

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Tuesday, August 12, 1941

August 11, 1941

Statement of Chairman Marriner S. Eccles
with reference to the President's Executive Order
relating to the regulation of consumer credit.

The President today issued an Executive Order under date of August 9 empowering the Board of Governors of the Federal Reserve System to regulate consumer credit in order to promote national defense and to protect the national economy. An initial regulation will be issued as promptly as possible following consultation with representatives of the trade and the financial institutions affected. The regulations will reflect a policy of flexibility and will be in more or less general terms until experience and further study establish more precise guides that may be followed.

Frequent conferences have been held with the staff of OPACS with special reference to problems affecting prices and civilian supply. Preliminary conferences have also been held with representatives of the Secretary of the Treasury and Federal Loan Administrator. Liaison will be constantly maintained with all three of these agencies pursuant to the Order.

In effecting a nationwide administrative coverage, under the authority of the Order, the Board will utilize the services of the 12 Federal Reserve Banks and 24 Branches in administering the Order, thus making available the long years of practical experience that the Federal Reserve System has had in the field of credit, and enabling details of administration to be decentralized.

Regulation of consumer credit represents another step by the Government in its effort to prevent inflationary developments. It is supplementary to other more fundamental measures that are being undertaken in other fields. The danger of inflation arises from the constantly growing

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volume of Government disbursements for defense, giving consumers ever-increasing buying power at a time when the country's capacity for producing durable goods available for civilian consumption is nearing its limit.

Restriction of consumer credit should dampen the demand for consumers durable goods, such as automobiles, washing machines, refrigerators, ironers, vacuum cleaners, and many other goods, at a time when their production needs to be curtailed in order to release materials, labor and plant capacity required to increase production for defense.

The raw materials required for both types of products -- armaments and durable consumer goods -- are in the main such materials as iron, steel, copper, zinc, nickel, lead, aluminum, magnesium, rubber, cork, tin, etc. At present armament demands for such materials are, and probably throughout the emergency will be, so great that the surplus left over for production of consumers durable goods will in many cases only permit an output of such goods considerably smaller than that attained in recent months.

The Order does not cover installment credit for the purpose of purchasing or carrying a residential building in its entirety.

It is expected that the initial regulation will be built around a list of articles such as have been mentioned above, which are of the type usually bought for consumers' use. The initial list will not contain articles ordinarily bought for productive purposes, such as farm implements, etc.

The initial regulation, it is expected, will apply only to installment credit. It will not apply to open book accounts nor to straight

loans payable at one time and in one payment, whether or not secured. However, installment credit to obtain cash in relatively small amounts will be covered by the regulation since this type of credit is so closely related to the purchase of articles of the kind listed. This coverage will be subject to such exceptions as may be desirable in the public interest.

Restriction of consumer credit during the emergency will assist in the orderly transition from the defense to the post-defense period. By diminishing the volume of credit used for consumer durable goods, it will make funds available for investment in defense bonds and other forms of savings. When the emergency is over funds so saved can be drawn upon to replenish the depleted stock of durable goods. At that time capacity for their production will become increasingly available as the production of defense materials is reduced.

It is in the interest of all of the people, in the emergency period, that the growing demand for consumers durable goods of all kinds be curtailed as an integral part of a broad coordinated program to combat inflationary dangers. We should all be ready and willing during the emergency to get along with fewer of those consumers goods which will be embraced in the Board's regulation. By doing so, we can assist the defense program, lessen the danger of runaway inflation, increase our savings and our purchases of defense bonds, and help to build up a backlog of effective demand to cushion the impact of post-war readjustment.