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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers  
of Monday, August 25, 1941

August 23, 1941

Statement of Chairman Eccles

on instalment credit regulation.

It is important that the public know why they are asked to accept and to cooperate in making effective the President's Executive Order calling for regulation of instalment credit. Employment and national income are rapidly rising to new high levels primarily because of the huge defense expenditures. This means that by and large people have more money to spend than ever before. This is happening at a time when more and more of our industrial plant must be used to produce defense materials. To the extent that plants can be expanded, or can work longer hours, or that shortages of strategic materials or of skilled help, can be overcome, we can produce both for defense and for civilian consumption. And the aim of all policy should be to increase production to the fullest possible extent. But we know that there are acute shortages of certain metals and other strategic materials. We know that beyond a point our plants cannot turn out more and more goods for the public and at the same time produce more and more for defense. The imperative demands of defense must have the right of way over civilian needs.

If there are no restraints upon the public's spending of increasing income for articles that cannot be produced in sufficient quantity to meet the increasing demand, the inevitable result is that the prices of these articles will be rapidly bid up. The consequence is what is commonly termed inflation. Inflation is as destructive as deflation. It shatters all of the adjustments of our economic machine. It hits hardest of all those of small means. It would not only vastly increase the costs of defense, but it would imperil our entire economy and make increasingly difficult the adjustments of the post-war period.

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The Government is striving in various ways to combat inflation. Taxation is a means not only of helping to pay for defense but of drawing off buying power that would otherwise inundate our markets. Similarly, the Treasury has appealed to the public to invest in savings bonds and stamps, and in tax anticipation notes, to aid in meeting the costs of defense and to divert money from the marketplace until such time as we can turn again to peace time production.

These broad measures have to be backed up by others. Thus, in the case of acute shortages, the Government has had to fix prices, to invoke rationing and priorities. Beyond all this, however, it is evident that if we, in effect, draw off buying power with one hand and extend credit with the other, we have accomplished nothing in reducing the aggregate demand in the markets. If you pay \$50 in taxes and invest \$50 in savings bonds, and then turn around and borrow \$100 to spend, you have not curtailed your purchases by a penny.

Accordingly, it is of primary importance that restraints be placed upon the wholesale extension of credit, including instalment buying. The volume of instalment credit has been expanding very rapidly, as it always does in times of rising national income. Yet when incomes are at high levels, that is the time when people should reduce their debts or get out of debt. Our people cannot spend their increased incomes and go into debt for more and more things today without precipitating a price inflation that would recoil ruinously upon all of us. Instead of an ever-expanding volume of consumer credit, we need to bring about a substantial reduction in the total

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outstanding. Civilian demand for goods must be adjusted as closely as possible to supplies available for consumption. Regulation of instalment credit is a necessary measure to this end. By deferring civilian demand at this time we can help avoid inflation, we can aid in defense, and we can store up a backlog of buying power that will help offset a post-defense slump.

The impression held by some that regulation of instalment buying tends to restrict production or to curtail the business of dealers in merchandise is based on misunderstanding. It is because of defense needs, not because of regulation of instalment credit, that civilian supply is reduced in various lines, such as automobiles. The purpose of instalment credit regulation is to help dampen demand for goods the civilian supply of which has already been reduced and must be further reduced because of defense needs. In a word, the purpose is to dampen demand, not to diminish production. If production could keep pace with both civilian and defense demands, we would have no price inflation troubles. We would need none of the measures of control and regulation which are being invoked with the objective of protecting the public.

The regulation issued by the Board of Governors of the Federal Reserve System covers a list of consumers' durable goods. Demand for these goods tends to cause inflationary price rises as well as to absorb materials increasingly needed for defense. The regulation prescribes instalment terms that are by no means stringent or onerous. It does not prohibit buying on instalments, whether it be automobiles or ice boxes. It is a supplemental instrument to be used in conjunction with the broader, more basic fiscal and

other governmental powers in combating price inflation. It is not being used as an instrument of reform or alteration of the fundamentals of our economic system. In effect, it recognizes what in many lines are standard practices. The intent is not to disrupt but to protect the economy.

The public should be fully aware, however, that the regulation is subject to change from time to time as experience with its administration develops, and as economic conditions require a further dampening of buying power in order to safeguard the interests of consumers and the public generally.