

Statement by Wm. McC. Martin, Jr.
Chairman of the Board of Governors of the Federal Reserve System,
before the
Banking and Currency Committee of the Senate,
March 30, 1953,
on
S. 753, A Bill to Provide Standby Economic Controls,
and
S. 1081, A Bill to Provide Authority for Temporary Economic Controls.

As members of this Committee are aware from previous testimony on behalf of the Federal Reserve Board, the Board believes that primary reliance should be placed upon general fiscal, and monetary measures in order to foster steady economic progress.

Whenever possible, in our opinion, market forces should be allowed to assert themselves to bring about necessary adjustments within the framework of fiscal and monetary policies directed toward high levels of production and employment and a stable value for the dollar. At the same time we recognize that when our economy is operating at such a high rate as it is today--with production at very near the limits of our physical capacity in most lines and a fully employed labor force--there is little or no slack that could absorb the impact of a sudden increase in business and consumer spending. Essential as appropriate fiscal and monetary measures are at all times, they may need to be supplemented by direct controls under certain emergency conditions.

In the present international situation there is, of course, the ever present possibility that an emergency might arise. It might then be highly desirable to be able to put into effect promptly certain of the controls which are contemplated in the bills which you are considering.

The Bills in Relation to the Federal Reserve. -- Senator

Capehart's bill, S. 753, would (1) reenact, on a standby basis, authority to regulate consumer credit in the same flexible form as originally enacted in the Defense Production Act of 1950; (2) reenact, on a standby basis, the President's authority to regulate real estate construction credit in the same flexible form contained in the Defense Production Act of 1950 (applying only to new construction); (3) continue without change until June 30, 1954, the Government program of guaranteed loans for financing of defense contracts (the V-Loan Program); and (4) prohibit voluntary programs or agreements for the restraint of credit. The other proposals in S. 753 involve matters which do not fall primarily within the Board's province.

Senator Capehart's other bill, S. 1081, provides that the President, after consulting the proposed National Advisory Council, might freeze prices, wages and rents at the levels then prevailing for a period of 90 days. It does not contain provisions relating to credit controls.

Consumer and Real Estate Credit. -- The Board is not seeking authority to reinstitute at this time regulation of consumer credit or real estate credit. It is true that both consumer and real estate credit have expanded rapidly in the last year and that some of this credit has

been extended on extremely easy terms. Delinquencies and repossessions, painful though they may be, will operate at some point to correct unsound terms and to cause sellers and lenders to adopt safer credit policies. The Board feels that market forces will eventually assert themselves to bring about readjustments provided they operate within a framework of proper fiscal and monetary policies.

At the same time, the Board recognizes that there may be emergencies when it may be helpful to supplement general fiscal and credit policies by more direct restraints. If Congress decides to enact legislation to give emergency powers to the Board in the fields of consumer and real estate credit, the Board recommends that the powers be granted without the limitations upon terms that have previously seriously hampered administration of this kind of regulation. S. 753 provides the authority on this flexible basis. The Reserve System, because of its responsibility for monetary policy, is the logical medium for administering such a law, and has had considerable experience with this type of regulation.

The Board also recognizes that, if an emergency arose in which controls over prices, wages and rents were necessary as provided for by the 90-day freeze bill, S. 1081, consumer and real estate credit controls might well be needed to supplement other

emergency measures. Accordingly, if legislation along the lines of S. 1081 were to be favorably considered by Congress, provisions authorizing consumer and real estate credit controls for a temporary period in an emergency might appropriately be included in such legislation.

In this connection it may be mentioned that under the Trading with the Enemy Act of 1917 the President has broad authority in time of war or national emergency over payments or transfers of credits by banking institutions, and it is believed that the President could utilize this authority in order to regulate consumer or real estate credit in a national emergency. However, we recognize that some might question the legal basis of such action under the 1917 law, and, in any event, we feel that use of this authority should be avoided except as a last resort.

Voluntary Credit Restraint. -- It is noted that these bills do not provide for an extension of this authority. While there are limits to its effectiveness as a means of credit restraint, under emergency conditions it can be a useful adjunct to a comprehensive regulatory program.

V-Loan Program. -- Title III of S. 753 would extend until June 30, 1954, the authority of various agencies of the Government to

guarantee loans for the financing of defense contracts through the agency of the Federal Reserve System (the so-called V-Loan Program). It is the impression of the Board that this program has been constructive and helpful to the guaranteeing agencies in facilitating defense procurement and that it should be continued.

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