores of the same community likewise. So it is with the needs of families for credit service. Men are not averages.

(2) *Who is Government's best guesser?*—Nor can the Government correctly predict future conditions. Last August the Reserve Governors in their annual report intimated that they could do so.

At least a half-dozen times in the last 5 years Government has reversed its prediction of the reconversion period. The departments, and the Federal Reserve quoted them often, predicted 6 to 8 millions unemployed where history showed 2 million. So it has been over and over.

Would it be wise for the American people to put control of family spending into the hands of Washington guessers?

A recent study showed a cross section of economists to be right only 47 percent in their aggregate predictions over a period of recent years. This was publicized under the caption, "Better we had followed the flip of a coin." The men involved here were no less in stature than the Federal Reserve officials.

Dr. Carl E. Parry, chief of the Reserve Board's division in charge of regulation W, once said that in 1926 and thereabouts the Federal Reserve Board foresaw the depression of the thirties. He claimed that they would have done something if they had had the power.

The fact is that during this period Americans were encouraged to put billions of dollars in foreign securities sold them by member banks of the Reserve System without warning of oncoming default. If they saw "it" coming, the people should have been warned—the banks could have been advised to stop marketing these securities.

Right today the Government through one department is pointing to oncoming recession while the Federal Reserve Board asks for continued controls over the consumer purchasing to avoid oncoming inflation.

Both cannot be correct. Yet always there will be such divergence among officials and economists. Can any group of appointed men regularly outguess the combined judgment of all the American people? What happens in the American market place reflects this combined judgment. No illustration in economic history shows officials doing so.

If a prediction at Washington, by those with power to regulate, is incorrect, the result may be greatly intensified gyrations of the so-called business cycle, and actual harm to business and the public. Regulation W cannot increase consumption at will. Of course it could kill business and stop consumption. It can never induce consumers to buy when they are not ready to do so. Presidents Hoover and Roosevelt found this true when, over the radio and in every way possible, they begged and cajoled, in the early thirties, but the consumers did not buy until in their combined judgment business conditions seemed to favor them.

For this reason regulation W over periods of time can have but one effect, i. e., total net reduction in production, distribution, consumption, and employment; hence lower average over-all prosperity, lower standards of living.

(3) *Consumer credit not inflationary.*—Whatever inflationary effects there are in the accelerated buying power of consumers when they use credit, is offset in the ensuing months as buyers pay off their accounts, by an equal deflationary effect. Even in the "tip off" years of 1929 and 1930, as the depression hit this country, installment accounts created in 1929 were 85 percent paid off within the next 7 months, which illustrates this compensatory equalizing factor. Installment sales in 1929 would not have had any effect on that depression and deflation a year later for they were paid off by that time and to the contrary every monthly payment made on 1929's installment accounts through 1930 added money, revolving cash, to the income streams of the country.

(4) *Better conserve war bonds—Buy from earnings.*—To continue regulation W is to encourage consumers to cash war bonds. To the extent that they are able, the people will purchase durable products so long denied them through the war. They will do so out of income, if allowed. If not, they will do it out of savings. Business sincerely wants to encourage retention of savings whether in bonds or accounts.

There is great national benefit in paying for durables out of income, retaining savings as a security backlog against turns of the business cycle and other emergencies. (Incidentally all business, railroads, factories practice this great truth.

They buy "equipment," machines, cars, etc., almost always out of income—not long-term capital or savings.) Conserving savings will arm the consumer against the psychological ills and fears of depression, lay-off, and sickness. This far more than outweighs any supposed ill effect of freedom in using personal credit.

(5) *And who has these savings*—Those who so lightly suggest that our durable products should be purchased out of savings should also remember the figures of the Department of Agriculture, gathered for the Federal Reserve System a few months ago. The figures are available to this committee. Fundamentally they show that huge segments of the public do not have wartime savings; that 40 percent of the people have less than \$40 each, that 60 percent of the Nation's individual savings is held by the top 10 percent economically. Thus such advocates really say, "Let the rich man buy all that he wants, let the poor man go without, severely regulated by the Federal Government in his purchases."

(6) *Nullifies national policy of open competition*.—There are merchants who want regulation W. Obviously, acting as a collecting agent for a retailer, the Reserve System can make it possible for any one retailer to do more business with less capital, just as a retailer with a cash business can do more volume with less capital, even while killing off business nationally and damaging the whole economy.

Regulation W is anticompetitive. It strikes a solar-plexus blow at a standard policy of the Government, open, free competition, usually held to be the secret to prosperity, high standards of living, and equality in the market place.

Regulation W stands for inequality in the market place. It stamps out competition, divides the American people into classes, the "haves" and the "may not haves."

Businessmen willing to compete and serve in accordance with the individual needs of customers and not by averages, want none of this tampering with the consumers' purchasing power, the average man's use of the credit that is his; just as they want no Government regulation over the way a citizen may use his savings, his cash or income, as he reaches for his standard of living.

#### IV. IT IS 142,000,000 AMERICAN CITIZENS WHO ARE REGULATED—NOT BUSINESS

Regulation W is erroneously defined as a regulation of business. This is because the Reserve System naturally fears to emphasize its attempt to regulate millions of individual Americans.

Credit is not granted. If it were, you could regulate the grantors, and incidentally hurt those to whom credit is granted. Merely the recipients of something for nothing, they could not kick strenuously. There would be few political implications in such regulation.

One hundred and forty-two million American consumers, however, all citizens of the United States, bear the brunt of regulation W directly.

The credit used for consumer purchasing belongs to them, the consumers, not to business. Curb it and you curb consumers, not business. One day the people will rise up and throw off such a regulation if the Government does not do so voluntarily. They did it when prohibition was foisted upon them. Even those opposed to the liquor business rose up and killed a constitutional amendment.

The right to contract belongs to a free people. They will not have it curbed as they use it for the everyday necessities of life and to attain their desired standard of living.

When a family buys a refrigerator that lasts for 15 years and pays for it in 2 years, only the silliest of economists would argue that he asks for credit. He pays seven times as fast as his satisfaction is delivered to him—advances, in fact, 13 years of his own credit to the makers.

In fact, the refrigerator was produced by industry on credit. Short-term bank loans and long-term bond issues help to provide the cost of labor and materials that go into it. Once a refrigerator is finished, the American consumer buys it with his own credit, substitutes his credit for industrial credit already used.

In the aggregate the credit of millions of American consumers is the bedrock foundation of production and distribution.

Let no one confuse the issue by talking of retailers granting credit to consumers, or of regulation W being a regulation upon retailers. Neither retailers nor manufacturers possess the credit necessary to finance the American consumer. Only he has this much credit, and he has never given his Government a mandate to regulate or curtail it.

W is a positive direct regulation, to some degree a prohibition of the American family's use of its own possession—its credit.

People acquiesce to curbs and regulations to win a war, but do not give up their rights permanently in this acquiescence.

The Congress, representing the people more directly than any branch of the executive department, should obliterate regulation W immediately.

#### V. TERRIFIC AND UNNECESSARY EXPENSE OF CONTINUANCE

To continue control in time of peace will involve a very heavy financial burden for the employment of administrative and enforcement personnel.

Officers of the several Federal Reserve banks have complained already of the high cost of carrying out regulation W, continued and continuous expense of examining the entire bookkeeping set-up of retail stores and others involved.

But thus far business has complied with the regulation for patriotic war reasons. Likewise the public has not demanded evasion on a heavy scale, partly for patriotic reasons and partly because most of the people have had fairly good income.

The expenditure of this quasi-public money has no excuse at a time when the Government is attempting to eliminate financial burdens.

Two very unfair practices are developing out of the enforcement of regulation W: (1) The inconvenient and unnecessary probing into the private accounts of retail stores by Government; (2) a very noticeable failure of the Reserve System to check any more than a "cross section" of the stores. Many retailers have never seen a Federal Reserve investigator. Many others have been investigated at least dozens of times, even though on no occasion have they been found violating W which means their names must appear on a permanent list of those to be investigated, while the names of others apparently appear on no list at all.

If regulation W continues and it is enforced, retailing will insist upon complete enforcement which would mean many times the financial expenditure thus far made. In time of peace neither the public nor business will have any real interest in cooperation any more than they did in the days of prohibition. An unpopular regulation becomes an impossible matter of enforcement.

The CHAIRMAN. We will be very glad to have you proceed in any way you see fit.

Mr. McMAHAN. In submitting that, Mr. Chairman, I would like first to ask your permission to read seven or eight short points that I believe you would enjoy hearing, first-hand, and I am progressing without the preliminaries that bring us to the point, to say that the regulation, in the opinion of the committee, is discrimination from start to finish.

One reason is that obviously it strikes at the working families or the country and others not well off financially, but equally Americans.

Second, it strikes at labor, saying to the working man that he may not have direct open competitive access to markets where they sell the very products that he may be making.

Next, it discriminates against new families whose struggle to furnish a home and the way of life requires a reasonably liberal treatment at the hands of both government and enterprise. It is the thing these couples need most that are singled out as the targets of this regulation.

Next, it spells discrimination between the poor and the wealthy, saying to the rich, "You with cash may have as many and as much as you want, whenever you want it"; and to the poor, "You may buy only what we permit, and have it only when we say."

Next, it discriminates against the veterans, who have had no opportunity to accumulate cash during the war, who returned home, invited by the Government to accept low-cost housing, and special priorities, special loans, and privileges, yet, when they come to furnishing these homes, regulation W stands in the way, with prohibitive demands for cash in advance, and payments which many thousands cannot afford.

Next, it discriminates between Americans who habitually choose to use the charge-account method of buying, charge accounts being

unregulated, and the other families, which habitually choose to buy on installments. The installment accounts being traditionally regulated against.

Next, it discriminates between the store which habitually offers charge-account service and those which habitually serve others, offering the installment method, and relating to the same American products, as far as both types of stores are concerned. Is this competitively fair? Is it a fair business principle?

Next, it discriminates among the products of American industry, inviting the public to patronize some and not permitting free market access to others.

Incidentally, the products discriminated against are those which the Reserve System's ace economist, Dr. E. A. Goldenweiser, says must be made and consumed in the period ahead in unit quantities 150 percent of the prewar peaks per year, or there will be unemployment and depression such as we struggled with in 1930.

As I said before, it would be a pleasure to tell you of many other things that have come to my notice during the 27 years that I have developed, with my family, a group of 44 retail furniture stores operating in California, in neither of the large cities of Los Angeles or San Francisco, but, rather, in those smaller towns where we feel that we are in touch directly with the consuming public at a level where it is to our advantage to know that our opinion should be one founded upon experience. And I give you my word it is my firm conviction that the time is well spent, that regulation must be written off the books.

Again, with your permission, I will file with your clerk the brief, as submitted by the Retail Credit Institute of America.

The CHAIRMAN. That may be done.

Mr. McMAHAN. Thank you very much for the opportunity, and I know I express the sentiments of the committee and of the Retail Credit Institute of America when I say sincerely that it is a privilege to present the case as we see it to you.

The CHAIRMAN. We are very glad to have had you with us.

Are there any questions of Mr. McMahan?

(No response.)

The CHAIRMAN. Thank you Mr. McMahan. If you have any supplemental information which you think would be helpful, we will be glad to have you submit it.

Mr. McMAHAN. Thank you very much.

Mr. MONRONEY. Could I ask you a question before you leave?

Mr. McMAHAN. Yes, sir.

Mr. MONRONEY. In the case of a veteran purchasing a house under title VI, those, in many States, can be supplied with the electric refrigerator and gas range; can they not?

Mr. McMAHAN. That is true.

Mr. MONRONEY. If they are supplied with the house and go under the title VI mortgage, the length of time on which those two appliances are financed would be for 20 or 25 years, would it not?

Mr. McMAHAN. That is right.

Mr. MONRONEY. But if the builder of the house chose not to install the refrigerator and gas range in the new house, and the veteran had to go into a furniture store to buy them, then, he would be required to pay a third down on the two appliances, and then pay them up within 15 months; is that right?

Mr. McMAHAN. That is quite right.

Mr. MONRONEY. And you have both situations, do you, in California, as we do in many other States?

Mr. McMAHAN. Yes, we do; and sometimes, as merchants, we feel that we are unduly discriminated against in that regard.

Mr. MONRONEY. Has that practice, because of the advancing construction costs and the retail price of the home gone up so much, has that practice tended, in order to shave the selling price down and make it look lower, have builders oftentimes declined of late to install the range and the refrigerator in that home?

Mr. McMAHAN. That is right.

Mr. MONRONEY. They are being priced now without those two appliances?

Mr. McMAHAN. That is very definitely true.

Mr. MONRONEY. So it violates an old practice where the home buyer used to get those two appliances with these home purchases, and now he is compelled to pay high down payments and short terms for those two items?

Mr. McMAHAN. You have expressed the absolute practical viewpoint. In practice, that is the way it is currently working out, in many cases.

Mr. MONRONEY. Thank you very much for a very clear statement.

The CHAIRMAN. Thank you, Mr. McMahan.

We will hear next from Mr. Bone, Mr. Myron R. Bone, vice president of the American Industrial Bankers Association; is that correct?

Mr. BONE. Yes, sir.

The CHAIRMAN. You may further identify yourself.

#### **STATEMENT OF MYRON R. BONE, VICE PRESIDENT OF AMERICAN INDUSTRIAL BANKERS ASSOCIATION, FORT WAYNE, IND.**

Mr. BONE. Mr. Chairman, my name is Myron R. Bone. I am vice president of American Industrial Bankers Association, which maintains its national headquarters at Fort Wayne, Ind.

I have made that city my home for the last 25 years. I am appearing before you on behalf of our members and their millions of customers in support of legislation to restore to the American people their right to free use of their credit. They gave up that right, temporarily, almost 6 years ago, when a fatherly Federal fast, weakly based on First World War powers of the Chief Executive, decreed the sacrifice necessary to national defense.

The need for regulation W, if one ever existed—which is very doubtful—has long since ceased to exist. It was devised to “dampen the demand” for consumer durable goods, but their manufacture was stopped soon after we entered the war. Regulation W might well have been canceled 5 years ago. It has lingered on under various pretexts, founded on faulty theories of economic planners. They would fasten, permanently, on America their ideologies of state socialism. Their Marxian doctrines have no rightful place in a free America.

The case against regulation W is clear cut. It is class regulation of the worst type. It gives to the man of financial means priority of rights to buy whatever he wants and whenever he is willing to pay the price. It denies to the individual of limited resources his inherent right to use his credit on the best terms he can secure for the purpose

of buying necessities. During the war, food was rationed on a per capita basis. That was fair. Now, in times of peace, the Federal Reserve Board still prescribes, arbitrarily, the terms on which American citizens may purchase the necessities of life. Its rules, which give priorities to the rich, are undemocratic and un-American.

Mr. Chairman, I have fought for years against the provisions of regulation W, which provides purchasing priorities for people who have plenty. I am grateful for this opportunity to lay the facts before your committee.

When the first draft of the regulation was submitted by the Federal Reserve Board to a selected group of us in August 1941, we accepted its terms as a necessary contribution to the cause of national defense. Members of the association I am privileged to represent endorsed the sound provisions of regulation W regarding down payments, length of contract, maturities, and uniform payments. They are such as we have found by years of experience to be in the best interest of consumer installment buyers; borrowers who make repayment in systematic installments and consumer bankers themselves.

Experience has taught us, however, that character is the basis of sound credit and so, many exceptions can be made, safely, to usual rules of practice. This leeway of business judgment is denied by regulation W. Furthermore, economic conditions vary with the seasons and at any one time in different sections of our country. They vary with individuals in the same community. It borders on the ludicrous to think of specifying hard and fast rules for the extension of personal credit.

Inferentially, we were promised that the regulation would be withdrawn at the end of the war. That promise has been defaulted. Instead, we are threatened with a law making permanent consumer credit control by the Federal Government. Such a law would prove to be bureaucratic rule at high tide. It would be unadulterated Stalinism.

Soon after the end of the Japanese war, the Secretary of the Board of Governors of the Federal Reserve System was credited with the statement that—

“the principal economic problems of the Nation during the immediate period ahead . . . are to expand production of civilian goods as much as possible and to maintain price stability.

At that time I was prompted to ask two questions: Why not free consumer credit so that all may enjoy the benefits of peacetime production? Why limit durable goods to those who have ready cash, and deny them to individuals who prefer to hold their war bonds or other savings and use their credit instead?

Mass consumption is a vital corollary to mass production and consumer credit is essential to mass consumption. High levels of production and consumption of durable goods have only been possible in the past through the upbuilding of very large outstandings of consumer credit. We may be able so do otherwise in the future, but the burden of proof of that ability rests upon those who seek to promote peacetime prosperity by restricting the rights of individuals to use their credit. They would substitute their untried theories for time-tested realities and would do so at the expense of personal rights.

Consumer financing is only a means to attain a desired end. When the consumer buys durable goods, he buys a “stored-up volume of

satisfaction which he can use only over a period of time." In a true economic sense, the purchaser of an automobile is buying transportation rather than a physical object. When he takes advantage of a consumer credit plan, he is paying for that transportation as he uses it.

If no one ever bought a house, an automobile, a business enterprise, or anything else of value until able to pay the full amount in cash, our economic structure would collapse. Both consumer credit and producer credit are essential to a sustained prosperity.

While it is a known fact that the volume of consumer credit follows the business cycle, no sound evidence has ever been produced to indicate it causes the cycle to rise and fall.

There is nothing in the Federal Reserve Board's own figures to support the Board's contention that consumer credit is, or ever has been, of sufficient volume to exert even a minor influence on the total business picture or on either inflation or depression.

Consumer credit is likely to expand in good times and to contract when they are not so good, for the simple reason that when the outlook is good, people will obligate themselves more heavily, because they are reasonably confident of being able to liquidate their debts. They stay out of debt, as nearly as they can, when the outlook is not good for prompt liquidation.

Officials of the Federal Reserve Board have contended, repeatedly, that practically all of the opposition to regulation W has come from money lenders only. They have asserted that they have not had protests from "consumer groups." They choose to ignore the steadily mounting volume of objections from war veterans, labor unions, chambers of commerce, Members of Congress, newspaper editors, and many other citizens. All of them are consumers. In fact, everyone is a consumer.

I would like to cite one typical example from a Pennsylvania labor leader. I do not know him. He was absolutely right, however, when he said on March 21:

Jobs and employment cannot continue at the present level unless regulation W is repealed \* \* \*. If durable goods are not taken out of the market by consumers, the workers who produce those goods will lose their jobs. The fall in purchasing power will then react adversely on workers in the soft goods lines, as well, and we will have a mounting tide of unemployment.

The Board has elected to "choose up sides" and points to an assortment of economic experts who support theories of planned economy. That is rather weak proof for a very frail case in support of a socialistic experiment.

One of the favorite arguments of the Federal Reserve Board is that "overextension of consumer credit has always ended in serious economic trouble." Such statements are made without supporting proof or even any evidence. According to the Board's published statistics on consumer credit, the total was only \$7,637,000,000 in 1929. It was down to only slightly more than \$4,000,000,000 when the depression came in 1932. That was not the cause of the depression; it was one of its results. When the American people became fearful of their future income, they restricted their purchases, payable in installments, and reduced their borrowings. That is normal.

Gradually, during the next decade, as business conditions slowly improved, consumers were more willing to use their credit and, naturally, the volume of consumer credit increased. Those, gentlemen,

are the facts derived from Federal Reserve Board figures, as contrasted to their current fanciful theories.

The Board claims, also, that "over-extension of consumer credit" has resulted in "curtailed production and unemployment." That, also, is untrue and is best refuted by the facts presented in statistics compiled by the Federal Reserve Board. With the help of consumer credit in the thirties, production was increased and unemployment decreased.

Another pet theory of the Federal Reserve Board, unsupported by facts, is that, without Federal restraint, "It is likely that sellers of durable goods will seek to expand their sales by easing terms, instead of reducing prices." The fact is that the selling price of merchandise in a free market is determined by its cost to the merchant and by competition. Easing of terms might increase the physical volume of sales, but if so, that increased volume would mean lower prices. The classic example is the automobile. American was put on wheels in low-cost transportation, with the help of consumer credit. If the Federal Reserve Board is sincerely interested in reducing prices of durable goods and maintaining their mass production, it will surrender, voluntarily, its control over consumer credit.

Mr. Chairman, we firmly believe that character and capacity to pay should always be the determining factors in extensions of personal credit; that neither can be determined by bureaucratic economists and that rationing of credit on the basis of wealth is unsound, unworkable, and un-American.

I thank you.

The CHAIRMAN. Thank you, Mr. Bone.

Are there any questions of Mr. Bone?

Mr. McMILLEN. Mr. Bone, who makes up your membership? You are known as the American Industrial Bankers Association. It is made up of what kind of members?

Mr. BONE. In those States which have industrial bank laws, there are industrial banks. In some States, where they have industrial loan laws, they are known as industrial loan companies. Some States have neither. Our membership there constitutes institutions which operate on a comparable basis.

Our membership is also made up of a substantial number of commercial banks operating consumer-credit departments. So to that extent, it is a hybrid organization. They are all interested in consumer banking; but they vary, due to State laws.

Mr. SMITH. Mr. Bone, I just want to say that this is one of the finest statements that I have ever heard presented to this committee.

Mr. BONE. Thank you, sir.

Mr. SMITH. I like your American spirit. You believe in individualism. You do not believe in bureaucracy. You do not believe in paternalism.

Mr. BONE. That is right. Thank you.

The CHAIRMAN. Thank you, Mr. Bone.

The committee is in this position now: There has been a call on the floor which we must answer. We have one more witness scheduled for this morning, Mr. Underhill, who is here.

Mr. Underhill, we cannot proceed any further this morning. You are here in the city; are you not?

Mr. UNDERHILL. Yes, sir.

The CHAIRMAN. It is possible that we may get back to this subject on Thursday morning.

Mr. UNDERHILL. Mr. Chairman, if I may interrupt, I will be very glad to submit my statement for the record, and if the members of the committee will find time to read it, I will come back in case there are any questions they would like to ask me.

The CHAIRMAN. That is splendid, Mr. Underhill. Your statement will be inserted in the record as though read, and if the members care to ask you any questions, we will have you back.

Mr. UNDERHILL. Thank you.

### **STATEMENT OF GARY M. UNDERHILL, EXECUTIVE DIRECTOR, CONSUMER BANKERS ASSOCIATION**

The Consumer Bankers Association was, until last fall, known as the Morris Plan Bankers Association. It was organized in 1919. Its 73 members throughout the United States pioneered in bank-consumer credit, the first institution being organized for this specific purpose in 1910.

The writer was, until he entered naval service in 1944, an assistant vice president of the Bank of Virginia at Richmond, where he first entered in 1928. Upon his release from active duty in the Navy, he assumed his present position as executive director of the national association in Washington.

To conserve the time of this committee, we shall not argue the merits of "consumer credit," as such, as a contributing factor in the American economy and the American standard of living; nor shall we quote voluminous statistics. We shall assume that the issue is solely whether or not this type of credit should be regulated by Federal Government authority.

It is the official opinion of the members of this association that regulation of consumer credit by Federal authority is unnecessary, ineffective, un-American, unsocial, inconsistent, and impractical.

Certainly in peacetime it is an unnecessary regimentation of the personal affairs of the individual citizens of this country. From the banker's point of view, it is unnecessary because no banker in his right mind is going to permit unsound or unreasonable terms, either directly to the purchaser or in discounting dealer paper, or even so indirectly as through the finance companies whose paper the larger banks purchase. It is axiomatic that the smaller the down payment on consumer durable goods, for example, the faster the obligation must be liquidated for the banker to maintain a proper equity ratio in the underlying collateral which is subject to depreciation from use and age. It is a simple matter of arithmetic that the smaller the down payment, and the shorter the maturity, the larger monthly payments it will take out of the purchaser's income to pay off the obligation in a given period of time. The banker does not need Federal or any other kind of regulation to take care of that. We submit that there is no evidence to indicate that such regulation is necessary from the point of view of either the banker or the citizens of this country as a whole.

In order to appreciate the second point, that is, that Federal regulation of consumer credit has been and will continue to be ineffective as an economic policy, it is necessary to point out that the term "consumer credit" has been loosely used. Actually, nonfarm,

single-family residential mortgage credit is a long-term form of consumer credit. Even in speaking of consumer credit with its ordinary short-term connotation, it should be pointed out that the term cannot be used interchangeably with "installment credit" or "installment sales credit." Installment sales credit amounts to less than half of the total of "installment credit." In turn, installment credit amounts to less than half of total short-term "consumer credit." The remaining, and larger, portion of total short-term consumer credit is composed of single-payment loans—roughly one-fifth of the total, charge accounts—about one-fourth of the total, and service credit—a little less than one-tenth of the total. It is interesting to note that these last three forms of short-term consumer credit, comprising better than half the total, were completely released from regulation W last December by the administrative agency, the Federal Reserve Board of Governors. Control of installment credit, somewhat less than half the total, is all that remains.

In this connection it is interesting to note that noninstallment consumer credit, which was supposedly "regulated" during the war, rose from its 1941 peak through the end of the war in 1945; whereas installment credit during the same period of time decreased from 5.9 to 2.4 billion dollars. The explanation of this latter decrease can, therefore, largely be attributed to the lack of consumer durables to purchase or finance during the war, rather than to the effectiveness of regulation.

It is also worthy of note that many types of installment credit are exempt from the regulation. Insured repair and modernization loans, which amount to some \$354,000,000 are exempt. Loans for educational purposes and for hospital, medical, and dental care, as well as loans for commercial or agricultural purposes and other minor purposes, are likewise exempt. So are any installment transactions of less than \$50 or more than \$2,000, regardless of purpose.

The point is that the remaining regulated portion of installment credit, which in itself represents less than half of total short-term consumer credit, is an infinitesimal amount in comparison with the aggregate influence on the economy of mortgage loans and other forms of private debt, Government debt, currency outstanding, bank deposits, and in relation to retail sales and total income payments to individuals.

What disturbs the banking fraternity as much as, if not more than, any other aspect of Federal regulation of consumer credit is its un-American connotations—the social and political implications of such a policy. A primary tenet of communistic doctrine, as expressed in *Das Kapital*, by Karl Marx, is that of the necessity for the central government to have control of credit in all its forms. It would be an unhappy day for the American way of life were Congress officially to sanction the power of a Federal agency to say on what terms and conditions consumer credit may be extended to individual American citizens in connection with their personal financial affairs.

The staff and membership of the Consumer Bankers Association cooperated wholeheartedly with the Federal Reserve officials in inaugurating regulation W as a part of the national-defense program in mid-1941. In this connection we quote the following paragraph from a letter dated April 2, 1947, received by this association from

Richard H. Stout, executive vice president of the Bank of Louisville, who was the executive head of the association from 1938 to 1945:

Any of those who sat in on the first meetings of Federal Reserve, or who had occasion to visit with Governor Ransom and other Federal Reserve officials, during the first 2 or 3 years of regulation W, will recall numerous occasions on which it was stated that Federal Reserve was accepting the charge reluctantly and as a matter of duty; that it would be happy to terminate its assumed responsibilities as soon as the emergency was declared at an end by the Executive. To the best of my knowledge, it has been only during the past 2 years that Federal Reserve officials have begun to talk in terms suggesting a perpetual control machinery for consumer credit.

The members of this association, who have been serving the credit requirements of men and women as individuals for 35 years and more, deplore the unsocial aspects of Federal regulation of consumer credit. The present regulation says, in effect, that individual desires for better things for better living must be foregone or sacrificed to the over-all economy of the State.

We have the situation where if we are in the income brackets high enough to make a purchase and command an installment credit of over \$2,000—or if your credit is good enough to get a single-payment loan from your bank in any required amount—you can buy or repay on any terms you wish. But if you are going to buy a Ford instead of a Cadillac, for example, on the installment plan, you have to pay one-third down and the balance in 15 months.

The regulation is not only inconsistent with the American philosophy it is inconsistent with other Federal Government economic policies; and it is even inconsistent within itself.

We have the situation where the Treasury Department is desirous of doing everything it can to persuade the American public to hold onto its war bonds rather than cash them in. Yet the restriction of consumer credit leaves many people, particularly the masses, in the position where they cannot meet the required credit terms available to them and they must either cash in their war bonds or give up their place in line for the purchase of post-war durable goods to those others fortunate enough to have the cash to buy outright or sufficient income to meet the credit term.

We have the situation where one Government agency seeks to dampen, restrict, and control short-term credit, while another Government agency has relaxed and lengthened and broadened the terms in another and severalfold larger field of consumer credit, that is, long-term home-mortgage loans. We have the situation where a veteran can buy a home with no down payment and take up to 25 years to pay off the loan; but, if he wants to buy a refrigerator and other essential appliances to make the house a home, he must pay one-third down and the balance in 15 months—that is, in every State except New Jersey.

We have the situation where the veterans in one State of the Union—New Jersey—can buy furniture and appliances for their homes with no down payment and up to 2 years to repay, but the veterans in other States must pay 20 percent down on furniture and one-third down on appliances and repay in 15 months.

We have the situation where you can go to a dealer and buy certain "nonlisted" merchandise on any terms you wish, and the bank can, in turn, buy that note or contract from the dealer; but if you go directly to the bank to borrow the money to buy that article or merchandise you must repay the obligation in not over 15 months.

We have the situation where an ordinary bank loan evidenced by a promissory note payable in full at maturity is not an "installment" loan subject to the regulation even though the bank may "anticipate" that at maturity of the note it may accept partial payment and a renewal note, provided the bank makes no commitment to do so and the transaction is entered into in good faith and not as a means of evading the regulation. That may not be exactly an inconsistency, but it is close to it.

We have the situation where if a loan is originally made in good faith on a single-payment basis, it may subsequently be converted to an installment basis on any terms whatsoever, completely outside the regulation. That may not be a literal inconsistency, either, but it illustrates the extreme difficulty of trying to work out rules and interpretations in connection with the regulation of consumer credit, where the requirements of thousands of individual customers must be taken into consideration.

As one illustration as to the impracticability of regulation W, in connection with the rule mentioned immediately above, the warning is made that in any case where investigation shows that a registrant is converting an "undue" number of credits to an installment basis after originating them on a noninstallment basis, the inference would be fairly plain that the registrant was guilty of "evasion" of the regulation. Now, who is going to judge what constitutes an undue number of instances of this kind? Who is to say when "the inference would be fairly plain" that the registrant was guilty of evasion?

There is no way in the world to enforce such a regulation as far as the general public is concerned. It is impractical by its very nature. To enforce it, you would have to pass a law requiring every citizen 21 years of age or over to keep a complete set of books and then hire a Gestapo to audit those books. Unless the banker "knows or has reason to know" something to the contrary, he can only accept the borrower's signed statement as to the purpose of the loan. If the borrower says it is for one purpose and uses it for another, which is contrary to the regulation, what is the banker to do about it?

What is to prevent the borrower using his pay check to complete the down payment on an automobile and then coming into the bank to borrow the money to pay the rent, the grocery bill, the doctor, and the insurance premium? How are you going to put a stop to that without a Gestapo? People are doing it every day. It is the little fellow who cannot meet the high monthly payments that gets hurt any way he turns.

Even though it were not unnecessary, ineffective, un-American, unsocial, inconsistent, and impractical, the continuation of Federal regulation of consumer credit will do more to harm the Nation, by breaking down respect for and observance of Federal laws, rules, regulations, and interpretations than any good that could possibly come of it.

(The following statement was submitted by the National Automobile Dealers' Association:)

#### STATEMENT OF NATIONAL AUTOMOBILE DEALERS ASSOCIATION

This is an official statement from the National Automobile Dealers Association, 1026 Seventeenth Street NW., Washington, D. C., on the dealer attitude toward elimination of regulation W. NADA has a membership of 28,264, or more than 70 percent of all the new-car dealers in the country.

Dealers are vitally interested in the future of regulation W because new and used automobiles are included in that small group of commodities still coming under the provisions of the regulation. Regulation W controls the amount of down payment and the length of monthly terms on the sale of all new and used automobiles with an unpaid balance of \$2,000 or less. The terms of the regulation, at the present time, require a one-third down payment and limit the monthly payments to 15 months. These regulations, it should be noted, apply only to the low- and medium-priced cars. The credit of the man least able to pay is restricted. The large-car buyer is not regulated.

NADA has constantly watched the effect of regulation W as it applies to automobile dealers. In order to determine the position of its members on the subject, NADA recently addressed a questionnaire to all members. Replies were received from 12,307 dealers, or about 43 percent of the membership of the association.

Dealer opinions were expressed in those returns as follows:

Favoring outright elimination of regulation W	6,312
Favoring modification of regulation W	4,453
Favoring continuance of regulation W as is	1,542

These results indicate a majority in favor of elimination of the regulation. Those dealers who cast a vote in favor of modification, together with those in favor of elimination, total 10,765. This indicates a decided dissatisfaction with the regulation in its present form.

The survey has been broken down by States. The States, represented by members of your committee, are designated by asterisks.

State	Member-ship	Total votes cast	In favor of elimination	In favor of continuance	In favor of modification
*Alabama	455	182	100	35	47
Arizona	127	63	25	8	30
*Arkansas	354	119	58	29	32
*California	1,394	840	242	90	517
Colorado	301	152	74	27	51
*Connecticut	395	179	100	13	66
Delaware	48	22	11	3	8
District of Columbia	71	47	34	3	10
Florida	373	169	88	22	59
*Georgia	453	182	102	30	50
Idaho	220	106	45	13	48
*Illinois	1,529	683	397	64	222
Indiana	938	346	149	33	164
*Iowa	1,065	334	189	55	90
*Kansas	920	312	174	48	90
*Kentucky	423	157	94	27	36
*Louisiana	362	169	95	23	51
Maine	227	87	46	13	28
Maryland	322	140	88	16	36
Massachusetts	722	357	198	24	135
*Michigan	853	539	312	58	169
Minnesota	1,186	334	186	55	93
Mississippi	462	149	61	36	52
*Missouri	640	301	184	32	85
Montana	267	129	65	18	46
*Nebraska	347	130	79	27	24
Nevada	45	26	10	3	13
New Hampshire	226	107	43	13	51
*New Jersey	937	504	326	20	158
New Mexico	135	67	22	15	30
*New York	1,817	773	476	48	249
*North Carolina	725	318	175	48	95
North Dakota	284	79	41	19	19
*Ohio	1,783	767	426	83	258
*Oklahoma	539	240	119	33	88
Oregon	419	205	83	32	90
*Pennsylvania	1,635	756	351	93	307
Rhode Island	179	73	45	3	22
*South Carolina	381	131	65	18	28
South Dakota	237	20	20	14	23
Tennessee	346	139	69	26	42
*Texas	1,276	610	281	103	226
Utah	212	94	28	15	41
Vermont	128	67	28	11	18
Virginia	587	271	128	26	117
Washington	541	288	95	30	163
West Virginia	362	131	78	21	34
*Wisconsin	527	241	129	29	83
Wyoming	169	70	27	19	24
Unidentified States	10	66	20	11	35
Total	28,264	12,307	6,312	1,542	4,453

In common fairness, it must be stated that today, from a strictly dealer standpoint, the application of regulation W to dealer operations is not a serious problem. Because of a shortage of new cars and the current amount of ready cash in the hands of some, he can move all the cars he is obtaining.

The situation of buyers in the lower-income groups, including returned veterans, however, requires serious consideration now. Millions of them want and need new cars. Many veterans are in this category and find it impossible to finance the purchase of a lower-priced car within the 15-month period permitted. The livelihood of many individuals is entirely dependent upon the use of private motor transportation. Only the fact that a great new-car shortage exists prevents the stringency of present new-car-credit regulations from becoming a far more active public issue. If a normal supply of new cars were being produced, undoubtedly there would be bitter complaints over the terms of the present regulation. An example of the increased amount of cash required as down payment and the increased monthly payments needed to purchase a typical low-priced new car under regulation W follows:

1941—Cash down payment.....	\$311
Monthly payments: 18 months, at.....	42. 00
1947—Cash down payment.....	476
Monthly payments: 15 months, at.....	77. 96

The day of normal production and widespread public complaint against regulation W may be imminent. New-car production is picking up rapidly and indications are that the 1939-40-41 production average soon may be achieved. A comparison of passenger-car production for domestic consumption shows—

First quarter 1946.....	187, 791
First quarter 1947.....	750, 141

In view of the recent increase in production it may be that the first quarter of 1948 would equal or exceed the same period in 1941 when 1,198,175 passenger cars were produced.

As this level of production is reached, public resentment against a credit regulation which denies an honest man a new car on reasonable time payments will be quick and decisive.

It is upon knowledge of these conditions that dealers throughout the country have based their insistence that regulation W should be abolished.

The CHAIRMAN. The members will stand in recess until 10 o'clock tomorrow morning provided the House does not meet at 10. If the House meets at 10, we will not be able to meet tomorrow morning.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 10 a. m., Wednesday, May 28, 1947, or at a later date, as provided in the chairman's statement.)