FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 3597
September 29, 1950]

REGULATION W

CONSUMER CREDIT

Filing of Registration Statements

*To all Persons Concerned with Regulation W
in the Second Federal Reserve District:*

This circular calls to your attention the requirements for filing Registration Statements under Regulation W of the Board of Governors of the Federal Reserve System, effective September 18, 1950, copy of which was sent to you with our Circular No. 3586, dated September 11, 1950.

Who must file this statement

Section 2 of Regulation W requires the filing of a Registration Statement by each business engaged in:

(1) Making automobile instalment loans or instalment sales in a principal amount of $5,000 or less; or

(2) Making instalment loans or instalment sales in a principal amount of $2,500 or less involving other articles listed on the reverse side of this circular; or

(3) Making instalment loans in a principal amount of $2,500 or less for other purposes; or

(4) Discounting, purchasing, or lending on obligations arising from instalment sales or instalment loans of the kind described in (1), (2), and (3) above.

Each separate legal entity, whether individual, partnership, or corporation, must file a separate Registration Statement, regardless of affiliation with other businesses. If the business has branches, one Registration Statement filed by the main office is sufficient. *Such statement shall be filed whether or not the Registrant had filed such a statement under Regulation W as in effect prior to June 30, 1949.*

When to file Registration Statement

For businesses subject to Regulation W on September 18, 1950, the Registration Statement should be filed not later than November 17, 1950. For businesses which become subject to Regulation W after September 18, 1950, the Registration Statement should be filed within 60 days after they become subject to it.

Where to register

Businesses required to register, whose main offices are located in this District, should file their Registration Statements with the Head Office of this Bank, Federal Reserve P. O. Station, New York 45, N. Y. A business whose main office is located in another district should register with the Federal Reserve Bank or Branch in that district. A map showing the boundaries of the Federal Reserve Districts appears on the back cover of Regulation W.

In order that you may comply with the requirement of the regulation for registration, there are enclosed two copies of the Registration Statement, one copy of which should be completed and executed and returned to this Bank within the prescribed period, the other being retained for your files. The statement should be completed in accordance with the instructions accompanying the statement.

General

We shall be pleased to answer any questions you may have in connection with registering, or with respect to the other requirements of Regulation W.

Additional copies of this circular and of Regulation W will be furnished upon request.

Allan Sproul,
President.

(over)

ARTICLES LISTED IN SUPPLEMENT TO REGULATION W

Cooking stoves and ranges, designed for household use.

Dishwashers, mechanical, designed for household use.

Ironers designed for household use.

Refrigerators and food freezers, mechanical, designed for household use.

Washing machines or clothes drying machines designed for household use.

Combination units incorporating any listed article in the foregoing classifications.

Air conditioners, room unit; dehumidifiers, mechanical.

Radio or television receiving sets, phonographs, or combinations.

Sewing machines designed for household use.

Suction cleaners designed for household use.

Furniture, household (including ice refrigerators, bed springs, mattresses, and lamps); and floor coverings, soft surface.

Materials, articles, and services in connection with repairs, alterations, or improvements upon existing residential structures.

Automobiles (passenger cars designed for the purpose of transporting less than 10 passengers, including taxicabs).

FR 563-c
Form Approved
Budget Bureau No. 55-R-002.1

REGISTRATION STATEMENT OF INSTALMENT LENDERS UNDER REGULATION W

FINANCIAL BUSINESS REPORT ON THIS SIDE OF SHEET ONLY

(Retailer, dealer, contractor, or other nonfinancial businesses should reply on reverse side)

Please read instructions before completing this form

This statement is filed in accordance with the provisions of Regulation W issued by the Board of Governors of the Federal Reserve System pursuant to Executive Order No. 8843, dated August 9, 1941, and the "Defense Production Act of 1950."

....
Legal name of Registrant (print or type); state also trade name if different from legal name

....
Street address City Zone No. County State

I. Indicate by check mark whether Registrant is in business as (1) an individual.........., (2) partnership.........., (3) corporation.........., (4) or other form (specify)..........

II. Did Registrant have any branches on September 30, 1950? ☐ Yes ☐ No

If yes, how many (not counting main office)? .... *Please attach a list of branches and their addresses, unless Registrant is a bank insured by F. D. I. C.*

III. Principal business of Registrant. (Check only one.)

☐ 1. Sales finance company.

☐ 2. Commercial bank or trust company.

☐ 3. Industrial bank.

☐ 4. Industrial loan company.

☐ 5. State-licensed small loan company.

☐ 6. Credit union.

☐ 7. Other financial business (please specify; examples—savings and loan association, mutual savings bank, etc.)
....

IV. Instalment paper owned—A Registrant maintaining branches should present combined figures covering the head office and all branches. Exclude subsidiaries and affiliates which are separate legal entities; each of these should file a separate registration statement.

Report the unpaid balances of instalment paper owned at close of business on September 30, 1950, in categories 1 to 5 below. Include all instalment paper whether or not subject to Regulation W.

Give figures to nearest dollar; omit cents. **Please reply to every item; if none, write none.**

	Column (1) Direct loans	Column (2) Purchased paper	Total Sum of columns (1) and (2)	Machine Tabulating Codes
1. Retail automobile instalment credit	$	$	$	11
2. Other retail instalment credit				12
3. (a) FHA insured repair and modernization credit				13
(b) Other repair and modernization credit				14
4. Personal instalment cash loans				15
5. Total (sum of the above items)				19

V. This is to certify that to the best of my knowledge and belief the foregoing is correct (except as to any items marked "est." which are estimated in good faith).

....
Please print or type here the name and official title of the person whose signature appears at the right.

Authorized signature

Date ....

FR 563-c
Form Approved
Budget Bureau No. 55-R-002.1

REGISTRATION STATEMENT OF INSTALMENT SELLERS UNDER REGULATION W

RETAILER, DEALER, CONTRACTOR, OR OTHER NONFINANCIAL BUSINESS REPORT ON THIS SIDE OF SHEET ONLY

(Financial businesses should reply on reverse side)

Please read instructions before completing this form

This statement is filed in accordance with the provisions of Regulation W issued by the Board of Governors of the Federal Reserve System pursuant to Executive Order No. 8843, dated August 9, 1941, and the "Defense Production Act of 1950."

....

Legal name of Registrant (print or type); state also trade name if different from legal name

....

Street address | City | Zone No. | County | State

I. Indicate by check mark whether Registrant is in business as (1) an individual ...., (2) partnership ...., (3) corporation ...., (4) or other form (specify)...

II. Did Registrant have any branch stores on September 30, 1950? ☐ Yes ☐ No
If yes, how many (not counting main office or store)? .... *Please attach a list of branch stores and their addresses.*

III. Principal business of Registrant. (Check only one)

☐ 1. Department or general stores.

☐ 2. Automobile dealer.

☐ 3. Furniture or house furnishings store.

☐ 4. Household appliance or radio store.

☐ 5. Hardware or automotive accessory store.

☐ 6. Dealer or contractor in heating, plumbing, air conditioning equipment, or in construction or repairs.

☐ 7. Electric or gas utility company.

☐ 8. Manufacturer (specify principal type of product)..

☐ 9. Other (please specify; examples—jewelry store, luggage store, etc.)
....
....

Machine Tabulating Codes

IV. Sales and receivables.—A Registrant maintaining branches should present combined figures covering main store and all branches. Exclude subsidiaries and affiliates which are separate legal entities; each of these should file a separate registration statement. Include all sales and receivables whether or not listed in Regulation W.
Give figures to nearest dollar; omit cents. **Please reply to every item; if none, write none.**

A. Retail sales—12 months ended September 30, 1950.
Report net retail sales (gross sales including trade-ins but less returns and allowances), less retail sales taxes and retail excise taxes.

1. Total net retail sales.. $..............................
2. Sales reported in item 1 were divided as follows:

(a) Cash and C.O.D. sales. Exclude cash received from down payments, and exclude sales involving paper sold or discounted as soon as written, which should be included under item 2(b).......................... $.............................. 21

(b) Instalment or deferred payment plan sales. Include down payments and trade-in allowances, and include sales resulting in instalment paper which is sold or discounted as soon as written.......................... $.............................. 22

(1) Amount of down payments and trade-in allowances included in instalment sales. (If exact figures are not available, give your best estimate).. ($..............................) 23

(2) Amount of instalment paper which was sold or discounted during 12 month period including paper sold or discounted as soon as written. (If exact figures are not available, give best estimate) ($..............................) 24

(c) Charge account sales.. $.............................. 25

(d) Total of 2(a), (b), and (c). (Should agree with item 1).. $.............................. 29

B. Retail receivables owned—Unpaid balances due from customers at close of business on September 30, 1950. Include paper pledged as security against notes or bills payable. · Exclude paper which has been assigned, sold, or discounted to others, with or without recourse, regardless of who is handling collections.

3. Total retail receivables owned.................................. $..............................
4. Receivables reported in item 3 were divided as follows:
(a) Instalment or deferred payment plan receivables owned.. $.............................. 41

(b) Charge account receivables owned.. $.............................. 42

(c) Total of 4(a) and (b). (Should agree with item 3).. $.............................. 49

V. This is to certify that to the best of my knowledge and belief the foregoing is correct (except as to any items marked "est." which are estimated in good faith).

....

Please print or type here the name and official title of the person whose signature appears at the right. | Authorized signature

Date..

INSTRUCTIONS FOR LENDERS

WHO MUST FILE THIS STATEMENT

Every business making instalment loans, or purchasing or discounting or lending on instalment credit obligations as defined in Regulation W, must file this statement. Instalment loans are those which are repayable in two or more instalments.

If you were engaged in this type of activity on September 18, 1950, you must file this statement with your nearest Federal Reserve bank or branch not later than November 17, 1950. If you become subject to Regulation W after September 18, 1950, you must file this statement within 60 days of the date you become subject.

Each separate corporation or other legal entity engaged in such business must file a separate registration statement, whether or not it is a subsidiary or affiliate of some other business.

Copies of the regulation may be obtained from your nearest Federal Reserve bank or branch. If you have any question about this form which is not covered by the instructions, please communicate with the Reserve bank.

INSTRUCTIONS

(Numbered to correspond with questions on Registration Statement)

II.—Branches should include offices at which the Registrant is engaged in extending instalment loans, or purchasing or discounting or lending on instalment credit obligations.

IV.—Businesses which were not in operation on September 30, 1950, please answer question IV for such later date as is convenient, clearly indicating the date used. A business concern organized to succeed another concern doing similar business should report for the concern succeeded, if possible.

Report all paper owned by the Registrant regardless of who is handling collections. Include paper pledged by the Registrant against loans or bills payable.

Col. (1) Direct loans should represent the unpaid balances of instalment loans made directly to individuals by the Registrant, excluding paper arising from such loans which has been assigned to others. Do not include loans made to dealers or finance companies on their own promissory notes, even if secured by a pledge of instalment paper. Exclude loans for the purchase of or secured by real estate, business loans, agricultural loans, and loans for purchasing or carrying securities.

If deposits are accumulated in separate accounts specifically for repayment of the loans, report the outstanding balance after deduction of such deposits.

Col. (2) Purchased paper should represent the unpaid balances of instalment paper owned by the Registrant, which has been discounted for or purchased from a dealer or another financial institution, with or without recourse. Include bulk purchases.

Line 1. Retail automobile instalment credit should represent the unpaid balance of instalment credit **arising from the retail sale of, and secured by, passenger automobiles.** Exclude credit for the purchase of tractors, trucks, and other commercial vehicles.

Line 2. Other retail instalment credit should represent the unpaid balance of instalment credit **arising from the retail sale of, and secured by, consumer goods other than automobiles, whether or not listed in Regulation W.**

Line 3. Repair and modernization credit should represent the unpaid balance of instalment loans to individuals made to finance alterations and improvements of existing completed residential properties, not including such loans secured by real estate. Item 3(a), FHA insured credit should include only "Class 1" loans insured under Title I of the National Housing Act. Item 3(b) should include all other residential repair and modernization credit as defined above, not insured by FHA.

Line 4. Personal instalment cash loans should represent the unpaid balance of all secured and unsecured instalment loans which were made to individuals, **except the following:** Retail instalment paper and repair and modernization paper reported in items 1, 2, and 3 above, business loans, agricultural loans, loans for purchasing or carrying securities, and real estate loans. The proceeds of personal instalment cash loans are used ordinarily for such purposes as debt consolidation and general personal expenditures, and are sometimes secured by life insurance policies or other collateral.

V. This statement may be signed by any official ordinarily authorized to sign statements for the Registrant.

INSTRUCTIONS FOR SELLERS

WHO MUST FILE THIS STATEMENT

Every business making instalment sales of any article listed in Regulation W must file this statement. Instalment sales are those in which the unpaid balance is scheduled to be paid in two or more instalments.

If you were engaged in instalment selling on September 18, 1950, you must file this statement with your nearest Federal Reserve bank or branch not later than November 17, 1950. If you become subject to Regulation W after September 18, 1950, you must file this statement within 60 days of the date you become subject.

Each separate corporation or other legal entity engaged in such business must file a separate registration statement whether or not it is a subsidiary or affiliate of some other business.

Copies of the regulation may be obtained from your nearest Federal Reserve bank or branch. If you have any question about this form which is not covered by the instructions, please communicate with the Reserve bank.

INSTRUCTIONS

(Numbered to correspond with questions on Registration Statement)

II.—Branches should include stores making instalment sales or otherwise extending instalment credit.

IV.—Businesses which were not in operation on September 30, 1950, please answer only Question IV-B-3 and 4 (do not answer IV-A-1 and 2) for such later date as is convenient, clearly indicating the date used. A business concern organized to succeed another concern doing similar business should report for the concern succeeded, if possible.

A. 1. Retail sales. Report net retail sales including sales of leased departments for which Registrant arranges and holds retail credit. Include nonmerchandise sales.

If engaged in manufacturing or other business report only sales made at retail. Contractors should **include** receipts from consumer repair work and the like. Utility companies should **exclude** sales of electricity and gas. **Exclude** sales of real estate.

A concern which was in business on September 30, 1950, but was not in operation throughout the 12 months ending on that date, should report sales for only that part of the period for which it operated, indicating clearly the length of such period.

A. 2(a). Cash and C.O.D. sales. Report all net retail sales which are paid in full by the customer at or before delivery. Net cash sales are gross sales for cash less refunds for returned goods and adjustments for defective merchandise. Sales should be reported at full sales price regardless of trade-in allowances, if any. Cash sales should **not** include instalment sales which are immediately converted into cash by Registrant through assignment of the instalment paper to others; these should be included in instalment sales (item 2(b)). Down payments on instalment sales should **not** be counted as cash sales but should be included in instalment sales.

A. 2(b). Instalment and deferred payment plan sales. Report as instalment sales all net retail sales in which the unpaid balance is scheduled to be paid in two or more parts, regardless of the name of the plan, such as, "budget," "revolving credit," or "coupon" plan; and regardless of whether the Registrant retains the resulting instalment paper or assigns it to others immediately or at a later date.

A. 2(c). Charge account sales. This should include the amount of sales for which full payment is deferred but for which payments on the unpaid balance are not scheduled; the entire balance ordinarily becomes payable at the end of the customary billing period. Do **not** include sales which are agreed to be paid in two or more payments; these should be reported as instalment sales in item 2(b).

B. 3. Receivables. Include interest and finance charges. Do **not** deduct reserves for bad debts but do deduct actual charge-offs. Include retail receivables of leased departments which are held by Registrant.

B. 4(a). Instalment and deferred payment plan receivables. Report unpaid balances (including finance charges) owned by Registrant which arise from the type of sales reported in item 2(b). Exclude credits sold to (or discounted with) a bank or finance or other company with or without recourse and even though the retailer may continue to collect the payments.

B. 4(b). Charge account receivables. Report all unpaid customers' balances on charge account credit.

V.—This statement may be signed by any official ordinarily authorized to sign statements for the Registrant.

With 3597

REGISTRATION CERTIFICATE

CONSUMER CREDIT

Date

THIS IS TO CERTIFY THAT

has filed a Registration Statement pursuant to REGULATION W, concerning Consumer Credit, issued by the Board of Governors of the Federal Reserve System pursuant to Executive Order No. 8843 and the Defense Production Act of 1950.

FEDERAL RESERVE BANK OF NEW YORK

per pro..

Wtd 3597

IDENTIFICATION CERTIFICATE

FEDERAL RESERVE BANK OF NEW YORK

CONSUMER CREDIT

Issued   Expires

THIS IS TO CERTIFY THAT

whose signature appears below, represents this Bank acting for and in behalf of the Board of Governors of the Federal Reserve System, and that he is duly authorized to require complete information, including the production of books of account, contracts, letters or other relevant papers, pertaining to compliance with, and any transaction within the scope of, REGULATION W, concerning Consumer Credit, issued by the Board pursuant to Executive Order No. 8843 and the Defense Production Act of 1950.

.... (Signature of Representative)   .... President at 3597

FEDERAL RESERVE BANK OF NEW YORK

New York 45, N. Y.,
September 29, 1950.

To Member Banks in Group 1,
Second Federal Reserve District:

As directors of the Federal Reserve Bank of New York elected by member banks in the Second Federal Reserve District we have, for some time, been seeking a means of giving those who elected us some report of our stewardship. In the absence of more personal contacts we have decided to write to you from time to time, and it seemed most appropriate to begin this practice now, when a critical matter of central banking policy is under discussion.

Some weeks ago with our fellow directors we voted, subject to the approval of the Board of Governors at Washington, to increase the discount rate of the Federal Reserve Bank of New York from 1½ to 1¾ per cent. We had been concerned for several months about the growing inflationary pressures in our economy, and the acceleration of these pressures which accompanied the outbreak of hostilities in Korea compelled us to action.

This action was approved by the Board of Governors of the Federal Reserve System on August 18th, at which time the Board and the Federal Open Market Committee issued the following statement:

> The Board of Governors of the Federal Reserve System today approved an increase in the discount rate of the Federal Reserve Bank of New York from 1½ per cent to 1¾ per cent, effective at the opening of business Monday, August 21.
>
> Within the past six weeks loans and holdings of corporate and municipal securities have expanded by $1½ billion at banks in leading cities alone. Such an expansion under present conditions is clearly excessive. In view of this development and to support the Government's decision to rely in major degree for the immediate future upon fiscal and credit measures to curb inflation, the Board of Governors of the Federal Reserve System and the Federal Open Market Committee are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market.
>
> The Board is also prepared to request the Congress for additional authority should that prove necessary.
>
> Effective restraint of inflation must depend ultimately on the willingness of the American people to tax themselves adequately to meet the Government's needs on a pay-as-you-go basis. Taxation alone, however, will not do the job. Parallel and prompt restraint in the area of monetary and credit policy is essential.

That statement allied the Federal Reserve System with the announced policy of the Government to combat inflationary pressures by fiscal and credit means rather than by all-out direct controls. It also recognized the primacy of an adequate tax program in such a policy, while discharging responsibility in the sphere of credit administration, which the Federal Reserve System must do if it is to carry out the mandate given to it by the Congress of the United States.

The main purpose of this program, of course, is to combat inflation—which in this sense and at this time means to preserve the credit of the Government and the integrity of the dollar. The credit of the Government is bound up with the continued holding of savings bonds by millions of small investors, and the sale of additional bonds to these and other nonbank investors if our debt management program is to be anti-inflationary. The integrity of the dollar is bound up with its purchasing power. Great rises in prices of consumer goods impair the value of savings bonds, insurance policies, and all other forms of saving, and the purchasing power of the dollar. The memory of what happened in this vital area after World War II is too fresh in the minds of all of us to condone any failure to take steps to prevent its recurrence now.

It has been and may well be asked, of course, what effect small changes in short-term interest rates, and in the discount rates of the Federal Reserve Banks, can have in a situation in which inflationary pressures are strong—fed by anticipatory buying and spending of consumers and business, by wage increases in advance of increased production and productivity, and by the availability of a very large volume of liquid resources in the hands of the public. Credit measures can be only a support of adequate fiscal measures; but they are a necessary support. Building up the money supply unnecessarily, through expansion of Federal Reserve credit and commercial bank credit, at a time when purchasing power in the hands of others than the Government is being reduced by heavy taxation, would be partially to undo with one hand what is being done with the other. The ordinary and seasonal needs of bank credit to carry on the essential business of the country must be met, but marginal and speculative borrowing must be restrained.

This restraint can be brought to bear by making it more difficult and more costly for the banks of the country to obtain reserve funds, which they must have to support a further expansion of loans and investments. The means of bringing this about are increases in discount rates, and a decrease in the willingness of the Federal Reserve Banks to buy Government securities in the open market except at lower prices and higher yields. There is, first, the effect of action by the monetary authorities, which is a sign to both lenders and borrowers of all kinds, short-term and long-term, that more caution in lending and borrowing is necessary. There is, second, the increase in cost, even though slight, of obtaining additional reserve funds. And there is the uncertainty generated by the fact that the action, while necessarily of modest proportions, is of unknown extent and duration—it may be repeated and it may be reversed depending upon changing economic conditions.

If the action taken in the field of general credit is supplemented by action in particular credit areas where inflationary pressures have been greatest, it will be even more effective. That is the reason for the restored controls of consumer instalment credit and the new controls (now being set up) of real estate mortgage credit. The control of consumer credit has been placed in the hands of the Federal Reserve System. Responsibility in the real estate credit field is shared by the System and the Housing and Home Finance Administrator. It should be possible to coordinate these selective controls with general credit controls as a unified credit program.

The impact of general credit controls, of course, expresses itself in an increased cost of "money," in higher interest rates. These higher interest rates apply to the borrowing of individuals, of corporations, and of the Government. No way has been found to restrict the availability of credit without affecting interest rates charged all borrowers, including the Government. This has its difficult aspects, since it means that action taken by the Federal Reserve System will impinge upon the debt management prerogatives and policy of the Treasury. Ordinarily, and even extraordinarily,

some composition of these overlapping authorities and responsibilities should be possible. Only overriding and impelling economic considerations, such as have recently existed, can warrant the central banking system taking independent action which, while consistent with and implementing the general policy of the Government, may result in an increase in the cost of servicing the public debt. It should be clear, of course, that the possible increase in such cost, growing out of increased short-term interest rates will be but a small fraction of the possible cost to the Treasury, and to the people of the country, of a substantial and sustained rise in prices. Increases in the cost of servicing the debt may be computed in millions; the cost of inflation in billions.

We believe it should be possible to meet the requirements of a long-term rearmament program, and to prevent this program from breeding a wild inflationary splurge, even though our economy seems already to be fully engaged. We believe that direct controls of all economic processes are not the present answer; they do not prevent inflation; they merely suppress and postpone it; they attack the effects rather than the causes and bring a multitude of economic dislocations and inefficiencies. We believe that restraint in expenditure on the part of Government—Federal, State and local—and a vigorous tax policy supported by timely credit measures is the main hope of success in this effort. That is why we voted to increase the discount rate of this Bank, and that is why we are wholly in accord with the action of the Federal Open Market Committee in changing its policy so as to make reserve funds less readily available to the banks. To make this policy effective demands your cooperation and the cooperation of all the banks of the country. Your voluntary efforts in this direction will be supported and upheld by the action of the central banking system. This is no time for free lending and spending. We intend to do all in our power to preserve the integrity of the dollar, the purchasing power of wages, of profits, and of savings. We hope that you approve of what we have done and that it will have your wholehearted support.

Sincerely yours,

JOHN C. TRAPHAGEN,
Class A Director.

LEWIS H. BROWN,
Class B Director.

FEDERAL RESERVE BANK
OF NEW YORK

New York 45, N. Y.,
September 29, 1950.

To Member Banks in Group 2,
Second Federal Reserve District:

As directors of the Federal Reserve Bank of New York elected by member banks in the Second Federal Reserve District we have, for some time, been seeking a means of giving those who elected us some report of our stewardship. In the absence of more personal contacts we have decided to write to you from time to time, and it seemed most appropriate to begin this practice now, when a critical matter of central banking policy is under discussion.

Some weeks ago with our fellow directors we voted, subject to the approval of the Board of Governors at Washington, to increase the discount rate of the Federal Reserve Bank of New York from 1½ to 1¾ per cent. We had been concerned for several months about the growing inflationary pressures in our economy, and the acceleration of these pressures which accompanied the outbreak of hostilities in Korea compelled us to action.

This action was approved by the Board of Governors of the Federal Reserve System on August 18th, at which time the Board and the Federal Open Market Committee issued the following statement:

> The Board of Governors of the Federal Reserve System today approved an increase in the discount rate of the Federal Reserve Bank of New York from 1½ per cent to 1¾ per cent, effective at the opening of business Monday, August 21.
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> Within the past six weeks loans and holdings of corporate and municipal securities have expanded by $1½ billion at banks in leading cities alone. Such an expansion under present conditions is clearly excessive. In view of this development and to support the Government's decision to rely in major degree for the immediate future upon fiscal and credit measures to curb inflation, the Board of Governors of the Federal Reserve System and the Federal Open Market Committee are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market.
>
> The Board is also prepared to request the Congress for additional authority should that prove necessary.
>
> Effective restraint of inflation must depend ultimately on the willingness of the American people to tax themselves adequately to meet the Government's needs on a pay-as-you-go basis. Taxation alone, however, will not do the job. Parallel and prompt restraint in the area of monetary and credit policy is essential.

That statement allied the Federal Reserve System with the announced policy of the Government to combat inflationary pressures by fiscal and credit means rather than by all-out direct controls. It also recognized the primacy of an adequate tax program in such a policy, while discharging responsibility in the sphere of credit administration, which the Federal Reserve System must do if it is to carry out the mandate given to it by the Congress of the United States.

The main purpose of this program, of course, is to combat inflation—which in this sense and at this time means to preserve the credit of the Government and the integrity of the dollar. The credit of the Government is bound up with the continued holding of savings bonds by millions of small investors, and the sale of additional bonds to these and other nonbank investors if our debt management program is to be anti-inflationary. The integrity of the dollar is bound up with its purchasing power. Great rises in prices of consumer goods impair the value of savings bonds, insurance policies, and all other forms of saving, and the purchasing power of the dollar. The memory of what happened in this vital area after World War II is too fresh in the minds of all of us to condone any failure to take steps to prevent its recurrence now.

It has been and may well be asked, of course, what effect small changes in short-term interest rates, and in the discount rates of the Federal Reserve Banks, can have in a situation in which inflationary pressures are strong—fed by anticipatory buying and spending of consumers and business, by wage increases in advance of increased production and productivity, and by the availability of a very large volume of liquid resources in the hands of the public. Credit measures can be only a support of adequate fiscal measures; but they are a necessary support. Building up the money supply unnecessarily, through expansion of Federal Reserve credit and commercial bank credit, at a time when purchasing power in the hands of others than the Government is being reduced by heavy taxation, would be partially to undo with one hand what is being done with the other. The ordinary and seasonal needs of bank credit to carry on the essential business of the country must be met, but marginal and speculative borrowing must be restrained.

This restraint can be brought to bear by making it more difficult and more costly for the banks of the country to obtain reserve funds, which they must have to support a further expansion of loans and investments. The means of bringing this about are increases in discount rates, and a decrease in the willingness of the Federal Reserve Banks to buy Government securities in the open market except at lower prices and higher yields. There is, first, the effect of action by the monetary authorities, which is a sign to both lenders and borrowers of all kinds, short-term and long-term, that more caution in lending and borrowing is necessary. There is, second, the increase in cost, even though slight, of obtaining additional reserve funds. And there is the uncertainty generated by the fact that the action, while necessarily of modest proportions, is of unknown extent and duration—it may be repeated and it may be reversed depending upon changing economic conditions.

If the action taken in the field of general credit is supplemented by action in particular credit areas where inflationary pressures have been greatest, it will be even more effective. That is the reason for the restored controls of consumer instalment credit and the new controls (now being set up) of real estate mortgage credit. The control of consumer credit has been placed in the hands of the Federal Reserve System. Responsibility in the real estate credit field is shared by the System and the Housing and Home Finance Administrator. It should be possible to coordinate these selective controls with general credit controls as a unified credit program.

The impact of general credit controls, of course, expresses itself in an increased cost of "money," in higher interest rates. These higher interest rates apply to the borrowing of individuals, of corporations, and of the Government. No way has been found to restrict the availability of credit without affecting interest rates charged all borrowers, including the Government. This has its difficult aspects, since it means that action taken by the Federal Reserve System will impinge upon the debt management prerogatives and policy of the Treasury. Ordinarily, and even extraordinarily,

some composition of these overlapping authorities and responsibilities should be possible. Only overriding and impelling economic considerations, such as have recently existed, can warrant the central banking system taking independent action which, while consistent with and implementing the general policy of the Government, may result in an increase in the cost of servicing the public debt. It should be clear, of course, that the possible increase in such cost, growing out of increased short-term interest rates will be but a small fraction of the possible cost to the Treasury, and to the people of the country, of a substantial and sustained rise in prices. Increases in the cost of servicing the debt may be computed in millions; the cost of inflation in billions.

We believe it should be possible to meet the requirements of a long-term rearmament program, and to prevent this program from breeding a wild inflationary splurge, even though our economy seems already to be fully engaged. We believe that direct controls of all economic processes are not the present answer; they do not prevent inflation; they merely suppress and postpone it; they attack the effects rather than the causes and bring a multitude of economic dislocations and inefficiencies. We believe that restraint in expenditure on the part of Government—Federal, State and local—and a vigorous tax policy supported by timely credit measures is the main hope of success in this effort. That is why we voted to increase the discount rate of this Bank, and that is why we are wholly in accord with the action of the Federal Open Market Committee in changing its policy so as to make reserve funds less readily available to the banks. To make this policy effective demands your cooperation and the cooperation of all the banks of the country. Your voluntary efforts in this direction will be supported and upheld by the action of the central banking system. This is no time for free lending and spending. We intend to do all in our power to preserve the integrity of the dollar, the purchasing power of wages, of profits, and of savings. We hope that you approve of what we have done and that it will have your wholehearted support.

Sincerely yours,

FREDERIC E. WORDEN,
Class A Director.

MARION B. FOLSOM,
Class B Director.

FEDERAL RESERVE BANK OF NEW YORK

New York 45, N. Y.,
September 29, 1950.

To Member Banks in Group 3,
Second Federal Reserve District:

As directors of the Federal Reserve Bank of New York elected by member banks in the Second Federal Reserve District we have, for some time, been seeking a means of giving those who elected us some report of our stewardship. In the absence of more personal contacts we have decided to write to you from time to time, and it seemed most appropriate to begin this practice now, when a critical matter of central banking policy is under discussion.

Some weeks ago with our fellow directors we voted, subject to the approval of the Board of Governors at Washington, to increase the discount rate of the Federal Reserve Bank of New York from 1½ to 1¾ per cent. We had been concerned for several months about the growing inflationary pressures in our economy, and the acceleration of these pressures which accompanied the outbreak of hostilities in Korea compelled us to action.

This action was approved by the Board of Governors of the Federal Reserve System on August 18th, at which time the Board and the Federal Open Market Committee issued the following statement:

> The Board of Governors of the Federal Reserve System today approved an increase in the discount rate of the Federal Reserve Bank of New York from 1½ per cent to 1¾ per cent, effective at the opening of business Monday, August 21.
>
> Within the past six weeks loans and holdings of corporate and municipal securities have expanded by $1½ billion at banks in leading cities alone. Such an expansion under present conditions is clearly excessive. In view of this development and to support the Government's decision to rely in major degree for the immediate future upon fiscal and credit measures to curb inflation, the Board of Governors of the Federal Reserve System and the Federal Open Market Committee are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market.
>
> The Board is also prepared to request the Congress for additional authority should that prove necessary.
>
> Effective restraint of inflation must depend ultimately on the willingness of the American people to tax themselves adequately to meet the Government's needs on a pay-as-you-go basis. Taxation alone, however, will not do the job. Parallel and prompt restraint in the area of monetary and credit policy is essential.

That statement allied the Federal Reserve System with the announced policy of the Government to combat inflationary pressures by fiscal and credit means rather than by all-out direct controls. It also recognized the primacy of an adequate tax program in such a policy, while discharging responsibility in the sphere of credit administration, which the Federal Reserve System must do if it is to carry out the mandate given to it by the Congress of the United States.

The main purpose of this program, of course, is to combat inflation—which in this sense and at this time means to preserve the credit of the Government and the integrity of the dollar. The credit of the Government is bound up with the continued holding of savings bonds by millions of small investors, and the sale of additional bonds to these and other nonbank investors if our debt management program is to be anti-inflationary. The integrity of the dollar is bound up with its purchasing power. Great rises in prices of consumer goods impair the value of savings bonds, insurance policies, and all other forms of saving, and the purchasing power of the dollar. The memory of what happened in this vital area after World War II is too fresh in the minds of all of us to condone any failure to take steps to prevent its recurrence now.

It has been and may well be asked, of course, what effect small changes in short-term interest rates, and in the discount rates of the Federal Reserve Banks, can have in a situation in which inflationary pressures are strong—fed by anticipatory buying and spending of consumers and business, by wage increases in advance of increased production and productivity, and by the availability of a very large volume of liquid resources in the hands of the public. Credit measures can be only a support of adequate fiscal measures; but they are a necessary support. Building up the money supply unnecessarily, through expansion of Federal Reserve credit and commercial bank credit, at a time when purchasing power in the hands of others than the Government is being reduced by heavy taxation, would be partially to undo with one hand what is being done with the other. The ordinary and seasonal needs of bank credit to carry on the essential business of the country must be met, but marginal and speculative borrowing must be restrained.

This restraint can be brought to bear by making it more difficult and more costly for the banks of the country to obtain reserve funds, which they must have to support a further expansion of loans and investments. The means of bringing this about are increases in discount rates, and a decrease in the willingness of the Federal Reserve Banks to buy Government securities in the open market except at lower prices and higher yields. There is, first, the effect of action by the monetary authorities, which is a sign to both lenders and borrowers of all kinds, short-term and long-term, that more caution in lending and borrowing is necessary. There is, second, the increase in cost, even though slight, of obtaining additional reserve funds. And there is the uncertainty generated by the fact that the action, while necessarily of modest proportions, is of unknown extent and duration—it may be repeated and it may be reversed depending upon changing economic conditions.

If the action taken in the field of general credit is supplemented by action in particular credit areas where inflationary pressures have been greatest, it will be even more effective. That is the reason for the restored controls of consumer instalment credit and the new controls (now being set up) of real estate mortgage credit. The control of consumer credit has been placed in the hands of the Federal Reserve System. Responsibility in the real estate credit field is shared by the System and the Housing and Home Finance Administrator. It should be possible to coordinate these selective controls with general credit controls as a unified credit program.

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Sincerely yours,

Roger B. Prescott,
Class A Director.

Jay E. Crane,
Class B Director.