

THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

*Incoming letter  
returned to  
Mr. Snyder*

May 22, 1979

Dear Senator Proxmire:

The Senate Banking Committee is considering a bill that would repeal the Credit Control Act of 1969. That Act provides that the President may authorize the Federal Reserve to regulate and control extensions of credit when he determines that such action is necessary or appropriate to control an inflation generated by extensions of credit in an excessive volume. This letter is to convey my views that repeal of that Act would not be in the national interest.

The authority for institution of credit controls provided by the Credit Control Act of 1969 is very broad and general. At the same time, the language of the Act provides safeguards that would effectively prevent it from being used in inappropriate ways. First, the Act specifically provides that the President's authority is limited to cases in which inflation is generated by an excessive volume of credit. Second, while the President may authorize the Federal Reserve Board to regulate and control credit extensions, he cannot order or instruct the Board to do so. The ultimate decision to impose credit controls resides in the Federal Reserve Board. Given the independence of that institution from the executive branch of government, any President would undoubtedly have to give the views of the Federal Reserve very careful attention and great weight before authorizing them to impose such controls, especially under circumstances in which the Board deemed the impositions of such controls to be unwise. And since the Federal Reserve Board answers for its stewardship directly to the Congress, the legislative branch of government ultimately retains the power to determine whether, and for what purposes, the authority under the Credit Control Act of 1969 is utilized.

Although the authority granted in that Act has been in existence for ten years, no Administration has sought to use it, and properly so, in my judgment. The sources of inflation during the past decade have been many and varied. At times, too rapid an expansion of money and credit has been a contributing factor. Nevertheless, there has been no time in the past decade

when the expansion of credit could not have been controlled appropriately by the more general instruments of monetary policy -- that is, by open market operations or by changes in the discount rate or reserve requirements. As a result, there has simply been no need to resort to selective credit controls.



Under almost all conditions, selective credit controls are not a substitute for the general instruments of monetary policy, nor, indeed, can these two types of instruments complement one another effectively. But one can certainly conceive of circumstances in which resort to selective credit controls might be necessary. For example, at some point in the future, we might find that strong inflationary pressures were being generated by a substantial relaxation of terms on consumer credit, and that the resulting increase in consumer borrowing was threatening to put many consumers in a precarious financial position, as well as to heat up inflation. Since the general instruments of monetary policy would be unable to deal effectively with that situation, resort to selective credit controls could contribute to economic stability. A similar need for selective controls might arise if inflation were being generated by a wave of credit-financed scare buying by consumers because of threatening international developments, as was the case immediately following the beginning of the Korean war.

The examples I have cited are remote possibilities. There is nothing on the horizon that suggests the need to use the authority of the Credit Control Act of 1969 in the foreseeable future. Having this authority on the books, however, provides a useful backstop for dealing with potential credit developments that could not be effectively handled by the general tools of monetary policy.

For these reasons, I would strongly urge your Committee not to take steps to repeal the Credit Control Act of 1969.

Cordially,

A handwritten signature in cursive script that reads "Charles L. Schultze".

Charles L. Schultze

Honorable William Proxmire  
United States Senate  
Committee on Banking, Housing and  
Urban Affairs  
Washington, D. C. 20510