

ADDRESS BEFORE THE
NATIONAL RETAIL CREDIT ASSOCIATION
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REGULATION W -- ITS ADMINISTRATION

It was a pleasure to accept your invitation to appear on this program, because your officials assured us who represent the Federal Reserve System at your convention that we would have the benefit of a general discussion of the problems of regulating consumer credit. The views of those subject to governmental regulations are invaluable to administrators. We welcome the opportunity to explain the policies underlying the Board's regulations and the objectives we seek to achieve. Regulatory action can best be developed through consultation with those whose affairs are subject to regulation. They should have every opportunity to present their views based on their practical knowledge and experience in the daily routine of business.

Meeting with you affords an opportunity to express to your members the Board's appreciation of the cooperation extended by the officials and members of your Association. Your officials have always responded willingly to our requests for conferences and discussions. They have been most helpful.

As a member of a Board of six, I can speak for the Board only in connection with matters on which the Board has acted and publicly announced its policy. Otherwise what I have to say is necessarily an expression of my individual point of view.

Regulation W should be viewed in proper perspective. Accordingly, some reference to its background is necessary. Beyond everything else, all of us have one objective that takes precedence over all others: the defeat of Germany and her treacherous ally Japan and her contemptible Fascist allies in Italy. The Axis powers have conspired to destroy all of those freedoms on which democracy rests. We are united as never before to defend our nation regardless of cost. This was inevitable from the moment the Nazi scheme of things came into being. These lawless and ruthless enemies of freedom, in their lust for world domination, recognized that their conception of government and ours could not both exist in a world made small by the elimination of distance and time. Fortunately for civilization, our President foresaw the course of events, and understood the meaning of this world revolution, which has imposed upon our country unprecedented burdens and responsibilities. That we will win, there is no longer the slightest doubt.

Our primary obligation, of course, is to supply the man power, the munitions, planes, tanks, ships, and other war materials, which somewhere on the globe will mean the final destruction of the tyranny we oppose. We fully realize now that this is a total war, demanding an all-out effort, in which civilians as well as the armed forces are active participants. It is not merely a mechanized war--a war of material production. It is as well a war on the psychological plane, in which propaganda is pitted against morale. It is also a war on the economic front.

Nazi propagandists have predicted confidently that we could not achieve the war production goals set by the President. But they have added, inconsistently, that if we did it would be at the cost of ruinous inflationary developments on the economic front. American industry and labor have already given the lie to the first prophecy. It is up to all of us to prove them equally false prophets in measuring the ability of the American people to rise to the needs of the hour in protecting and stabilizing the economy.

Our people have shown, by innumerable evidences and tests of public opinion, that they are willing and eager to subject themselves to taxation, rationing, price controls and other restraints, and regulations essential to safeguarding the economic front. They have asked only that the demands made upon them be applied equally and fairly, without favoritism. They have responded loyally to patriotic appeals to forego unnecessary spending and to invest as much as possible of their current incomes in war savings bonds.

Appeals to their patriotism have sufficed to evoke a loyal response even when the reasons for the demands made upon them have not been widely understood. The close interrelationship of the various parts of the President's seven-point program to curb the upward spiraling of the cost of living is apparent to economists, regardless of their individual conceptions of the program most appropriate at this moment. How generally the relationships are comprehended is another matter. Not many people fully realize that investing in war savings bonds, or foregoing unnecessary buying, or paying debts, or refraining from borrowing to be used in buying civilian goods, are all ways of helping to stabilize the economy and curb the upward spiral of living costs. We need to make these seemingly complex matters much clearer; for the wider the understanding of them, the more certain we will be of such overwhelming, whole-hearted public response that there will be no more doubt of success on the home front than on the battle front.

There is no other justification for my taking your time today to outline, as briefly and simply as I can, the relationship of consumer credit regulation to the other, more important parts of the over-all program. Regulation of instalment and civilian consumer credit generally is at best a supplement to the larger, more important means of economic management. By itself it would be meaningless. Without it other more basic measures, such as taxation, might be less effective in drawing off surplus spending power from the market.

Public acceptance of consumer credit regulation has been in keeping with other evidences of general readiness--indeed, eagerness--to submit to restraint and regulation as a war-time necessity. This is true notwithstanding the fact that this type of regulation is direct, rather

than indirect, seemingly an encroachment in a field hitherto uninvaded by Government regulation. We have sought to be perfectly candid about it. We recognize it frankly for what it is--a type of regulation and policing of business and personal affairs that we Americans dislike instinctively and want as little of as possible. Yet the public generally appears to have realized the need for it as an essential part of the Government's program to protect the people from an upward spiral in the cost of living.

We have repeatedly stated that this emergency measure was not to be used as an excuse for instituting reforms of business practices or eradicating abuses such as may exist in the consumer credit field. Our job was to reduce spending power by regulating this credit.

The administration of the Regulation is difficult and at times is not a pleasant job. We have tried to administer it with as little disturbance and meddling in the affairs of those concerned as was possible. We propose to continue in that spirit. As I have indicated, Regulation W is a supplementary, rather than a primary weapon of control. Priorities and allocations come ahead of it in importance in relation to the durable goods problem. Taxation, price fixing, and rationing are still more important controls directed toward the restraint of a rise in the cost of living. Investment in war bonds should contribute more in dollar volume than Regulation W to building a backlog of consumer investing power in the post-war world, while acting at the same time as a powerful anti-inflationary control. Nevertheless the necessity for an all-out effort to achieve stability requires restraints on consumer credit at a time like the present when national income has already risen to an all-time high and is still increasing while the volume of consumer goods is steadily declining. Regulation W is no panacea, but it can and it has put a damper on credit dollars which are just as much a factor in bidding up prices as are cash dollars. It is as a restraining influence, not as a cure-all, that we have sought to apply and adapt it to the changing conditions of a war economy. The President said in July 1933, "I have no faith in 'cure-alls' but I believe that we can greatly influence economic forces. I have no sympathy with the professional economists who insist that things must run their course and that human agencies can have no influence on economic ills."

The need for Regulation W became apparent last summer when demand for certain types of consumer durable goods began to outrun the supply. These were goods, the production of which required substantial amounts of materials, skills, and equipment needed for the war effort. An increase in the volume of consumer credit at such a time would have merely added to the increasing superabundance of spending power. This in turn would have accelerated the bidding up of prices of consumer goods, thus increasing the cost of living. A rise in these prices would have

been accompanied by an increase in all costs of defense and our subsequent war effort.

These considerations resulted in an Executive Order signed by the President on August 9 of last year, designating the Board of Governors of the Federal Reserve System as the agency through which consumer credit was to be regulated. As a part of Government, the System has primary responsibility for the determination and administration of credit policies. There was an additional reason for selecting the Federal Reserve System to regulate this type of credit. As constituted, it is headed by a Board of Governors resident in Washington, in contact with Congress and all the administrative agencies of Government. Through the twelve Federal Reserve Banks and their twenty-four branches, which constitute the System in the field, it has a decentralized organization extending throughout the country. Thus national policies can be developed at the seat of Government, while administration can be effected in the field, in close contact with those who are subject to the Regulation.

The System has broad statutory powers to regulate the volume of bank credit, primarily through influencing the volume of member bank reserves. It has authority to regulate margin requirements of banks and brokers in connection with loans to purchase or carry listed securities. In more than a quarter of a century of experience and research, the System has gained a wide knowledge of credit problems. It was felt that this knowledge would prove helpful in aiding the Government in its regulation of credit in a field not heretofore regulated. In its studies in the field of credit control the Board of Governors had for some time been giving specific attention to the effect on the national economy of the expansion and contraction of consumer debt. Various other groups and individuals had done valuable research work for years in this field.

Immediately following the issuance of the Executive Order we had to formulate a Regulation to implement it. We wanted to check the studies that had been made on this subject against the practical experience of the trades that would be involved. For this purpose we had conferences in Washington that developed useful information in formulating Regulation W. We realized that by this method we could inform those extending consumer credit as to the national policy back of the Regulation. In order to acquaint users of consumer credit with the terms of the proposed Regulation, it was released in draft form to the press before its effective date, August 21, 1941, and its proposals were widely publicized. This in turn gave us the benefit of the views of many users of this type of credit. In addition, a consultative committee, consisting of the Secretary of the Treasury, the then Federal Loan Administrator (now the Secretary of Commerce), and the Administrator of the Office of Price Administration, afforded further valuable counsel and guidance continuously. We have also had the help of officials of the

Federal Reserve Banks and are constantly advising with the staff of these Banks.

In discharging its responsibilities, the entire Board decides all important questions of policy, but one of the members of the Board, and sometimes two members, act under the supervision of the Board in the actual current administration of Regulation W. In performing this task, these members of the Board are assisted by the Board's staff, including in particular the Division of Security Loans which is represented here today by the Chief of the Division, the Division of Research and Statistics, and Counsel's Office.

In many respects, however, the most important part of the day-to-day administration of Regulation W is performed, under the supervision of the Board, by the twelve Federal Reserve Banks and their twenty-four branches. It is with the advice of the Reserve Banks that the Board makes its decisions, it is through the Reserve Banks that Regulation W and its amendments are distributed to the vendors and lenders who are subject to it, and it is the Reserve Banks that carry the principal load of educating their several communities to the meaning of the Regulation, conduct registrations, answer all sorts of questions, and have immediate charge of enforcement. Probably all of you have had experience in dealing with a Federal Reserve Bank or branch with respect to Regulation W, and we feel sure that it is to your liking as well as to ours that you can take your problems to them, rather than to Washington.

Since the Regulation was promulgated we have had innumerable trade conferences. We have tried at all times to keep in touch with the problems of those who extend and those who use consumer credit. The field of coverage of the Regulation is comprehensive, and, as I have stated, those subject to it represent both lenders and vendors. Within these two groups are trades and industries that have little in common, except that they extend credit in one form or another. The obligation rests on us to try to keep the scales in at least relative balance between all of these various groups, as far as possible to avoid conferring a competitive advantage on any particular group.

We realized from the beginning that the Regulation would have to be amended from time to time, not only to correct errors, but to meet changing conditions. Regulating a new field of credit is necessarily experimental. It requires flexibility and a willingness to make changes where indicated in the light of experience.

The major objective of the Regulation as issued last August was the dampening of demand for automobiles, washing machines, and other durable goods, the production of which had been or was about to be curtailed in order to release materials, labor, and plant capacity required to increase production for the war effort. The list of consumer goods

in the original Regulation reflected this first objective of policy. Nevertheless the fact that restriction of consumer credit of all kinds during the war emergency would assist in checking the rising cost of living and the orderly transition from the war to the post-war periods was not overlooked. At that time, however, it did not seem necessary to apply the Regulation either to charge accounts or to single payment loans. The Board preferred to apply gradually the restraints of the Regulation, giving wherever possible sufficient time to the trades involved to adjust their normal operations to the terms of the Regulation. This policy is reflected in the down payments and maturities established by the original Regulation.

The terms of the Executive Order establish a broad and comprehensive pattern, which has permitted and will continue to permit the Board to administer the Regulation in the light of changing economic conditions. It has been the consistent policy of the Board to tighten the terms and widen the area of coverage as conditions required, but, of course, this is a two-way street; when conditions justify, terms can be relaxed as well as tightened.

By the time we had to consider the fourth amendment of the Regulation, which became effective on May 6, 1942, and resulted in a complete revision of the Regulation, conditions had substantially changed. We had passed beyond the defense period and were in the war offensively. The durable goods problem was not what it had been. Plants manufacturing these goods were converted or in process of being converted into plants producing war goods. The total of consumer credit had already shrunk and was obviously going to decrease further as time went on, because of the disappearance of automobiles and other durables from civilian markets.

In the interim, however, the cost of living was rising. As the President has said, no single step is adequate by itself to prevent such a rise. A comprehensive program is essential. In his message to Congress on April 27, the President clearly stated the points which taken together he referred to as "our present national economic policy." First on the list is taxation--the most important of all the steps that can be taken. Then come price-fixing, stabilization of remuneration received by individuals for their work, and stabilization of the prices received for agricultural production. The purchase of war bonds and the rationing of essential commodities come next. Last on the list is the caution that we must discourage credit and instalment buying, and encourage the paying off of debt. The President emphasized that those who pay off debt will be grateful that they have done so when this war is over. This is a form of insurance against post-war depression. A dollar paid in taxes, a dollar invested in war bonds, a dollar spent in the payment of personal debt is a dollar wisely used at this time.

In May of this year it was apparent that in the year 1942 after the payment of taxes and the purchase at reasonable prices of all the consumer goods available and the payment of fixed and maturing personal obligations, there would be left in this country an amount of spendable dollars hard to calculate with accuracy but apparently in excess of ten billion dollars and possibly as high as twenty billion dollars. This is the so-called "inflationary gap". This means the amount of spendable income that should be absorbed in some way other than in the bidding up of prices of consumer goods if the cost of living is to be stabilized and is not to reach such high levels as to be disruptive of a sound economy and an intelligently managed war effort.

Regulation W had to be amended to play its part in the President's seven-point program. It was necessary to consider what an amendment could accomplish as part of this program. It was apparent that consumer debt was declining. The figures generally cited are those of the Department of Commerce. The total consumer debt estimated by the Department as of December 31, 1941 was \$9,550,000,000. As of the last of April of this year the total was roughly estimated to be about eight billion dollars. The trend was still downward, but it was evident that the trend could and should be accelerated. Making allowance for what seemed to be the probable decline in the total of consumer debt over the next twelve months, that is from April 30, 1942, we took as an objective the imposition of such restraint as would be likely to produce a total decline in this type of debt by April 30, 1943, of approximately four billion dollars. In other words, we hoped the amendment as revised would assure cutting down the total of this debt by about one half by the end of next April.

To reach this objective it was necessary to consider every field of consumer credit as a possible field of regulation--lender and vendor alike--and to impose restraints wherever it seemed practicable to do so. Accordingly, the Regulation was revised to include restraints on charge account credit and single payment loans, both of which had been deliberately omitted from the original Regulation. It also necessitated listing many additional consumer durable and semi-durable goods not previously covered and increasing down payments and shortening maturities.

In my opinion, the Regulation as revised in May establishes the pattern of the Regulation for the future. Further substantial amendments would not seem to be indicated, unless there should be a sharp change in the economic outlook.

Just what can the vendor, the lender and the consumer do? First of all, everyone should be familiar with and should obey the laws and regulations made by Government. If you do not know what these laws and regulations are, find out; ask the Federal Reserve Bank or branch in

your city or district. They are glad to answer questions. There are a few general guiding principles that, if followed in this difficult period, will largely contribute to the success of the Government's program.

If you are a vendor, hold your inventories to reasonable levels; replace only where required to meet the necessary buying of your customers. Fair distribution of inventories between vendors is essential. Do not stimulate sales that result in credit. Do not offer credit as an inducement to the customer to buy or to add to your store's income through carrying charges. Put emphasis on cash sales. Beware of add-ons. Collect your receivables promptly. Cooperate with Government and your customers in getting your customers out of debt and keeping them out of debt. See that your receivables decline. The post-war world will afford plenty of opportunities for the promotional efforts of advertising men, salesmen, and credit men.

If you are a lender, do not urge people to borrow; stimulate the repayment of existing personal debt. See that your policies do not encourage a shift of consumer debt from vendor to lender. Guide your customers' thinking and be sure that an application for credit of a non-productive nature represents a true necessity. There will be such cases, because the increasing national income is not equitably distributed. There will be borrowers who must look to credit to meet those individual and family situations that, under existing economic conditions, still justify applications for loans. Scrutinize them with care, but do not forget that in our economy the legal and reputable lender of small amounts has served a useful social purpose. Do not encourage add-ons unless they are necessary. Watch the total of your receivables. They should steadily decline during the emergency. If they do not, you are probably not responding to the needs of this period.

If you are a customer, do not buy anything unless you need it. Do without if you can. Do not hoard. Do not think it smart to "beat" the laws and the regulations. Violating the unpopular prohibition laws was an unfortunate training for the period through which we are passing. This is a difficult and serious situation. Government does not want to regulate any further than is absolutely necessary. Every time you cut a corner on existing laws and regulations directed towards preventing chaos and disaster on the economic level of our war effort, you invite stricter and broader laws and regulations, more difficult to administer and, in many ways, more expensive to your Government, which in the end is more expensive to you. Pay your taxes. If they can be made stiff enough now, we can avoid trouble and have a sounder economy in the post-war world. Invest in war bonds to the maximum you can. You not only will have the best investment in the world, you will not only be contributing to your Government's effort to stabilize the cost of living, will not

only know that your dollars are going into the effort to preserve your country and defeat its enemies, but will have a backlog that you will certainly need when this war ends. Pay your personal debt. Incur no debt that you can avoid. To what extent each individual can pay taxes, invest in war bonds and pay up his personal indebtedness is an individual problem. It is imperative that all should know the need for individual restraint and individual cooperation at this time, because the welfare of each individual is at stake, because all alike are involved in this fantastically menacing war.

Vendor, lender, and consumer should all remember that this is, thank God, a free country and that your Government is but the means through which your affairs are directed. It has an obligation to make sense. If you don't think it is making sense, say so, but say it constructively and specifically. Do not assume that any of us in Government think we know all the right answers or assume that we do not want the ideas of our fellow citizens. Washington today is a busy place. It is not a madhouse. There is inevitable confusion when a great, peace-loving democracy marshals its vast powers to crush those who would enslave all free peoples. Mistakes will be made. Decisions will be reversed, but the main objective will never change, and it will be reached--not too late.

It will be reached the sooner if Government has the cooperation of all of us--if it has clear-eyed criticism, directed toward achieving the goal of total victory and the maintenance thereafter of a world in which each man and every nation will have a fair chance, in which a standard of living can be established that will justify the term "civilized". Our responsibilities in the post-war world will be as great as they are in the war period. Our energies and our best thought can then be directed to constructive instead of destructive action. In the process of discharging our responsibilities, we will be building in every sense a really great country for ourselves, a country in which our every effort will be directed toward preserving our freedoms, our democratic system of government, and a standard of living, the possibility for which we are beginning to see as production and national income go up, as the war effort really gets into its stride. We are learning much in this inspiring all-out national effort. Let's not forget what we have learned when we come to the successful end of this grim era.

It will be well at that time to recall the evil consequences that followed when we walked out on the obligations that rested on our country at the end of the first World War. Bitter experience has shown us that we cannot preserve a healthy economy in our own country if the rest of the world is allowed to go to ruin. There can be but one safe course to pursue--take nothing for granted. That a technique is old does not prove its worth--we must not be afraid of the new, because it

is new, but neither must we accept it merely because it is new. The post-war world will demand open minds and objective thinking. Willingness to experiment will be essential. We will have hard problems to settle. We must settle them intelligently in order to preserve the freedoms for which we now fight and the democratic system of government; for freedom and democracy are a part of the very air we breathe and America's greatest contribution to human welfare.