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TIGHTENING UP CREDIT

You doubtless know why the anti-inflation battle is on - you know that our country is spending enormous sums of money for defense - for ourselves and the Allies; you know that more and more people are finding jobs - that there are not only more people working, but more money in pay envelopes. A vast new stream of buying power is thus pouring over the nation, and at the same time supplies of many kinds of goods are running short. Defense requirements not only need the materials from which many of the goods that you and I are accustomed to buying are made, but also more and more our industrial plants and our workers are being turned from the production of civilian goods to the production of planes, guns, munitions, ships, etc.

To emphasize this even more plainly, there are more and more buyers in the market, and there are less and less goods to go around. Therefore, only one thing can happen - the prices of the goods available will be bid up to ever higher and higher levels, unless somebody does something about it, and does something about it in time. That "somebody" is the Government, for it represents us all, collectively. The Government can (and it is already in action) draw off some of this swollen stream of buying power by taxation - particularly by income and excess profits taxes, which are based on the equitable principle of the ability to pay. It can draw off more potential buying power by borrowing savings of all groups, big and little - hence, the Defense Savings Bonds, which enable us to help pay for defense and to store up buying power for the future, when our plants can again turn out goods for civilian use, and when we shall have need for some form of industrial activity to take the place of our present defense activity - when we shall need to keep our plants and our workers busy.

In other fields where there are acute shortages, the Government has had to act as speedily as possible to fix prices, to determine priorities - which means deciding how to distribute the limited supply of important but scarce metals and other materials according to the urgency of the need for it - defense coming first of all, of course.

But one of the greatest economic fields is that of credit - credit of all kinds - the kind you get or I get when we borrow at the bank or at the finance company, or when we buy goods on the instalment plan. And it is easy to see that it isn't sufficient to draw off buying power from the market place through Government taxes and through Government borrowing if amounts thus drawn off can be offset, or more than offset, by the creation of new buying power through credit.

In this connection, therefore, the Federal Reserve System has raised the reserve requirements of member banks. While this does not directly affect you, and while this of course is but a small step in itself, more important from a psychological than from an immediate practical standpoint, it does signify a trend toward dampening down excessive credit expansion by the banking system of the country. It means that the banks must keep more of their funds with the Federal Reserve Banks, and this in turn means that the banks will not have quite so

much to lend, though of course they still have a great deal left for that purpose.

When this action was taken, the statement was made that -

"The Treasury and the Board of Governors will continue to watch the economic situation and to cooperate with other agencies of the Government in their efforts, through priorities, allocations, price regulation, and otherwise, to fight inflation."

This includes recommendations of further action if necessary over bank reserves.

Not so long ago the Federal Reserve System was directed by Executive Order to put out (and it has put out) a Regulation to tighten installment or consumer credit - to tighten up the terms on which you or I may buy automobiles, refrigerators, radios, vacuum cleaners, and a limited number of other articles - desirable articles that all of us like to have and do not like to go without - but nevertheless, articles that cannot be turned out and are not turned out during this emergency by plants and workers in sufficient quantities to go around while we are producing for defense.

It doesn't mean, however, that you can no longer buy on time. It simply means that on certain articles - articles primarily that use materials needed for defense - you and I will have to make specified down payments - a third in the case of an automobile - less in all other cases under the present terms of the Regulation. And you and I must pay the rest in 18 months on all articles listed, and besides that, on all cash instalment loans up to and including a thousand dollars, as well as loans above a thousand dollars made for the purpose of purchasing (and secured by) a listed article. Not very severe terms, to be sure, but it is only fair to warn you that the terms may have to be tightened and may have to cover more articles.

Naturally, there are some who will think it is rather hard not to be able to buy on very easy terms at a time when they have just found a job and are now in a position to buy what they have for some time needed or wanted. I know but one answer to that, and the answer is the same as you or I would make to any young man who complained that it was unfair to ask him to serve in our armed forces just as he was preparing for a bright future. Yes, it is a sacrifice, and sacrifices are not - cannot be equally borne. We can only try - try to see that the sacrifices are distributed as equally as is humanly possible. We are all on exactly the same footing when it comes to cooperating in combating inflation. For that, too, is a fight - a fight against a common enemy, the enemy that strikes hardest at those of small means - the factory workers, the farmer, the breadwinner, the housewife - the great masses of our population.

Let us consider for a moment what the alternative is, if there is no damper put on this very important type of credit - consumer credit - if it continues to grow rapidly, as it has been doing for many months.

Unless some check is put upon it, and other means of fighting inflation are also brought into action, there is no escape from soaring prices, and no thoughtful American wants to have that happen - wants to have the millions of Americans who now have steady jobs, perhaps for the first time in a long while - no one wants to see these workers exchange their hard-earned money for fewer and fewer things. It doesn't make sense - does it? - to earn good wages and have prices go up so high and so fast that the wages buy fewer and fewer goods, food, clothing, necessities of life - as well as the extras. Rather, if given the choice, every thoughtful citizen would prefer to save some of his income if in so doing - if in cooperation with his fellow citizens, subject to the same Regulations - he can help ward off price inflation, - and he will have laid by something for the future, for a time when he and everybody else can buy goods that can be produced in sufficient quantity to meet the demands. And that will be when peace comes, when our plants and workers can be turned back to normal activity producing things of peace instead of things of war.

We are happy to live in a democracy, but for a democracy to operate successfully, public understanding and cooperation are essential, and they are essential if the Government's fight on inflation is to succeed.

Those of us whose task it is to work directly on the program welcome the opportunity to report to you - to report on what we are doing. We welcome questions that lead the way to an understanding of credit regulation, taxation, the sale of Defense Bonds, price control, and other features of our effort. We are defending our democracy, and we wish to defend it by democratic means. The strength of our nation lies in our understanding and determination. Having these, we are invincible.