

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 3278]
October 27, 1947]

INSTALMENT CREDIT

*To Registrants under Regulation W, and
Others Concerned, in the Second Federal Reserve District:*

There is reproduced below a statement on instalment credit which was released by the Board of Governors of the Federal Reserve System for publication today. At the request of the Board this statement is being sent to every registrant—that is, every lender and vendor who, through November 1, 1947, is subject to instalment credit control under Regulation W. It should have your immediate attention.

This is not the time for a general relaxation of terms leading to an overexpansion of consumer instalment credit. Aggregate consumer demand still exceeds our aggregate capacity to produce the goods with which to meet that demand. At such a time, when the economy is producing at capacity, an overall expansion of credit merely adds to the upward pressure on prices—it brings no more goods to the market. So long as this situation exists it would be a dis-service to business and to consumers to promote an unnecessary expansion of instalment credit. It would add measurably to the danger that the present business boom will ultimately end in a severe recession.

TEXT OF STATEMENT BY BOARD OF GOVERNORS

The instalment credit controls exercised by the Board of Governors of the Federal Reserve System under Regulation W, pursuant to Executive Order No. 8843, will cease to be operative after November 1, 1947, in accordance with the resolution of Congress approved on August 8, 1947.

Generally speaking, the instalment terms prescribed by this regulation called for maturities of not more than fifteen months and down payments of at least one-third. The continuance of strong inflationary pressures has confirmed the belief of the Board that this is no time for the relaxation of terms by banks, finance companies and instalment sellers. Demand for automobiles and many other durable goods specifically covered by the regulation is still far in excess of supply. Easier credit will not add to the supply. It can only intensify demand and accentuate the upward pressure on prices. Easier terms should await a time when growth of credit is needed to maintain full production. That time has not arrived and it is not in immediate prospect. Employment and national income are at all time peaks. Inflationary forces continue to exert powerful upward pressures on the general price level. There could not be a worse time to encourage the public to go deeper and deeper into debt.

Notwithstanding Regulation W and continued shortages particularly of consumers' durable goods, instalment credit, on which the regulation has been focused, has been expanded by more than three billion dollars since the end of the war. Even this is too rapid a rate of growth under the prevailing inflationary conditions. Experience has shown that rapid and excessive expansion of this type of credit is followed by a sharp reversal, thus contributing greatly to economic instability.

As has been stated by the President, "It will be in the public interest for every merchant and financial agency extending instalment credit to avoid undue relaxation of terms. It will be far better to reduce prices rather than to relax terms in seeking new customers. Self-restraint on the part of those who use credit as well as on the part of those who extend it will reduce the danger of an overexpansion of instalment credit which would inevitably be followed by severe contraction, thereby contributing to unemployment and reduced production."

The primary responsibility for avoiding excesses now rests upon the lenders and vendors who have been subject to the regulation. Their interest and that of the nation will be served best if they refrain from taking undue advantage of the end of the regulation. The Board of Governors urges all who participate in the extension of instalment credit to recognize and do all within their power to avert through self-imposed restraints the dangers inherent in easy terms that result in overexpansion of consumers' instalment credit.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.