

CONSUMER CREDIT CONTROL

HEARINGS
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
EIGHTIETH CONGRESS
FIRST SESSION
ON
Regulation W

—
JUNE 25 AND JULY 2, 1947
—

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CONSUMER CREDIT CONTROL

WEDNESDAY, JUNE 25, 1947

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, at 10 a. m., in room 301 Senate Office Building, Senator C. Douglass Buck, presiding.

Present: Senators Buck (presiding), Capehart, Fulbright, and Robertson of Virginia.

Senator BUCK. The hearing will come to order.

The business before the committee this morning is the question of whether or not to extend the life of regulation W.

Governor Eccles has been kind enough to come here to give his views, and we would be very glad to hear from you, Governor.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS, THE FEDERAL RESERVE SYSTEM, WASHINGTON, D. C.

Mr. ECCLES. Senator, I have a statement here.

Senator BUCK. Do you want to put that in the record, and let us hear from you in your own words?

Mr. ECCLES. I believe, Senator, that this will cover it maybe better than I could do.

Senator BUCK. All right.

Mr. ECCLES. It will be a basis for questioning here, if you have not read it.

The Board of Governors of the Federal Reserve System has recommended to the chairmen of the Senate and House Banking and Currency Committees a bill which would authorize the Board to continue on a specific legislative basis the regulation of consumer installment credit that is now based on Executive order.

Senator BUCK. Is it done by a bill or resolution?

Mr. ECCLES. There was a bill sent to the chairman of each committee together with a letter. That is as I will indicate here, we do not think that is possible at this time. We are going to suggest a resolution.

Senator ROBERTSON. Before you proceed, may I ask, when does the present regulation expire?

Mr. ECCLES. It does not expire. It continues indefinitely under Executive order, but I have got a letter from the President which indicates that as soon as Congress adjourns, if it does so without providing authority for continuation, the President will vacate the order.

As the members of your committee know, since the end of the war the question of whether some restraints upon overexpansion of this

type of credit should be retained has been the subject of sharp controversy. The Board has hoped that Congress would hear the pros and cons before coming to a conclusion as to whether legislation should or should not be enacted. We feel that regulation of this character should have specific legislative sanction if it is to be indefinitely extended in peacetime. That is because we are operating under a wartime Executive order.

Accordingly, we have recommended to the President that the Executive order be vacated in the event that the Banking and Currency Committees do not recommend favorably the enactment of appropriate authority for continuing regulation. The President has written a letter indicating that he will follow the Board's recommendation but at the same time expressing the hope that the Congress will enact the necessary enabling legislation. This letter is as follows:

THE WHITE HOUSE,
Washington, June 5, 1947.

DEAR MR. CHAIRMAN: The Council of Economic Advisers has transmitted to me a memorandum in regard to the legislation which the Board of Governors has recommended for consideration by Congress to continue installment credit regulations now in effect under an Executive order based on the Trading with the Enemy Act. In their memorandum the Council states:

"There now exists the power to limit the growth of installment credit which, even under the present restraints, has been expanding at a disturbing rate. This power now rests on wartime Executive order, which may have to be rescinded in the absence of legislative authority for its continuation. If the curbs on the extension of installment credit now being exercised under regulation W were to be removed at this time, there would be a tendency of producers and distributors to try to sustain the absorptive power of the market by accepting lower down payments and a longer time period rather than adjusting prices to the purchasing power of current incomes. This would postpone rather than promote the kind of stable adjustment that our economy requires."

I wish to advise you that I am in full accord with the Council's recommendations and hope that the Congress will enact the necessary legislation to retain restraints upon excessive expansion which results in excessive contradiction of consumer credit thereby making for economic instability, reduced production, and unemployment. If the Congress does not see fit to provide the necessary legislative authority, it is my intention to vacate the Executive order because I do not believe that such regulations should rest indefinitely in peacetime on emergency or war powers after the Congress has had ample opportunity to consider the subject.

Very sincerely yours,

HARRY S. TRUMAN.

Senator ROBERTSON. At this time, before you go into your discussion, if we continued for a year, as you request, would it have to be continued for a year or can it be abandoned in less than a year if the present boom should turn into something of a depression?

Mr. ECCLES. Well, certainly, I understand that if it is extended for a year, that does not mean it would have to continue for a year.

It would be discretionary on the part of the Board to relax the control or to eliminate the control if the conditions were such as to warrant it.

It is my belief that the power is permissive and not mandatory.

If legislation is to be passed, we believe from our experience that consumer credit regulation should be directed to the volatile sector of consumer credit; that is, installment credit. This is the part which has been subject to the greatest fluctuations in the past, thus contributing to instability and unemployment. Regulation under the proposed legislation would be in about the form and scope effective at

present under the Board's regulation W. It would, with appropriate exceptions to provide administrative flexibility, prescribe maximum maturities for all types of installment credit and in addition would prescribe minimum down payments for installment credit to finance the purchase of important categories of consumers' durable goods. Thus, the regulation would cover not only installment credit for consumers' durable goods but also installment credit for other consumer purposes, both of which contribute to the accentuation of business upswings and downswings and neither of which can be sharply dissociated from the other.

I mean by that, that installment credit that covers the purchase of consumer durable goods, installment sales contracts, are not the only part of installment credit that we would propose to regulate, and not the only part that we regulate now under consumer credit regulation, because people may borrow on installment and may pay cash for the goods which they buy.

Therefore, we have to cover the installment credit for any other consumer purpose.

Senator ROBERTSON. But you have no power to reach the manufacturer?

Mr. ECCLES. No; we do not try to.

Senator ROBERTSON. But if he insists on maintaining his prices, how can we effect low prices just by putting the pressure, so to speak, on the distributor?

Mr. ECCLES. Well, of course, you cannot, except as goods become more plentiful, prices will come down unless terms are eased. But if as goods become more plentiful terms are eased so that you can have a wider and wider market and lower and lower down payments, and longer and longer terms, the distributor and the manufacturer will find a market for his goods without reducing prices, because the terms are made easier. Lower and lower down payments and longer maturities would make it possible to cover a much wider market for his merchandise.

And the time will come finally when you get the public more and more and more in debt for high-priced goods, of a quality that is not necessarily up to standard, until what we might term a saturation point may be reached.

We think there is a possibility that the volume of consumer credit may rise to a level as high as maybe \$15,000,000,000.

There is \$4,500,000,000 now in consumer installment credit, and I have a chart here where I will show you in a few moments we think there is a possibility of that going to at least \$15,000,000,000 and maybe as much as \$20,000,000,000 before the down-turn or the liquidation may come.

Senator BUCK. Can we understand that second type of credit you are speaking of? You could borrow and obtain credit?

Mr. ECCLES. What I mean is, a lot of people will go to banks and installment loan companies, finance companies, and borrow money and pay cash for merchandise.

Therefore, you have got to cover that installment loan credit the same as you would the sales contract installment credit, because otherwise you of course would have a big loophole where the people would borrow money on the installment basis.

Senator BUCK. How do you regulate that with buying? Suppose a man wants to go in and borrow \$1,000 to buy an automobile?

Mr. ECCLES. That is regulated now if it is on an installment basis, unless he signs a statement that it is for some purpose that is exempt.

For instance, if a man is borrowing for purchasing farm implements, that is productive property, and we do not restrict the use of installment credit for agricultural purposes.

Neither do we propose to restrict the use of credit for the purchasing by small businesses of machinery and equipment that they might be buying for the plant.

This does not cover that type of installment credit at all, or that of a small merchant who may be buying merchandise on an installment basis.

None of those items are for consumer purposes, and this is merely covering the credit used for consumer purposes, where people are not only using their current income but are getting all the credit they can to be paid out of future income. That, in itself, of course, makes for pressures on the inflationary side, and it makes for pressures on the deflationary side as soon as payments exceed new credits on balance.

Generally speaking, the installment terms now prescribed by regulation W call for maturities of not more than 15 months and down payments of at least one-third. Under the proposed legislation, terms would, of course, be varied from time to time depending upon changing economic conditions but with a view to restraining the development of unsound credit terms and with a view to preventing or reducing excessive expansion or contraction of consumer installment credit which is that sector of consumer credit subject to the widest fluctuation. These would be the declared statutory objectives.

Under existing conditions when the articles commonly financed with installment credit are for the most part in short supply relative to demand, it is apparent that the restraints help to dampen the demand and thus reduce the upward pressure on prices. Even when goods become available in larger quantities, however, reasonable restraints on consumer installment credit would serve a useful public purpose, because they would tend to induce sellers to reach more customers by reducing prices instead of by resorting to a competitive relaxation of installment credit terms while still maintaining high prices. Under prevailing conditions of maximum peacetime employment and national income, it would be economically unsound to encourage people to go deeper and deeper into debt on increasingly easy terms.

To illustrate: The prices of automobiles in the used-car market today reveal a serious lack of balance between supply and demand. In that market, 1947 cars in the lowest price lines are selling for premiums of \$300 and \$400 above the delivered prices established for these cars when new. Prices of older used cars are in proportion. These prices have been holding firm, and even showing some tendency to rise, notwithstanding the present credit restrictions. With the added demand for both new and used cars which would result from the removal of credit restrictions and with a supply of both new and used cars which is strictly limited by the productive facilities, labor supply, and materials available, there is no likelihood that there would be the downward adjustment in prices of used cars that is so much needed.

Senator ROBERTSON. May I interrupt to say there that I think you base that report on the price of used cars on some extreme cases, because I cannot believe in Virginia, for instance, they are selling old cars above the prices of the same car new, because I do not know of any instance at all in which that has occurred in Virginia.

Mr. ECCLES. But the old car is a 1947 car, you see.

This is the way it operates. A dealer must sell a new car at the price established by the manufacturer. When that car is sold it may be sold again. It is immediately a second-hand car. It may not have run more than 1,000 or 2,000 miles, but it becomes a second-hand car, and there is no control over its price by the manufacturer.

Senator ROBERTSON. Yes; but you are discussing a payment operation. The dealer is bound to be a party to it, because he has got his lists, and he knows this is a second-hand car dealer, and he knows who is a bona fide purchaser. If he lets a car go to a second-hand dealer, and he runs it around the block and puts it in the parking lot and asks \$300 or \$400 or \$500 more than he paid for it, it is a black-market operation.

Mr. ECCLES. That may well be, but you have this situation with reference to the sale of new cars: It is practically impossible to get a car unless you have got a car to trade in, because if the price of a new car is established, and it is established, the way the dealer can get more than that price is to allow on a second-hand car substantially less, of course, than the car may be worth in the second-hand market.

And that is the only way that a person can get a new car, generally speaking, is through having a second-hand car to turn in at a low price.

Then, of course, that second-hand car is sold at whatever the traffic will bear.

What I am saying is that that is a condition today where a requirement is of one-third down and 15 months' payment. Those are the prices today where the requirement is one-third down and 15 months' payment.

If you take off the credit control altogether, and that was the next point I wanted to make here, it will make quite a difference. If credit restrictions are removed, there is every reason to expect that the present abnormally high prices of used cars will increase further in relation to the prices established by manufacturers for new cars. A downward adjustment in used-car prices is especially needed by the working people and the lower-income groups who make up the principal market for used cars.

Notwithstanding continued shortages of goods, particularly durable goods, and notwithstanding regulation of consumer credit, installment credit expanded during the past 12 months by more than \$2,000,000,000. The economic effect of adding borrowed dollars to current income, together with the unprecedentedly large volume of savings in the hands of the public generally, can only be to prolong the period of inflated prices. The premature relaxation of restraints, or their complete removal, would make no more goods available. It would only help to build prices higher in the market place.

With existing shortages in consumers' durable goods and the restraint of regulation W, the volume of consumer installment credit

has not reached a point where it could be considered excessive as viewed in relation to the level of national income and production. The restraint is now imposed because of other current factors such as the high individual incomes and the large cash resources which consumers widely possess as related to the supplies of consumers' durable goods available. Were goods available in larger volume and were many consumers able to finance their purchases on easier credit terms, there is little question but that the volume of consumer installment credit would be much higher. As an indication of the potentialities, sales of consumers' durable goods in 1946 were nearly twice the dollar volume of such sales in 1940 but the volume of installment sales credit extended in 1946 was less than three-fourths of the installment sales credit extended in 1940. Thus with the elimination of restraint and the larger supplies of goods that are becoming available, consumer installment credit could increase rapidly in absolute volume and in relation to national income.

The need for regulation is not merely a temporary one. Experience has shown that the excessive expansion and subsequent contraction of consumer installment credit contributes substantially to the rise and fall of production and employment. Its role in instability is increasing with the growing importance of consumers' durable goods in the economy. It is recognized that the development of this type of credit has gone hand in hand with and facilitated the unparalleled industrial development of the Nation. Yet it is equally significant that when competition takes the form of relaxing credit terms and is carried to extremes, it is a symptom and cause of economic unsoundness. Millions of people are encouraged to overpledge future income. This inevitably entails instability, because the excessive credit extended during a business boom accentuates the boom and has to be liquidated out of current income on the downswing, which accentuates depression. The fact that current income has to be used to pay off excessive installment debt created during the business boom necessarily diverts that income from the channels of consumer expenditures in the depression, especially in the important sector of consumers' durable goods.

Voluntary efforts made by foresighted retailers, sales finance companies, banks, and other lenders to prevent down payments from becoming excessively small and repayment periods from becoming overextended in times of credit expansion are ineffective because of the aggressive competition of those who will not voluntarily cooperate in this objective.

The present trend of expansion in consumer installment debt needs to be carefully watched and restrained so that the country shall not repeat the pattern of inducing American families to go heavily into debt on too-easy terms, particularly for high-priced goods many of which are not only high-priced but of inferior quality. The decline that would be bound to follow would be felt not only in the durable-goods industries but throughout the economy. Continued restraints as proposed in the legislation would help to prevent a repetition of such an unsound sequence of events.

The Board feels that this type of regulation, which is of a selective character, serves a useful purpose which cannot be reached by the exercise of any powers over bank credit in general. The regulation is needed, therefore, as a supplement to general credit-control powers.

As the Board pointed out in its 1945 annual report to Congress, however, over-all restraints to the sources of bank credit have, under existing conditions, lost much of their effectiveness. For this reason, it is all the more important for Congress to consider whether a selective control such as proposed would, as the Board believes, reduce economic instability and thus help to provide conditions more favorable to the maintenance of our private-enterprise system.

Senator FULBRIGHT. Who objects, principally, to the extension here?

Mr. ECCLES. Well, the principal opposition is the small-loan companies.

Senator FULBRIGHT. The small-loan companies?

Mr. ECCLES. Yes.

Senator ROBERTSON. Are not most of the banks against it?

Mr. ECCLES. Many of the banks are against it.

Let me put it this way: The people that object to it are the people that are selling credit.

Senator BUCK. Why do you confine it to the small-loan companies?

Mr. ECCLES. Some of the sales finance companies are against it. CIT is opposed to it. That is the biggest. The CCC, I would say, are not opposed to it. They have remained pretty neutral, and they are not opposed to it.

The General Motors Acceptance Corp. has also been neutral.

Senator FULBRIGHT. They have to be.

Mr. ECCLES. No.

Senator FULBRIGHT. People who are selling the goods are not opposing it?

Mr. ECCLES. The automobile dealers are about evenly divided. They have made surveys, and I would say that the dealers themselves, a great many of them, are opposed to it, but they are about evenly divided.

We find that the installment furniture houses, and various concerns engaged in the selling of consumer durable goods, are fairly divided.

So far as the consumer is concerned, there is no organized consumer opposition. There has been a lot of talk that these regulations are unfair to the little man, that it is only the man with money that can pay the one-third down and can pay off in 15 months that can get the benefit of an automobile or other consumer durable goods, and that the little man is penalized. That is the argument, however, that the credit people make.

As a matter of fact, if you made easier terms, you do not make any more goods available. If, by making easier terms so that the little fellow could pay 10 percent down and get an automobile, instead of 33 $\frac{1}{3}$, and if he could pay it off in 36 months, there may be some argument, but all it does is increase the pressure on the existing demand and on the existing prices.

That has always been true in every field of activity, that the person with money is able to do things that the person without money is not able to do.

That is certainly true with respect to travel.

If we want to carry it to the extreme, we may well say that if you reduced the terms of an automobile from one-third down and payment in 15 months to, say, 25 percent down and payment in 2 years, that that will cover another field.

But then what about the fellow that cannot pay the 25 percent down and he cannot pay it off in 24 months?

Then you could argue that you ought to reduce it to 10 percent down and make it payable in 36 months.

You still have got people that have not 10 percent to put down, and they could not pay it off in 36 months. Then you could argue that it ought to be sold with no down payment and make it payable over 5 years.

So that the question, it seems to me, is not so much to make terms so favorable that it will give everybody's pocketbook and income a chance, but it seems to me that the terms should be made to suit the economic condition at a given time.

At least, it will help to maintain some degree of stability so far as you can do so in this particular field, because, after all, that is where the public interest is protected. That is the public interest as a whole.

To continue to pump credit into the economy could sustain present prices, or at least help to sustain them, or may be even put some of them higher, and thereby continue production and employment but at the cost of failing to get a necessary economic adjustment.

If enough people spent their current income and used up some of their savings; and will use enough credit, you can carry along for a considerable period, but you finally reach a point in the economic system where, instead of getting a recession, an adjustment of the disequilibrium that now exists, you then get a prolonged depression that could prove to be extremely serious.

The longer your maladjustments in the price system are sustained by providing credit for consumer groups, and having people in these groups using up their savings, as some of them are doing today, it seems to me the more serious the economic situation for the future is.

We would be much better off, very much better off, at least it seems to me to maintain for the time being, some of the restraints that are mild, as they are now. It is unfortunate, as I have said many times before, that we have taken off as many of the restraints as have been taken off. We now are on an inflation ladder here, with great disequilibrium, and we are going to have real difficulty getting an adjustment.

Senator ROBERTSON. Governor, what restraints are put on a veteran who wants to set up housekeeping for himself with respect to getting some furniture, a refrigerator, and gas, or electric range, a baby carriage, and a few other essentials?

Mr. ECCLES. It is not the veterans' organizations that are making a fuss about this. It is the fellows that want to get them in debt at very high rates, and many of these small-loan companies have rates that run up to 36 percent a year.

It does not seem to me that we are really rendering any service to veterans or any other group by making it easier for them to get credit at high rates to buy high priced goods of inferior quality.

If there were an abundance of goods, prices may come down and quality improve, and the veteran or anybody else, for that matter, is more than likely then to get his money's worth. So it seems to me that you are rendering the consumer today, by this restraint, a service. You are certainly not rendering him a service to get him into debt beyond his ability to meet the payments, and that is just exactly what is likely to happen if the restraints are removed.

I think that by 1950 we will see a large volume of consumer credit here that will have to be liquidated, at least a substantial portion of it, and that could be very painful.

It is an easy process to go up in this inflationary structure, or it is easy to do while credit is being expanded, as we saw in 1929. It was marvelous for the public to be going into debt without restraint for the purpose of buying securities, because they always saw them go a little higher, and everybody felt good. But when it came to the question of liquidating that credit structure they had built up, it was of course extremely painful, and the public then blamed the Government and blamed the banks and blamed everybody for making it possible for them to get in debt and take the losses which they took, although they would have complained bitterly if restraints had been imposed.

As I say, the opposition to this control of consumer credit does not come from consumers. It is the people that want to sell credit at high rates that are primarily the organized opposition, and they are very formidable.

Senator BUCK. Under your suggestion, as I understand it, you would want us to handle this through a joint resolution?

Mr. ECCLES. That is right.

Senator ROBERTSON. Before you read the resolution, may I ask you when the President's power to control consumer credit expires?

Mr. ECCLES. It does not expire.

Senator BUCK. He threatens to vacate?

Mr. ECCLES. This is under the Trading with the Enemy Act. The President issued an Executive order under the authority given him by the Trading with the Enemy Act.

Senator BUCK. He states he will vacate it if Congress does not take some action.

Mr. ECCLES. But he feels, as the Board feels, that this power was of wartime nature and that it should not rest upon a wartime Executive order for more than 2 years after the war.

So we have recommended, and he has agreed to vacate the order after Congress adjourns, at the end of Congress when Congress adjourns, unless by that time Congress has taken action to continue the control.

We find this: That in trying to administer this regulation, it becomes exceedingly difficult because of the fact that it is based upon a wartime Executive order.

If Congress should make it known that it is their desire that this authority should be extended as a peacetime measure for a period of time, there would be a better public acceptance of it, and it would make it possible for the Board and the Reserve banks—for you see this is administered through the 12 Banks and their 24 branches—to administer this regulation. We would not then be accused, as we sometimes are today, of usurping the power of Congress through a wartime Executive order.

So we feel the thing should be vacated unless Congress is willing to grant an extension of the authority.

We had first thought of legislation, but it is too late in the session of Congress. Legislation is extremely controversial, and it is our feeling that it would not be possible and possibly not desirable. It would not be possible to get legislation and it would not be desirable in any case to press for permanent legislation at this time.

And I wish to say this further: This is the last part. I will just read this closing paragraph covering this point.

The case for permanent legislation seems to the Board to be very strong. At the same time, we recognize that Congress may not feel that there is time enough, at the present session, to give adequate consideration to a permanent measure. For this reason, and because it now appears that there is great need for restraint during the coming year, we suggest that the committee give consideration to the adoption of a joint resolution providing that consumer credit controls should continue under the existing Executive order until a specified date, such as July 31, 1948, and then be automatically terminated. Unless it was otherwise extended again. If the regulation were continued on this basis, the Board would be in position to modify or remove the present restrictions in the event such action should be warranted by a change in economic conditions at any time during the coming year. The substance of such a resolution might be along the following lines:

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Board of Governors of the Federal Reserve System is authorized to continue to exercise consumer credit controls pursuant to Executive Order No. 8843 until July 31, 1948, and, except during any war beginning after such date or any national emergency proclaimed by the President after such date, no such consumer credit controls shall be exercised after such date.

Senator BUCK. Senator Fulbright, did you have a question?

Senator FULBRIGHT. I just had a question.

I do not understand this installment loan at the bank. If a man borrows \$1,000, what do you mean "installment loan"? The repayment is in installments, or it is for the purpose of paying for consumer goods? What determines whether or not it is an installment loan at the bank?

Mr. ECCLES. The terms of the loan.

Senator FULBRIGHT. The terms of repayment?

Mr. ECCLES. That is right.

Senator FULBRIGHT. If he borrows it to be paid back in a year in one sum it is not installment?

Mr. ECCLES. That is right, it is not covered. We exempt what we call a single-payment loan.

Senator FULBRIGHT. It is one of these repayments of so-much-a-month loan?

Mr. ECCLES. That is right.

Senator FULBRIGHT. They are prohibited for this purpose?

Mr. ECCLES. They are not prohibited. They can be made as long as they comply with the terms.

Senator FULBRIGHT. I meant for any purpose beyond the terms.

Mr. ECCLES. There is a purpose statement that the banks have to take.

Senator FULBRIGHT. I see. On all loans?

Mr. ECCLES. No. If a single-payment loan is made, why, it is just exempt.

If it is an installment loan, then they must state the purpose.

For example, if it is done for the purpose of buying agricultural machinery, it would not be covered.

If it was done for the purpose of a small merchant doing business, for the purpose of paying goods on installment, or paying for his goods over a period of time, it is not covered. There are small merchants of that sort.

Senator FULBRIGHT. An ordinary loan providing for payment on or before a certain date.

Mr. ECCLES. That is right.

Senator FULBRIGHT. Is that an installment loan?

Mr. ECCLES. No, that would be a single-payment loan.

Senator FULBRIGHT. What the practice is in these small banks is usually they will give you credit if you come in and pay half of it any time you feel like it.

Mr. ECCLES. That is right. But the terms of the loan are really a single-payment loan, so far as the bank is concerned.

Senator FULBRIGHT. Yes.

Mr. ECCLES. Those are not regulated loans. It is the fellow that goes in and the bank is not making a single-payment loan because the bank in these consumer credit departments that thousands of them have set up—and there are thousands of banks today that have gone into this wholesale—there is a terrific pressure to sell consumer credit, much more so than there ever was before the war, because there were very few banks in the consumer credit business.

Now, they have gone into the field extensively, and I would say that 9,000 or 10,000 banks, at least, are in this business of trying to sell consumer installment credit.

Now, they are not going to extend these loans largely to money borrowers except on an installment basis, because only on that basis is there an assurance of getting them paid back.

And, of course, a great many of them are on sales contracts. They are secured by the article that is purchased.

Senator FULBRIGHT. A chattel mortgage?

Mr. ECCLES. Title retaining.

Senator FULBRIGHT. Title retaining?

Mr. ECCLES. Title retaining, that is right. A sales contract. They are secured by the article.

However, there are a great many installment loans made to people that have steady jobs, and they make them on their reputation as being substantial people, payable over a period of a year or a year and a quarter, for the purpose of buying for cash many of these articles.

That would be covered in the same way.

Senator BUCK. Mr. Eccles, if someone would ask what the cost to the Government was of administering regulation W, the answer is "nil"?

Mr. ECCLES. It is nil. As a matter of fact, the Reserve banks in connection with all their other activities administer it and there is no appropriation.

We did get figures as to our cost.

I believe we have those figures here.

It is about \$500,000 per year, total cost throughout the system, about \$500,000 per year.

Senator BUCK. Total cost for administering regulation W?

Mr. ECCLES. That is right.

Senator BUCK. How do you spend that money?

Mr. ECCLES. Well, we have these things. Here is what it is. Let me cover it.

We have here 50 investigators, and employees in the banks are 105 including the investigators, and then the Board's staff here, where we have 5.

So that the principal cost, of course, would be the personnel of supervision and administering it.

We have about 210,000 registrants, 170,000 of which are vendors, and 40,000 lenders; they would be principally the banks and the small-loan companies.

So there are 210,000 people engaged in the business of extending installment credit.

Now, it is their supervision, to see that the regulations are carried out, where this cost would come.

Senator BUCK. As far as the banks are concerned, that is just covered in your regular examination?

Mr. ECCLES. The examiners would check that; that is right.

Senator BUCK. Just a regular examination?

Mr. ECCLES. That is right.

Senator ROBERTSON. Everybody in this country knows about this credit restriction.

Mr. ECCLES. That is right.

Senator ROBERTSON. And there has been a good deal of complaint. The banks have complained, and some people of moderate income have complained, and the installment credit houses have complained.

It has been pretty well advertised that you think this regulation should be continued by act of Congress for another year, and that the President thinks it should be continued for another year, and that we were going to be requested to continue it for another year.

How do you explain the fact that no organization anywhere in the Nation, so far as I know, has endorsed the proposal to continue this by law?

We have got plenty of them who complain and we have plenty who keep up with public issues.

Mr. ECCLES. We have got lots of organizations who have endorsed it.

Senator ROBERTSON. They have not been brought to the attention of this committee.

Mr. ECCLES. Well, for instance, the National Automobile Dealers Association made a survey, and in that survey that they made, they showed something like half of the dealers were in favor of continuing the regulation.

I have gotten a great many letters recommending that it be continued, asking that it be continued.

There has been, I recall, one case where in Texas the Furniture Dealers Association in Texas went on record and passed a resolution favoring it.

I just happen to remember those.

But there is a great deal of support for it.

Now, I will admit that there is more opposition, apparently, because the opposition is organized through the credit people.

The bankers, as an organization, are opposed to it, while at the same time there are literally hundreds and hundreds of banks, individually, that are in favor of it.

But as an association, they are opposed to it, because, I would say possibly the majority just do not like regulation of any kind. I have never seen legislation or regulations governing banks that they ever liked in the first instance.

They have fought every piece of legislation and regulation over the years. There was some opposition to it, at least. Some of it has been fought violently. The Federal Reserve Act, in 1913, was fought very violently by the banks of this country.

So that I would expect that those engaged in the extension of credit as an organization such as the banks, would be opposed to the regulation. There would be nothing unusual in it.

Certainly the small loan companies, whose very life and very existence depends upon getting as big a volume of these small loans at high rates as possible—and they certainly get high rates—today they feel they should oppose it.

Today, the field of consumer installment credit is very well covered, and the opposition of that organized group, I recognized is quite formidable.

Senator FULBRIGHT. You do not think, then, that because a lot of them oppose it, they are necessarily right, I take it?

Mr. ECCLES. What is that, Senator?

Senator FULBRIGHT. You do not admit that because a great many oppose it, they are necessarily right?

You would say even in the case of the Federal Reserve, they might not have been right in opposing the organization of the Federal Reserve?

Mr. ECCLES. Well, I would not want to even raise any doubt about that.

Senator BUCK. Governor Eccles, in the application of the rule, for instance of the 33½ percent and 18 months to pay the loan, suppose it would not be paid in 18 months?

What occurs?

Mr. ECCLES. Well, they would have to refinance it and extend it. They would be permitted to do that. Because, after all, it is like any piece of credit. If a loan is in default, you do the best you can to make collection.

Now, they may go out and repossess the article.

Senator BUCK. I was thinking of banks who would not want to do that.

Mr. ECCLES. Well, the thing is, the credit people make the terms. They make the terms with an expectation to pay. Certainly, the signer has an obligation which says he is going to make certain payments. That signer expects to make those payments when he signs that obligation.

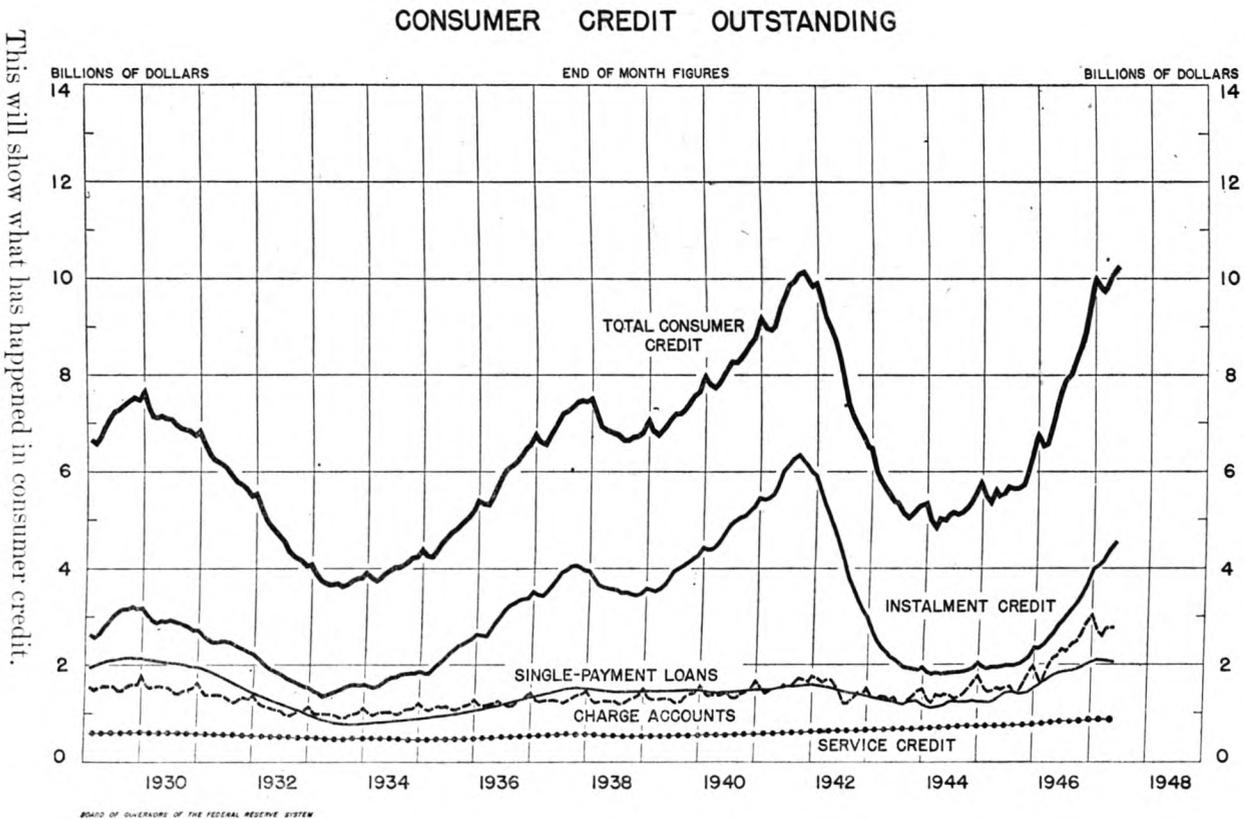
Senator FULBRIGHT. There are often penalties attached?

Mr. ECCLES. What is that, Senator?

Senator FULBRIGHT. There are often penalties attached if they do not live up to it?

Mr. ECCLES. That is right. It costs them money, certainly, every time their loan is refinanced.

Senator FURBERGHT. There is some pressure on them?
 Mr. ECCLES. When they refinance, it costs them fees again.
 Senator FURBERGHT. Yes.
 Mr. ECCLES. Certainly they do not use that as a means of evading.
 Senator FURBERGHT. No.
 Mr. ECCLES. You may be interested in looking at the chart here on
 this question.
 (The chart referred to is as follows:)



It has been brought out that the installment credit is only a comparatively small part of the total consumer credit.

Well, we recognize that that is true, that of the total consumer credit which, at the present time, is a little more than \$10,000,000,000, the credit we are talking about controlling is a little over \$4,500,000,000.

However, the justification for the control of installment credit, as against trying to control all of the consumer credit, is that it is the volatile section of the consumer credit structure. This is shown by the chart.

Senator BUCK. What is that black line on the bottom?

Mr. ECCLES. That is what we call service credit. That is a credit for your telephone bill, and your power bills, and gas bills, and so forth, doctors' bills. That is service credit.

This [indicating] is the charge account credit. That is your open charge account which you have, which we did control for a considerable time up until last fall, and then we eliminated all control of the charge account credit. It is a very difficult form of credit to control. And it went up.

You will notice, all during this period, back to 1930, the fluctuation in charge account credit is not very great. This service credit is very steady.

The single payment loan fluctuates, of course, some, but it is not the volatile section of consumer credit.

On the other hand, look what has happened to your installment credit. See how it follows the total consumer credit, and is largely responsible for the wide fluctuation in the total consumer credit. It has followed, as you notice, here, almost identically. Look here.

Therefore, we say that from the standpoint of economic stability, if you can exercise some influence and control over this sector of the economy, it will tend to stabilize the use of consumer credit.

For instance, if all restraints are taken off and this installment credit would go up to where we would expect it to go over the next several years, this credit may well get up to \$15,000,000,000, and you will see this grand total, of course, go with it.

These other items here will not be a very important factor.

Now, certainly, at the end of a boom period, if this installment credit should expand by reason of easy terms, as much as \$3,000,000,000 or \$4,000,000,000 or even \$2,000,000,000, and then the down-turn comes, and then there is liquidation within a year of \$2,000,000,000, or \$3,000,000,000, or \$4,000,000,000, you can see that while it is going up at the top of this boom period, at the top of the credit expansion, that it is of course supplying purchasing power in addition to consumer income; and as it turns down the opposite is true, that the consumer is paying and not buying on the downswing, just as on the upswing the consumer on balance is buying more than his income permits, and they are using credit.

Senator FULBRIGHT. You would say it accentuates it?

Mr. ECCLES. What is that?

Senator FULBRIGHT. You would say it accentuates it.

Mr. ECCLES. It accentuates the boom and accentuates the downswing. It tends to make for instability.

I would not want the committee to think for one moment that this is a vital factor in the maintaining of stability. It is only one of the

factors, but to the extent that through the control of this expansion, you also reduce its contraction \$2,000,000,000 or \$3,000,000,000 or \$4,000,000,000, in a period, you at least take that much off the boom and you lessen the deflation that much.

Senator BUCK. What is the maximum margin you permit brokers now to carry?

Mr. ECCLES. We require 75 percent margin.

In other words, for \$1,000 purchase, they can borrow \$250. The 75 percent is on the margin, of course.

Now, the net result is that the credit being used for the purpose of buying listed securities is only a little over \$1,000,000,000.

Senator FULBRIGHT. What is your authority for that?

Mr. ECCLES. That is statutory. The Congress, in 1934, passed a law which gave to the Board that authority. That, of course, was the result of what happened after 1929.

Senator FULBRIGHT. Yes.

Mr. ECCLES. When there was something like \$11,000,000,000 of stock market credit.

Senator FULBRIGHT. It is the same theory there that you apply here.

Mr. ECCLES. Exactly the same theory.

Senator FULBRIGHT. For the same purpose.

Mr. ECCLES. It is for the same purpose. It is what you call selective credit control. It is for the purpose of trying to cushion. You cannot prevent, but you can cushion the effect. You can lessen the expansion of credit on the boom side, and you can thus lessen the contraction of it on the other side.

Senator BUCK. You require 75 percent margin on short sales, too?

Mr. ECCLES. It is the same on both. Of course, the most important influence in helping to maintain economic stability, of course, is fiscal policy.

It is far more important than credit.

And, as I said in this statement here, that I want to leave for the record, the Board feels that this type of regulation, which is of a selective character, serves a useful purpose which cannot be reached by the exercise of any powers over bank credit in general. The regulation is needed, therefore, as a supplement to the general credit control powers.

As the Board pointed out in its 1945 annual report to Congress, however, over-all restraints to the sources of bank credit have, under existing conditions, lost much of their effectiveness. For this reason, it is of more importance for Congress to consider whether a selective control, such as proposed, would, as the Board believes, reduce economic instability and thus help to provide conditions more favorable to the maintenance of our private enterprise system.

Because of the great size of the public debt and the necessity of maintaining the stability of the Government security market, we cannot use the usual monetary and credit powers.

Senator FULBRIGHT. Control on interest?

Mr. ECCLES. That is right. By raising rates substantially, that is, by raising rates to the point where it would actually restrain the use of bank credit.

Senator FULBRIGHT. You said that in these loans it runs up as high as 36 percent.

Is there no control you have over an interest rate on installment credit?

Mr. ECCLES. No control.

Senator FULBRIGHT. You have no control at all?

Mr. ECCLES. We have no control over the interest rate on any credit.

Senator FULBRIGHT. How is it that they go out as high as 36 percent?

Mr. ECCLES. Well, these small-loan companies are permitted to charge that much.

Senator FULBRIGHT. Do the States not have State laws controlling it?

Mr. ECCLES. That is under the State laws.

Senator FULBRIGHT. Yes.

Mr. ECCLES. They have such an excellent lobby, these small-loan companies, that they have been able to get that privilege.

Senator FULBRIGHT. Thirty-six percent per year?

Mr. ECCLES. Thirty-six percent in some States.

It is 2 percent, and 2½ percent a month, which are the common rates, and in some States they are as high as 3 percent.

Senator FULBRIGHT. Per month?

Mr. ECCLES. Yes.

Senator FULBRIGHT. I would think under your theory of interest rates, that those ought to be a damper on it, but it does not seem to be.

Mr. ECCLES. Well, that is no damper when the person that has not got very good credit standing is considered, and where the damper comes on is not in that manner.

Let me put it this way: the high rate of these small-loan companies to the consumers is not applicable in the case of banks. The banks, of course, do not charge that kind of rates.

And they, of course, take the better credit risks.

However, even the banks in the consumer credit field get 8 percent, or 10 percent, and 12 percent, and in some places even more, but I would say, generally, those are the rates they would go to.

Senator BUCK. Your member banks do not get that, Governor?

Mr. ECCLES. What is that?

Senator BUCK. Your member banks do not get that much interest?

Mr. ECCLES. Sure they do.

Senator BUCK. They do?

Mr. ECCLES. On the consumer credit, yes.

But if the Reserve System was in a position to withdraw from any support of Government security market, for instance, which, of course, is the source of excess reserves by the member banks, then what would happen is immediately the interest on Government securities would go up, and with their going up, then all loans to business would go up, and finally you would find loans of private financing, municipal financing, industrial and all kinds of financing, going up.

It is the support of low rate on Government securities that anchors the entire rate structure down. And that is done by the open market pegging the short-term seven-eighths rate, and the whole rate structure is therefore related to that rate.

That is where there is first-class or good credit.

Now, the banks have available immediately a market for the Government securities that they own at a seven-eighths rate for the short term securities, such as certificates, and for every dollar of securities

they sell to the FED, the banking system, out of the reserves thus created, they can expand seven times that amount of credit.

Therefore, you have quite an engine of inflation we cannot control.

To let the rates go up to the point where borrowing was restricted would have to go to a point where your Government bond market would be demoralized, and where Governments would sell at a very substantial discount, and where the interest rate paid by the Government would go up billions of dollars.

The interest charge today is \$5,000,000,000. You can readily see, with something like \$100,000,000,000 falling due within the next 5 years, if the Government had to refund that in a market where the rate was permitted to go up 1 or 2 or 3 percent, what that would mean.

So, as a practical matter, as we pointed out to the Congress, our general credit control powers are pretty ineffective, and that the selective credit control, such as is applied in the case of the stock market credit, and as has been applied in the case of your consumer installment credit—those are the most effective ways of dealing with some of the excesses.

Senator BUCK. Governor, tell me how a commercial bank gets 10 or 12 or 14 percent on these loans they make.

Mr. ECCLES. How do you mean?

Senator BUCK. Well, you say they get that much interest on these installment loans.

Senator FULBRIGHT. Consumer credit?

Mr. ECCLES. Yes; would you not say that a lot of the banks get 8 or 10 or 12 percent?

Mr. CARL E. PARRY (director, Division of Security Loans, Board of Governor of the Federal Reserve System). Yes.

Senator BUCK. Commercial banks?

Mr. PARRY. They discount at 6.

Senator BUCK. Very few banks discount at 6 percent. There is no member bank that gets 6 percent for its loans?

Mr. ECCLES. Yes, sir.

Mr. PARRY. On this type of paper.

Mr. ECCLES. On this type of paper they do.

Senator BUCK. What type of paper, now?

Mr. ECCLES. Here is a loan secured by an automobile, and it is due over a period of 15 months, or a period of 12 months, and that loan is discounted at a 6 percent rate, and it is paid back on a monthly basis.

The actual amount of time that money is used, on the 12-month loan, is for 6 months, because the money is repaid in installments. It would figure 12 percent on the money. Then you would have to consider if it is 15 months.

Senator BUCK. Your banks do not get that business, much of that business?

Mr. ECCLES. They get a lot of it.

Senator BUCK. That is what these little loan companies are living on?

Mr. ECCLES. A great deal of the credit extended by these loan companies is in the form of cash loans; is it not, Mr. Brown?

Mr. BONNAR BROWN (Assistant Director, Division of Security Loans, Board of Governors of the Federal Reserve System). I would say all of it is in the form of cash loans. Many of them are not secured by automobiles or anything of that sort.

Mr. ECCLES. Well, what happens is this: The dealers have sales contracts. These men do not have enough money to carry them indefinitely, and so they are sold.

Senator BUCK. They run them through General Motors?

Mr. ECCLES. Yes; through sales finance companies like GMAC; but they run them into the banks now. The banks have cut into that field extensively.

Senator BUCK. Some; yes.

Mr. ECCLES. Do you remember what that growth is in the bank installment credit?

Mr. BROWN. It has gone up about 100 percent.

Mr. ECCLES. Up to where?

Mr. BROWN. About up to \$2,000,000,000.

Mr. ECCLES. Installment credit.

Senator FULBRIGHT. Up to \$2,000,000,000?

Senator BUCK. 100 percent from when?

Mr. BROWN. In about 12 months.

Senator BUCK. The last 12 months?

Mr. BROWN. I do not have the actual figure here.

Mr. ECCLES. It has come up more than that.

I was looking at the figures a while ago, and as he says, during 1946 and at the present time in 1947, the consumer credit by the banks of this country has been growing very rapidly. It is growing much more rapidly than the rest.

Senator FULBRIGHT. It seems to me it naturally would, if they only charge 12 percent for the same type of loan that the loan companies charge 36 percent for. They would go to the banks.

Mr. ECCLES. I know; but this is consumer credit. There are large consumer credit companies, known as sales finance companies, such as the C. I. T., the C. C. C., Universal Credit. Universal Credit was taken over by the C. I. T. They are just about the same as the banks.

Senator FULBRIGHT. The same as the banks?

Mr. ECCLES. It is the hundreds of small-loan companies that loan \$100 or \$200 or \$300 of cash that may be secured by somebody's furniture, or secured by an endorser, or secured by an automobile.

Senator BUCK. Catastrophe loans?

Mr. ECCLES. Loans that are made to consolidate debts, or loans that are made to buy any number of things, or for, as you say, catastrophe loans—some of them.

But those are the loans that bear the high rates, and there are people that never get out of those debts. They can try.

Senator FULBRIGHT. If you ever get in, I do not see how you would ever get out at that rate.

Mr. ECCLES. They contrive to keep them in. They are a very aggressive group of people, and you will find in every city these loan companies in a plentiful supply.

Senator BUCK. Plenty of them.

Well, Mr. Eccles, I do not think we need keep you any longer.

Mr. ECCLES. Thank you.

Senator BUCK. The committee thanks you for coming here this morning.

Senator FULBRIGHT. Has a resolution been introduced on this, sir?

Senator BUCK. No; it has not. We will pass on this tomorrow. We will meet tomorrow at 10 o'clock.

We want to vote on this resolution, and on the bill that Mr. Eccles suggested here.

Senator FULBRIGHT. We ought to have a copy of that bill printed. Senator BUCK. There is a copy of it attached to the paper.

Mr. ECCLES. There is a copy attached to the statement and I think the resolution is also there.

Senator BUCK. Very well.

We will adjourn now. Thank you, Mr. Eccles.

(Thereupon, at 11:40 a. m., an adjournment was taken until 10 a. m., Wednesday, July 2, 1947.)

(The following were later received for the record:)

CHAMBER OF COMMERCE OF THE
UNITED STATES OF AMERICA,
Washington 6, D. C., June 25, 1947.

HON. CHARLES W. TOBEY,

*Chairman, Senate Committee on Banking and Currency,
United States Senate, Washington 25, D. C.*

DEAR SENATOR TOBEY: I would like to place before you and your committee the position of the Chamber of Commerce of the United States with regard to an important matter now pending before you—control of consumer credit.

The National Chamber opposes both continuance of present consumer credit controls and legislation to make them permanent.

This statement is based on policy of this organization approved by our membership, excerpt from which is attached.

Objections to continuance far outweigh any possible advantages. While it was desirable during the war to regulate consumer credit, that regulation now tends to interfere with marketing processes which must be allowed free play for attainment of full production, lower prices, and high level of employment. The regulation obviously discriminates against those without cash resources, including many war veterans. The recent rise in consumer credit may be attributed in considerable part to the pressure of high taxes, relief from which would provide a check upon excessive borrowing.

While the present regulation rests upon authority vested in the Board of Governors of the Federal Reserve System by the President, it has been stated officially that the Executive order will be vacated if the Banking and Currency Committees of the Congress do not approve proposed legislation for permanent statutory powers in this field.

Cordially yours,

C. R. Miles,
CLARENCE R. MILES.

EXCERPT FROM POLICY OF THE CHAMBER OF COMMERCE OF THE UNITED STATES;
ADOPTION, MAY 1947—GOVERNMENT LOANS AND CREDIT CONTROLS

Government credit extensions and Government intervention and bureaucratic action in the field of credit present a menace to chartered banking and the private enterprise system.

There should be early withdrawal of Government competition with private sources in the lending field and persistent reduction in the scope and power of Government lending and guaranteeing agencies.

Remaining wartime controls of consumer credit should be terminated. Such credit should be permitted to assume its normal function and provide support of essential processes of production and distribution upon which depends a high level of employment. Existing authority for imposition of controls upon such credit should be revoked and requests for permanent power regulation denied.

McGINNITY & MURTA,
Philadelphia, Pa., June 14, 1947.

CURRENCY AND BANKING COMMITTEE.

United States Senate, Washington, D. C.

GENTLEMEN: We are in favor of retaining regulations W even though its removal would temporarily increase our sales and our earnings.

Many of the GI's who are now our principal buyers are already in too much debt through the purchase of homes on long-term contracts.

The regulation as it stands is good legislation. It can be relaxed later, when conditions require more credit.

Protect the GI against his own folly and against the unscrupulous dealer who uses excessive terms as a means of moving his shoddy, overpriced merchandise.

Sincerely,

PETER MCGINNITY.

NATIONAL REPUBLICAN CLUB,
New York 18, N. Y., May 14, 1947.

HON. CHARLES W. TOBEY, *Chairman,*
Banking and Currency Committee,
United States Senate, Washington, D. C.

DEAR SENATOR TOBEY: I am enclosing for your information copies of two resolutions recommended by the national affairs committee and adopted by the National Republican Club at its regular meeting held April 22.

One resolution advocates elimination of regulation W to reestablish a free economy for credit and installment purchases and remove the discriminations now caused by the regulation, especially against war veterans who cannot afford to pay cash or high installment payments for furniture and other necessities. This discrimination against the war veteran is deemed to be more apparent because of the liberal terms allowed for the purchase of homes while the restrictions of regulation W prevent the same veteran from acquiring the furniture and other equipment necessary for the home he purchases on a longer term payment plan.

The second resolution supports the President's Executive order of March 22, 1947, designed to eliminate subversive and disloyal persons from employment in the executive branch of the Federal Government. Such a program has long been advocated by the Republican Party and the National Republican Club.

At the meeting of the national affairs committee, the hope was expressed that the President's Executive order of March 22, 1947, would be vigorously and promptly carried out. However, it looks to me as though the enforcement of the order is encountering some unreasonable delay.

Your consideration of these resolutions will be greatly appreciated.

Gordially yours,

VICTOR D. WERNER,
Chairman, National Affairs Committee.

RESOLUTION RECOMMENDED BY THE NATIONAL AFFAIRS COMMITTEE OF THE NATIONAL REPUBLICAN CLUB, VICTOR D. WERNER, CHAIRMAN, AND ADOPTED BY THE CLUB AT ITS REGULAR MEETING HELD APRIL 22, 1947

Whereas regulation W limiting consumers credit, issued by the Federal Reserve Board on August 31, 1941, under the authority of Executive Order 8843, and amended from time to time, was initiated purely as an emergency war measure for the purpose of reducing the demand for consumers goods and conserving the Nation's manpower and resources for the production of war materials; and

Whereas it is very doubtful that regulation W ever served any useful purpose because of Government distribution and allocation of materials and goods; and

Whereas it is believed that regulation W restricts demand, employment, and production, and discriminates against war veterans and other persons who cannot afford to pay cash or the high installment payments required under the regulation by granting a priority on scarce articles to those persons who can afford to pay cash or higher installments; and

Whereas it is believed that regulation W induces many people to liquidate war bonds to secure funds for the purchase of articles requiring larger down payments than necessary; and

Whereas merchants and others selling on the installment plan have had great difficulty in interpreting the regulations issued from time to time and compliance with the regulation requires needless filling out of the many forms; and

Whereas the elimination of this regulation will establish a free economy in the place of a managed or controlled economy in the field of commercial credit: Now, therefore, be it

Resolved, That the National Republican Club in meeting assembled urges Congress to enact legislation which will eliminate regulation W and reestablish a free economy for credit and installment purchases; be it further

Resolved, That the chairman of the national affairs committee be and is hereby authorized to release this resolution for publication and to send copies to the President, the Federal Reserve Board, and such Members of Congress as he deems advisable.

NEW YORK, N. Y., June 25, 1947.

Senator CHARLES W. TOBEY,

*Chairman, Senate Committee on Banking and Currency,
United States Senate:*

The National Electrical Wholesalers Association on behalf of our 900 member houses distributing electrical merchandise throughout the country respectfully urge that you favorably consider discontinuance of regulation W on the ground that it unnecessarily restricts purchases by our citizens, especially those in the lower income brackets accustomed to buying out of income. These electrical appliances are now becoming available in quantity for the greater living comfort of our citizens, the purchase of which they themselves should decide upon without legislative restriction.

NATIONAL ELECTRICAL WHOLESALERS ASSOCIATION,
E. B. INGRAHAM, *President*.
CHARLES G. PYLE, *Managing Director*.

CONSUMER CREDIT CONTROL

WEDNESDAY, JULY 2, 1947

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 a. m., Senator C. Douglass Buck, presiding.

Present: Senators Buck (presiding), Bricker, McCarthy, Taylor, Fulbright, and Robertson of Virginia.

Senator BUCK. The meeting will come to order.

The meeting was called this morning to hear the opponents of regulation W. The first man appearing on the agenda is Mr. M. I. Behrens, Jr.

Will you come forward, please.

We will be glad to hear from you. Proceed in your own way. Give the reporter your full name and business connection.

STATEMENT OF M. I. BEHRENS, JR., VICE PRESIDENT AND GENERAL MANAGER OF LUDWIG BAUMANN, NEW YORK CITY, REPRESENTING RETAIL CREDIT INSTITUTE OF AMERICA, INC.

Mr. BEHRENS. My name is Manfred I. Behrens, Jr., and I am vice president and general manager of Ludwig Baumann & Co., and a chain of retail stores in New York City handling home furnishings, ladies' ready-to-wear, men's clothing, and the usual assortment of merchandise.

I am a director of the National Retail Furniture Association, and also of the Credit Institute of America, which I represent today.

I think it might also interest the committee too, to know that I was, beginning in the fall of 1941, before the war started, and continuing thereafter for a period of a couple of years, an official consultant to the Federal Reserve System on the matter of regulation W; although I am not an economist of any kind, I can lay claim to being a little bit of an expert in the field of consumer credit.

Senator BUCK. How many members in your association, Mr. Behrens?

Mr. BEHRENS. I would like to say about five or six hundred merchants representing perhaps a thousand or 1,200 stores spread over 48 States in the United States.

The National Retail Furniture Association has about 8,000 members, I believe, in all States.

Senator BUCK. Have they taken any stand on this legislation?

Mr. BEHRENS. They have not taken an official stand, but I think perhaps I should tell you the reason for that, so long as you ask the question.

Senator BUCK. Perhaps you can preface that remark by stating they are in favor of it. Is that correct?

Mr. BEHRENS. No, that is not correct, as I think will be evident in a moment.

The National Retail Furniture Association, as I said, has a very large membership all over the country. It has always been our policy not to take strong positions in matters in which we feel even a substantial minority of the membership might not favor the position. The furniture association comprises many cash stores who have no interest in this problem as well.

However, I think this will interest you. Last January during the furniture market in Chicago, there was a meeting of the consumer credit committee of the national association. It has 13 members. An informal vote was taken as to the attitude of these 13 men comprising the committee. The vote was 12 to 1 for its discontinuance. That was as to regulation W, as to its discontinuance.

There was only one member that favored the continuation of regulation W.

First of all, I would like to go into a little history. Regulation W in my opinion has been ineffectual from its start. I think it is pretty interesting to go back and look at what the objectives of the regulation were.

They are clearly set forth in the preamble to the regulation itself, and I would like to read you a part of that preamble. These were the stated objectives:

(a) To facilitate the transfer of productive resources to defense industries; (b) to assist in curbing unwarranted price advances and profiteering which tend to result when the supply of such goods is curtailed without corresponding curtailment of demand; (c) to assist in retraining general inflationary tendencies, to support of supplement taxation imposed to restrain such tendencies, and to promote the accumulation of savings available for financing the defense program; (d) to aid in creating a backlog of demand for consumers' durable goods; and (e) to restrain the development of a consumer debt structure that would repress effective demand for goods and services in the postdefense period.

Now, in the first place, gentlemen, those objectives were not attained in any substantial way by regulation W, although of course all of them were very worthy and all of them were at least to some degree accomplished. They were accomplished, however, because we did not make consumer durable goods in this economy during the war period, and because further, due to the excess of income paid to the working population over available consumer goods, the people had money in their pockets.

It is my opinion, unprovable, of course, that regulation W could not and would not have worked even during the war period had it not been for that set of facts.

In other words, the factor which created the situation in which consumers did not buy durable goods was because the durable goods were not made, and the reason they were able to pay such installment accounts as they opened rapidly is because they had plenty of money, and for the most part did not need consumer credit.

Another factor which has to be considered in this connection is the proportion of consumer credit, particularly consumer sale credit, which is the only thing that I as a merchant know about, as to the economy.

As of the end of April, according to the Board, there was \$1,800,000 of consumer credit outstanding, of which only a little over a billion dollars was in consumer credit outstanding, I mean sale credit, exclusive of automobiles that was outstanding. That is about a billion dollars, about 0.6 of 1 percent, I believe, of the national income which I submit is a pretty small tail with which to try to wag the dog of the American economy.

Furthermore, the \$1,800,000,000 itself has just now reached the prewar high in dollars, and yet we all know, of course, that the postwar dollar is only worth perhaps two-thirds of the prewar dollar, and we know further that during the past 6 or 7 years there has been an increase of something like 17 percent in the number of family units in this country.

Let us go back to the billion dollars outside of automobiles. Not even all of that is regulated, because the board saw fit some time ago to release clothing, jewelry, and many other articles from the restrictions of regulation W. It is very curious to me that the Federal Reserve Board should be asking for continuation of this control since they now have, and have voluntarily surrendered a great deal more power than they are using. They cannot justify what they have done on grounds of scarcity, I think, because that we all know means suits have been pretty scarce items, and were extremely scarce at the time they were released from controls. Yet living-room furniture, for example, that has been a drug on the market, subject to price breaks, factories have been laying off thousands of employees in the living-room furniture field, and yet that is still subject to control at 20 percent in that case.

Even more important is the perfectly incomprehensible release of charge accounts completely from any controls whatever. Charge accounts, by way of comparison, have now reached a total of \$3,000,000,000, considerably higher than the prewar high.

Yet they are completely released from controls. It almost makes one suspicious that the Federal Reserve Board feels that in the quotation marks respectable people who use charge accounts should not be regulated, but that the working people who use instalment accounts should be regulated.

The answer of the Federal Reserve Board, I understand, before a committee of the Congress, as to why they had relieved charge accounts from regulation, was that they would not be able to enforce the regulation if it applied to charge accounts.

Well, to be honest about it, they have never made any real attempt to enforce the regulation as far as instalment accounts are concerned, either.

Senator BUCK. What are your terms in time accounts?

Mr. BEHRENS. In normal times, or now?

Senator BUCK. No.

Mr. BEHRENS. According to regulation W, 20 percent down on furniture, a third down on other merchandise, and 15 months to pay.

In normal times we have never advertised longer terms on anything than 18 months.

Senator BUCK. What are your terms on charge accounts?

Mr. BEHRENS. 30 days.

Actually of course charge accounts do not pay in 30 days. The average would be something between 60 and 90 days. Many charge accounts today, Senator BUCK, shade into installment accounts.

Senator BUCK. Eventually.

Mr. BEHRENS. Yes. The customer owes the account. This was going on before the war. He opens a charge account, finds at the end of the month when he receives his bill that he cannot pay it off altogether, goes into the store and pays something on account, and that may drag on, particularly in the case of the high-class specialty shops.

Senator BUCK. You would extend that period for another 30 days, would you not, in many instances, maybe 60 or maybe 100 days?

Mr. BEHRENS. Sure, of course. The big difference is not the length of time, but the fact that the charge accounts require no down payment.

I will come to that point a little later. It is my own conviction that charge accounts are being used, we in our store do not happen to have any charge accounts to speak of, it is my conviction that charge accounts are being used in many places as a form of legal evasion of regulation W, that is the account is opened as a charge account without a down payment, and when the customer cannot pay, other arrangements are made to continue the account along.

Senator BUCK. They are not made until the customer credit is looked into.

Mr. BEHRENS. Neither is an installment account opened before it is looked into.

Senator BUCK. In one you know that he does not have any funds with which to pay it in advance, and the other you know that he does have.

Mr. BEHRENS. No; I do not think that would follow, sir; we would open a charge account or an installment account at the customer's solicitation. Most customers understand their own problems, and would prefer if the bill is substantial would prefer installments.

Senator BUCK. You do not open the charge account unless you have a credit rating.

Mr. BEHRENS. That is quite right.

Senator ROBERTSON. In selling items that are under regulation W now, do you retain vender's lien recorded for your protection?

Mr. BEHRENS. I did not quite get that.

Senator ROBERTSON. On items that are now controlled by regulation W, do you retain a vendor's lien and record it for your protection?

Mr. BEHRENS. We do not record any liens at all, and we use chattel mortgages in a majority of the cases of open installment accounts. For charge accounts, we do not.

Senator ROBERTSON. When you say you do not record any vendors liens, it is the practice of those who sell furniture and other items on the instalment basis to record their liens.

Mr. BEHRENS. I would say that is a minority practice. In my experience, very few merchants have found it advisable or justified by the cost involved to record liens. I know of no large merchant who records chattel mortgages or conditional bills of sale.

Senator ROBERTSON. The cost is only 25 cents in Virginia to record one.

Mr. BEHRENS. I did not mean to imply that the fee was too large. I meant that the work involved of preparing the papers and doing it would be a pretty substantial cost in the average store. You see, the

average bill of goods does not run so terribly high. Some merchants I have heard of have a dollars and cents limit. They might record any purchase over \$1,000, something of that nature. We do not ourselves do that.

Senator ROBERTSON. When you sell merchandise or goods of that type, do you completely divest yourself of the title?

Mr. BEHRENS. Yes.

Senator McCARTHY. If you sell on an installment buying plan, you keep a chattel mortgage, I assume.

Mr. BEHRENS. Yes. But the title passes to the customer with the delivery of the merchandise in New York City.

Senator ROBERTSON. You do not divest yourself of a title if you keep a chattel mortgage.

Mr. BEHRENS. In New York State, the title passes to the customer and he gives us back a mortgage. That is the legality of the situation. In practice it does not make much difference whether the title passes or not.

Senator ROBERTSON. You keep it in position where you can repossess it, and he cannot sell it.

Mr. BEHRENS. That is true.

Senator ROBERTSON. Unless the purchaser can say, "I had no notice of the lien."

Mr. BEHRENS. That is correct. Of course, I might point out to the Senator that I have been with our company now for 17 years. There has not been any year when our repossessions amounted to a measurable figure. It might be a quarter of one per cent, or something of that nature.

Repossessions are almost nonexistent in our business, because they only occur, I may as well dilate on the point, when we feel that we have to deal with a very rare customer who is himself not honest.

If it is a question of hardship, we do not want to repossess the merchandise. That is quite selfish, because our business, our whole future depends on retaining the good will of the consuming public in New York City.

Senator ROBERTSON. But you insist on the contract under which the purchaser cannot dispose of the goods.

Mr. BEHRENS. That is absolutely correct, sir.

As I started to say, the spokesman for the Federal Reserve Board said they decontrolled charge accounts because they did not think they could enforce the control. Actually speaking, gentlemen, if these controls are retained into a time when there is substantial merchant and consumer objection to them, which is now coming upon us rapidly, it will take an army to enforce the law, and an army, I would say, comparable to the army which OPA had during the war period. There would be hundreds of thousands of merchants and millions of consumers subject to this regulation, merchants, mind you, who for the most part are willing to adapt themselves to the individual needs of individual consumers, which of course the regulation W permits them to do. But the door will be wide open, and I will tell you frankly that the expense of enforcement will be enormous.

Those few of us, and I mean few, who have scrupulously lived up to the regulation throughout the war period feel that it is the duty of the Government, if this control is maintained, to enforce it, so that the

right-minded merchant is not penalized by the merchant who is willing to connive with his customers to evade the regulation.

The regulation of course is most unjust. In all of the entire story of war controls, it is the one regulation that was regressive. That is, it was the one control which put a heavier burden on the poor at the expense of the poor, penalized the working man to favor the man who had money in his pocket. It is rationed by the pocketbook.

Our position, gentlemen, is that if we need rationing, then let us have it as during the war. If there are not enough refrigerators, let us ration for the people who need them. Let us not ration it to the people who have a lot of money, which is what the regulation did at the expense of those who have not the money. Regulation W deals only with extremes.

Senator Buck asked me before what terms we offered prior to the war, and I told him that we offered 18 months to pay. The fact of the matter is, however, that our average arranged terms were between 8 and 9 months. This was before the war.

At the present time it is still shorter than that, around 6 months, because people do not ask for longer time to pay than they need, but the fellow who comes in and asks you for 18 months is the man who needs it, and he is the fellow, he is the only fellow who is regulated by regulation W. The fellow who has not got enough to pay 20 percent down on his home furnishings and the fellow who cannot afford to pay in 15 months' time, he is the only one regulated.

The man who would come in normally and pay 40 or 50 percent down is not regulated. The fellow who will pay off in a year's time is not regulated. The only man that is regulated is the man that really needs the credit.

These things are my merchants' experience with individuals. You lose individuals in statistical averages. We all look at the BLS index, and we all look at the index of factory pay rolls, and so forth, and we see that the average consumer is doing very well.

Senator BUCK. Suppose regulation W modified so that you would have 24 months to pay and 20 percent down; how much difference would that make?

Mr. BEHRENS. The down-payment requirement would still be very high on most merchandise and most people. Let us take the veterans, Senator Buck. We have had innumerable cases. We have the letters in our files. We have had cases of veterans in this position: The Government has made it possible for him to buy a house on terms of 20 to 25 years; very often the payments, around New York, the first year are lower than they are subsequently. He might have to pay as little as \$55 a month on his house.

Well, the house is just four walls, you know. He has to furnish it. Perhaps that will cost him \$1,000 to furnish his house. Immediately he has to have \$200 down payment, and he has to pay off the remaining balance of \$800 in 15 months, so that in instance after instance, even the monthly payments, let alone the fact that he has not the \$200, because he made his down payment on his house by his Government loan.

Senator BUCK. Suppose the regulation were done away with; what terms would he get?

Mr. BEHRENS. Mr. Buck, it has been our policy, we have been in business since 1858, it has been our policy always to adapt ourselves to the individual needs of the individual consumer.

Senator BUCK. I am talking about the man who could not pay \$200 down.

Mr. BEHRENS. If he had a good job, I would say, with reasonable prospects of being able to make the payments, we do not want to sell people what they cannot afford to pay for, we do not want them unhappy. Only two things can happen. Either we do not get paid, and we lose our profit or we do have to use collection methods on the customer to get the money.

Senator BUCK. You are not answering my question. Is there some minimum amount that you require him to deposit?

Mr. BEHRENS. I would say, in extraordinary circumstances, no. We might let him have it without any money down, if he had some good reason not to be able to make it.

Senator BUCK. What terms would you give him for payment?

Mr. BEHRENS. We would try to see to it that he would pay within 18 months, but if we felt the circumstances warranted, we might go to 20 or 22 or 24 months; longer than it would seem to me to be wrong, although we have made occasionally exceptions even to that rule.

Senator BUCK. I do not think that jibes. If a man can not pay anything on anything he wants to purchase, you expect him to pay it off in two years; that does not sound quite reasonable.

Mr. BEHRENS. Let me give you a concrete example. This is an actual case. I am not sure that I recall the precise figures from memory. It ran something like this:

This man got married apparently in the early days of the war. He then went overseas. In the meantime he had a child. The child is now about 4 or 5 years old, 6 years old. He was released from the Army about 6 or 8 months ago, has been living with his parents. He has finally been able to obtain living accommodations.

He came in and placed an order with us for the furnishings which he had never had before in his life for his apartment. He was not to get the apartment for another 30 days.

In the meantime his child had an attack of appendicitis, had to be operated on, and the down-payment money went for the operation.

We are not permitted by regulation W to allow this man and his wife and child to have a home of their own. There is the fellow who has an excellent job; he is with one of the big insurance companies, making \$60 a week. There is no reason in the world why he cannot pay for the furniture. We cannot let him have it until he saves up a couple of hundred dollars which he needs, and my guess would be never.

Senator BUCK. He can go to the bank and get it if he needed it.

Mr. BEHRENS. He is not permitted to do that under the regulation.

Senator BUCK. Not for sickness, he would not?

Mr. BEHRENS. That is what I was talking about before. I did not mention that phase of it. Of course, the loans are completely out from under the regulation, because whereas it is not permissible to borrow the down payment to purchase listed articles, there is nothing to prevent you from using the rent money and then going to the bank and borrowing the rent money. That is what I meant before when I talked

about legal evasion. You are quite right that that sort of thing does happen.

I do not think anything could be clearer, Mr. Buck, than the attitude of innumerable labor unions toward this proposition. The attitude of a large number of the American Legion posts, to prove that the working men of this country simply do not want this control of their credit, and by the way, that leads me to something else.

No phrase gets me madder in all of the years I have been in the business than "granting credit." We grant credit. Credit men like to use that. No credit man, no merchant in his life ever granted credit to the consumer. The consumer had the credit in the first place and the merchant made use of it to make a profit.

This credit that you are regulating is not the merchant's credit. It is the consumer's credit. It belongs to him.

The Federal Reserve Board has said that regulation W is a two-way street. That is, as I alluded to before, they expect to use it to control the business cycle. Well, it is a pretty small item to try to control the business cycle with. But that is neither here nor there.

I want to ask one question. I told you before I am not an economist. But I do in the nature of my job have to read what the economists have to say, and it seems to me that you can find as many prominent men on the side of good times right now as you can on the side of bad times. It all depends upon whom you read.

Apparently the Federal Reserve Board is still very fearful of inflation. Otherwise they would not want to retain this control.

Here is Mr. Runkel, vice president and general manager of Lily, and here is their magazine, Stores, the June issue. He says here, "Can we write the ad that will move \$200,000,000,000 of goods a year?"

In other words, he is worried about being able to sell the goods and the Federal Reserve Board is worrying about selling too much. So you do not have agreements between the economists, and I will tell you what my worry is.

I do not think anybody is smart enough to predict the future. An individual might make a lucky guess once in a while, but I do not think anybody in this world is smart enough to predict the future, not the Federal Reserve Board, certainly not this witness, probably no one.

The trouble with it is this: You can stop purchasing by the use of consumer credit controls, but you cannot start purchasing with anything. Mr. Hoover tried it back in the early days of the depression. Mr. Roosevelt tried it back in the days of the depression. Nobody can make the consumer buy when he is pessimistic about the future. So if you are going to stop purchasing when they want to buy, you cannot start it, then the only net result can be over the years a total reduction of purchasing power.

In that connection I want to read you a quotation from a forthcoming book by Dr. Cox, the chairman of the department of marketing of the University of Pennsylvania. Here is what he says:

A control that keeps out installment buyers only when they can afford to buy is likely to keep them out altogether. Since cash sales fluctuate as widely as credit sales, the net effect would seem to be not stability, but instability at a lower level.

I think that sums up the point better than I could possibly do it myself.

Senator ROBERTSON. I did not clearly understand that last sentence. Will you repeat it?

Mr. BEHREN. You mean from the quotation?

Senator ROBERTSON. Yes.

Mr. BEHRENS (reading):

A control that keeps out instalment buyers only when they can afford to buy is likely to keep them altogether. Since cash sales fluctuate as widely as credit sales, the net effect would seem to be not stability but instability at a lower level.

He is with the Wharton School of the University of Pennsylvania.

Regulation W, as I have alluded to before, is inflexible. I do not think that anybody on the staff of the Federal Reserve Board in Washington knew about this customer of ours whose little boy had been operated on for appendicitis. That is the problem of the individual merchant, the individual consumer, and the individual community.

I might mention also that these consumers who, as I said before, own this credit, have a right to contract for their necessities of life on terms that they find pleasing to them, not on terms dictated by somebody else. I do not know why we do not control cash sales.

That keeps coming back to me. We let the fellow go who has a few hundred dollars in his pocket, but not the fellow who does not have it.

We let the charge account customer go free because he lives on Park Avenue, of course I am referring to New York City, but the working man, the instalment customer, that is the fellow we want to regulate.

There has been a lot of discussion about the effect of consumer credit on price, and although that is pretty complicated as an economic subject, I will have to allude to it very briefly.

Mr. Eccles in the testimony which I was given to read made the completely amazing statement that a release of consumer credit would cause prices to rise.

Well, now, let us think about that for a minute. What has brought prices down over the years in this country? Mass production. That is the thing we are most proud of in the economic sphere, our American mass production.

What makes mass production possible? You cannot have it without mass distribution, and in the consumer durable goods fields, you cannot have mass distribution without consumer credit.

The whole history of the automobile and refrigerator and furniture businesses proves that.

Furthermore, I believe that some remark was made about the quality of the merchandise sold on the instalment plan. Well, that is another just complete fallacy, completely opposite to the truth. I will ask you to use your common sense, gentlemen. If you sell a man a bill of goods, and you get paid for it in full, you are through. You are finished.

Senator BUCK. I do not want to interrupt you, but can you finish in the next 10 minutes?

Mr. BEHRENS. Yes; sure.

Senator BUCK. We have a long list of witnesses here.

Mr. BEHRENS. Yes; sure.

As I say, the cash purchase is a completed transaction. The instalment purchase, the merchant has to collect his money, and because he has to collect his money, you see I am not putting it on any grounds of altruism, because he has to collect his money, he must supply goods of

good quality which will last, at least until the bill is paid, which is not true in the case of cash purchases.

It might interest you to know—I see you smiling—that we have had innumerable instances in our store where merchandise that we have rejected for quality has been sold for cash out of the basements of New York City department stores.

Senator BUCK. I was only smiling because you said at least the goods had to last until the bill is paid, and then it does not matter.

Mr. BEHRENS. That is right. I do not mind.

It has also been said, and I do not want to get involved here, I will make this very rapid, it has also been said that consumer credit causes fluctuations in the business cycle. That simply is not true. If you will look at the purchases of consumer durable goods which form the big bulk of consumer credit purchasing, you will find that cash purchases of those goods fluctuate as widely as credit purchases of consumer durable goods.

Therefore, it is self-evident that it is not the credit which causes the fluctuation, but something perhaps inherent in the nature of consumer durable goods.

I thought it might interest you to know on this question of price, too, I understand that Mr. Eccles discussed the question of credit service charge rates. Of course, actually, as far as the use of consumer credit has been a tool for the use of mass distribution, actually through this mass distribution and production, every credit and cash customer alike pays less for goods than they would if there were none. But there is a credit service charge in most stores for credit.

I thought it would interest you to know that the most common charge in this country is 6 percent of the original unpaid balance. I will translate that for you. That figures out in simple interest of somewhere between 10 and 11 percent, depending on the length of time. That is by far, I would say that more than 50 percent of the stores in the credit business in this country who make a charge use that particular charge.

Now, one more item on the question of price, and I will move along rapidly.

I understand that the statement has also been made to your committee that the release of consumer credit would drive the man into the used car market. I do not know much about automobiles. In fact, I do not know anything about them except that I buy them once in a while. I would like to give you this thought to chew on:

The present down payment in terms of what is forcing many customers out of the new car market into the used car, they just cannot afford to pay \$1,500 for an automobile, and get up to \$500 down. So they take any old jalopy that they can get for \$600 and pay only \$200 down. In my opinion they are getting the least possible utility in transportation out of their dollar.

I think contrary to Mr. Eccles, then, that the existence of consumer credit regulations is one of the factors which is forcing the prices of used cars up.

That brings me to another mathematical consideration that I will make very rapid for you.

Regulation W is and always was a one time operation. I am going to give you the easy example. Let us suppose that after down pay-

ment the customer has a balance to pay of \$240, and let us suppose in the old days the merchant would have been able to take \$10 a month. That is subtracted from his purchasing power for 24 months. Regulation W came along and originally said he had to pay in 12 months. So now, instead of paying \$10 a month, he has to pay \$20. It is absolutely true that for the first year, \$20 a month instead of \$10 a month, \$10 extra will be subtracted from his purchasing power.

But what happens the second year? The second year, having completed his payments in the first year, he has \$10 more to spend than he would have had under the old arrangement with the clear and easy result that the deflationary effect of regulation W is immediately followed by an exactly equal inflationary effect.

Some business men favor regulation W. That has been told you, and it is perfectly true.

Senator FULBRIGHT. Are you under the impression that Mr. Eccles is supporting regulation W as a permanent part of our regulation?

Mr. BEHRENS. I certainly am, not so much from his testimony before this committee as from my many conversations with influential members of his staff, including Dr. Perry, who is the chief of the Division of Security Loans which administers regulation W, who has been telling me it should be a permanent part of it.

Senator FULBRIGHT. That is not what he told the committee. All of your examples there are based upon that assumption. If you do not assume that, and it is only for this immediate period in which there is at least I have heard a shortage of goods. You have an entirely different result from all of your discussion.

Mr. BEHRENS. Do you know what will happen during the next year?

Senator FULBRIGHT. No; I do not pretend to know what is going to happen. We have a vague idea of what is happening today.

Mr. BEHRENS. Let us take it from the point of view of shortage. Furniture is still regulated. I grew up as a furniture man.

Would you tell me why? There is not a scarce item in the entire field.

Senator FULBRIGHT. This does not apply only to furniture. It applies to many things which are in short supply, such as automobiles.

Mr. BEHRENS. I tried to show you the effect of that. Even if an item is in short supply, moreover, why should it be rationed to the people who can afford to pay cash?

Senator FULBRIGHT. This is supposed to be the transition period from a period when we do not have a sufficient supply to a period when the normal relationship between supply and demand will be reached. That was the whole theory of all of these, such as OPA. It was not for a permanent regulation, and of course I know a year ago everybody, the witnesses here were saying exactly the same thing you are now saying about regulation W, they said it about OPA.

Mr. BEHRENS. I have to interrupt you, because I testified before the House committee in favor of the retention of regulation W, representing the National Retail Furniture Association.

So this witness at any rate did not oppose the continuation of OPA; in fact, I felt that it should have been continued, perhaps in a modified form, but it should have been continued.

Senator BUCK. To stress the point that the Senator made, it is the understanding in this committee that this regulation is only for 1 year.

Mr. BEHRENS. That may have been the testimony given to you, but I know of my own knowledge that that is not the attitude of many individuals connected with the Federal Reserve System, and if it were, if that were the fact, I would still say to you that during this coming year that marginal part of the population, school teachers, insurance company employees, have a right to come into our markets and have their share of whatever goods is available, which they cannot have today.

Senator FULBRIGHT. What proof do you have that that is the attitude of the Federal Reserve System? That is certainly not what they have told us.

Mr. BEHRENS. Personal conversations with members of the staff.

Senator FULBRIGHT. Could you give us specific instances of what the members of the staff said so we could ask the members of the staff?

Mr. BEHRENS. I certainly could.

Senator FULBRIGHT. I think you ought to put it in the record.

Mr. BEHRENS. I mentioned Dr. Perry's name. At a meeting of the National Retail Furniture Association in Atlantic City, it must be 2 years ago, I spent a whole evening with them in which he set out for me in the greatest detail what the plans of the staff were for the future of consumer credit control.

They viewed it as a permanent part of the economy designed to help control the business cycle.

Senator FULBRIGHT. Who else?

Mr. BEHRENS. I was always under the impression that the other members of his staff, some of whom are here this morning agreed with him.

Senator FULBRIGHT. Put that in the record. That is a new aspect of it. I did not know that. The Chairman of the Board did not say that. I would like to have your evidence as to who said that.

Mr. BEHRENS. I have mentioned the man who said it.

Senator FULBRIGHT. That is the only one?

Mr. BEHRENS. Yes sir.

Senator FULBRIGHT. You reason from that that controls the policy of the Board? He is the boss of what?

Mr. BEHRENS. He is the chief of the Division of Security Loans.

Senator FULBRIGHT. Not the boss of the Federal Reserve Board?

Mr. BEHRENS. No; I meant that Division.

Senator FULBRIGHT. That is the only one that said anything directly to you?

Mr. BEHRENS. That is correct.

Senator FULBRIGHT. I do not think that is sufficient evidence to make such a broad statement that the policy of the Board is to make this a permanent regulation when the testimony of the Chairman of the Board is directly to the contrary.

Mr. BEHRENS. Did not the Chairman ask for permanent legislation originally, before he asked for this resolution to continue the regulation for 1 year?

Senator FULBRIGHT. That is not what he is asking for here.

Mr. BEHRENS. That is quite right. I am glad Mr. Cheney reminded me of this. Mr. Eccles at a meeting of the board of directors of the National Retail Furniture Association—Ronald Random, not Mr. Eccles, asked the Board, and Dr. Perry was there with him, I was present at the meeting, to sponsor permanent legislation for a permanent control.

Senator BUCK. When was that?

Mr. BEHRENS. The board of directors of the National Retail Furniture Association.

Senator BUCK. When?

Mr. BEHRENS. That was in Washington here, and I would say it is about a year and a half ago. I would not have the exact date in my records here. It can be ascertained.

Senator BUCK. Times have changed since then. Perhaps their views have now, Mr. Behrens, changed.

We are going to ask you to conclude.

Mr. BEHRENS. I was about to do that anyway. I think you ought to know one thing, though, Senator Buck, before I do conclude, and that is that the question of the support of regulation W by large numbers of businessmen is purely selfish. It is a desire to control competition. It is exactly analogous to a request for price fixing. That is, these fellows do not want to compete with their other fellow merchants who are willing to give more credit service than they are willing to give.

By way of a summary, then, I would like to say that it is about time, in my opinion, that consumers and merchants alike are permitted to use the proven tool of consumer credit to raise still further the standards of our American economy. Full employment results as credit flows back into the economy, full employment not only for those who use credit, but for everyone. There is no possible excuse in my opinion for the continuation any further of this most unjust, unfair, and unworkable wartime regulation.

In support of my remarks, I would like to point out that—

Senator BUCK. I will have to ask you to conclude. I am sorry.

Mr. BEHRENS. I am, sir; just one more sentence.

Senator BUCK. Thank you for appearing.

Mr. BEHRENS. May I just say that we are submitting a brief; that is all I wanted to say.

Senator BUCK. That is quite all right.

(The brief referred to is as follows:)

A SUPPLEMENTARY STATEMENT BY M. I. BEHRENS, JR., VICE PRESIDENT AND GENERAL MANAGER, LUDWIG BAUMANN, NEW YORK (REPRESENTING THE RETAIL CREDIT INSTITUTE OF AMERICA)

(EDITORIAL NOTE.—Mr. Behrens is the 1946 holder of the Cavalier Award voted at the end of each year by the entire furniture industry, retailers, manufacturers, and wholesalers, to the outstanding furniture merchant of America, the man who has contributed most to the welfare of the industry and the public in the year.

He is a vice president and member of the board of the National Retail Furniture Association, and appears before this committee as a member of the executive committee and board of directors of the Retail Credit Institute of America, an organization of retail store owners throughout the United States who offer credit service to American consumers.)

I have submitted to this committee the complete brief upon which I based my testimony before the House Banking and Currency Committee in June. As I explained orally, I did this because I cannot see what purpose can be achieved

in attempting to put the same arguments in separate language. I believe the position taken by retailing as explained in this brief is sound and warrants the discontinuance immediately of consumer credit regulation by the Federal Government.

Since the time this brief was originally written, Marriner S. Eccles, chairman of the Board of Governors of the Federal Reserve System, has testified before your committee. Likewise since that time the House committee has reported a resolution favoring the immediate end of the regulation. I should like to discuss very briefly in this supplementary statement a few of the points which these later events have brought to light.

ON THE USE OF AUTHORITY ONCE GRANTED

Mr. Eccles has asked for continued regulatory authority over 12 lines of durable products for 1 year after July 31, 1947. A month ago he asked perpetual authority—said it is important to restrict consumer purchasing of 12 basic commodity lines of durable products to fight the pressure of what he calls too much buying power against inadequate supply.

Comment: Inflationary pressure does not concentrate itself in 12 major commodity lines. Inflation cannot be fought by regulating the use of consumer credit in these twelve lines.

The board of governors released from control all other consumer credit purchasing last December. Today it possesses three times as much power as it is using. Last December it likewise decontrolled charge accounts.

To perpetuate even for a year the restrictive controls on these 12 lines and only upon purchase of these particular goods on installment credit is discriminatory against the huge segment of Americans who buy on installment accounts instead of charge accounts. It is an unfair invitation to those who use charge accounts to buy freely as much as they want of these 12 product lines as well as everything else. The installment account is the poor man's charge account. All argument to the contrary, this is a basic fact. To free the charge account and control the installment account is a direct slap in the face to the working man, a step backward in American policy developed over the past 25 years—to assure the working family a fair share in the possession of the major durable products this country produces.

When the Federal Reserve relinquished two-thirds of its regulatory authority last December 1, and does not even ask Congress its continuation by legislation, it serves notice upon the American people that it aims to perpetuate for 1 year—and then longer, the most uneven, unfair, and un-American type of regulation the poorer people of this country have ever faced at the hands of Government. Failing to use its full present authority, the Reserve System admits that it is not proceeding directly against any immediate problem of inflation in connection with regulation W.

THE PROBLEM OF ENFORCING CONTINUED REGULATION

Mr. Eccles was asked by the House committee why charge accounts were freed of control December 1, with their \$3,000,000,000 balances, if the basic reason for control was still so real. He answered that the Reserve System dropped these controls because of the pressure of the American people against this control over their charge account buying. He said enforcement became impossible and would remain so as long as the people would not cooperate.

He went further, said the System also does not want to control real-estate mortgages because this power also would be too hard to enforce.

The people who buy on installment accounts do not want to be controlled any more than their more wealthy fellow citizens who use charge accounts. Does the Reserve System fear less the ire of our poorer people than that of the middle and upper economic ranks?

There are no moral grounds involved in obedience to regulation W. The people see in it no question of right or wrong, honesty or dishonesty.

A week ago Saturday, the New York Times carried a story on the new "Black Market in Credit" which regulation is fostering—creating further disrespect for law.

Mr. Eccles told you he has 210,000 business firms, registrants, and 50 enforcement officers. If only one-tenth of the registrants were inspected in any year, each officer would have to audit more than 1 a day, a 10-year job to inspect them all just once. Some registrants are so large that all 50 could spend full time on their affairs alone.

In view of the lack of sympathy which can be expected from the public regarding this regulation, and the way it already is widely disregarded, an enforcement army comparable to that of the OPA would be required.

In fairness to those who will faithfully abide by all law and regulation, Congress and the Federal Reserve Board must assume responsibility for complete and adequate enforcement if this regulation is continued. Thousands of registrants have since 1941, its inception, never seen a Reserve agent. This is an unanswerable challenge.

ARE THESE 12 PRODUCTS IN SHORT SUPPLY?

Mr. Eccles explains his desire to control the 12 product lines by saying it is these lines which are still in short supply.

Every member of this committee knows that men's suits are very scarce, yet the Reserve Governors eliminated them from the control list in December, but continued to restrict the sale of wood furniture. Many major lines of wood furniture today, for example living-room suites, are in such good supply that factories are laying off men and cutting down shifts. Radios are under control, but we believe no major radio manufacturer sees this control as warranted. All are concerned rather with bolstering their sales and continuing top employment in their factories. The magazine of the National Retail Dry Goods Association, June issue, out yesterday, carries an article asking "Can We Write the Advertising that Will Move \$200,000,000,000 of Goods a Year?"

This is just what almost all Government and private economists are telling business we must do. Yet the Reserve System in the face of this asks power to cut back sales in important major lines of products. There is fundamental contradiction here—dangerous economic contradiction.

Sales once cut off cannot be turned back on again at will. Every billion dollars in sales cut back by Government regulation means a billion dollars of business forever lost to American industry, millions of hours of potential labor usage forever lost. There is little weight to the argument of delayed or pent-up demand.

THE ERRONEOUS IMPRESSION ABOUT PROTECTING THE PEOPLE AGAINST THOSE WHO "SELL CREDIT"

In talking to this committee, Mr. Eccles emphasized his belief that regulation W should be continued in order to protect people against those who sell credit at high rates. He pointed particularly to the small-loan companies. I do not care to enter into this discussion except to say that it has absolutely nothing to do with regulation W, and regulation W is the subject being considered by the committee. The regulation has no effect on at least 85 or 90 percent of the business of small-loan companies. It applies only when loans are made specifically to purchase regulated products. The records of the loan companies show that these are few and far between, but I do point out that every American citizen who wishes to borrow for whatever purpose, even for an entirely unregulated purpose, is required by this regulation to fill out statements about his personal affairs and the purposes he has in mind—which the American people simply will not tolerate, are not complying with today and will not accept at any time.

The great bulk of the effective restriction of regulation W hits directly at consumer purchasing in retail stores of the durable products that make the American home.

REGULATION W FORCES CONSUMERS AND VETERANS TO BUY POOR PRODUCTS AT HIGH PRICES

Mr. Eccles told the committee that regulation W would protect veterans against buying poor products at high prices. The fact is just the reverse. Regulation W is forcing veterans to buy the cheapest possible furniture and home furnishings to make their available cash cover the several uses to which it has to be put. The purchase of a second-rate product, to meet the down payment and other terms of regulation W, is often sheer waste. We in the furniture industry dislike to force these veterans and others who make homes, to grade down their purchases, buy things that must be replaced in a few years, with great depreciation.

Retailers are not overselling consumers. Buying durable products is not like buying food. Families buy them to live with and use for years. Two-thirds of the sales in my store, and I think this is true of the entire furniture industry, are repeat purchases, meaning that people have been satisfied, not dissatisfied.

ON THE OPPOSITION OR ACQUESCENCE OF CONSUMERS, VETERANS AND LABOR

Mr. Eccles inferred to the committee that consumers, labor and the veterans, all three, favor continued regulation.

Consumers and labor.—Credit Union National Association which is comprised of multitudes of consumers has told your committee that it opposes regulation W. The American Federation of Labor has expressed the same opinion. The Brotherhood of Carpenters and Joiners is similarly on record, as is the Union of Retail Clerks. Several shipping unions on the west coast have written editorials condemning regulation W and have been echoed by important editorials in Eastern labor papers. There was a strong article against the regulation in the paper of the International Brotherhood of Electrical Workers. We have been told that the CIO has expressed itself on one occasion or another against it.

Veterans.—Now for the veterans. Between a half-dozen and a dozen of the regional posts of the American Legion have petitioned the Legion for strong opposition to regulation W.

We in retailing do not believe that people want their family purchasing regulated at Washington. We believe their distaste for it will be expressed and is being expressed through their attitude in retail stores.

PATRIOTISM NO LONGER KEY TO COMPLIANCE

The people obeyed regulation W during the war for patriotic reasons and because they have not felt its pinch. When they do feel its pinch, neither the Federal Reserve nor retailing will be able to force their compliance. We retailers do not care to be caught in the middle. Already we are being blamed by consumers for foisting upon them a Federal law for our own selfish profit. Mr. Eccles told the House committee that the retailers should favor this regulation because it means profit. I, representing these retailers, say that we do not ask profit brought about this way. It would be a short-term profit, and we retailers would ultimately bear the brunt of public disfavor.

Regulation W is discriminatory against the poor man. In applying it, Reserve Governors have admitted that they do so by curbing the rights of the poorer people while permitting the more well-to-do and higher salaried folk to buy what they please and as much as they please. The little man is to bear the brunt of whatever brakes are put on the market. This is un-American, unfair, and retailing does not believe that the Congress of the United States will permit it.

BRIEF SUBMITTED BY M. I. BEHRENS, JR., OF NEW YORK; W. E. KIMBRELL, CHARLOTTE, N. C.; AND JAMES I. McMAHAN, SANTA MONICA, CALIF., ALL DIRECTORS OF THE RETAIL CREDIT INSTITUTE OF AMERICA, AT THE CLOSE OF THEIR ORAL TESTIMONY, MAY 27, 1947, REQUESTING THE ELIMINATION OF REGULATION W OF THE FEDERAL RESERVE SYSTEM

RETAIL CREDIT INSTITUTE OF AMERICA, INC.,
Washington 5, D. C.

To the Banking and Currency Committee, House of Representatives:

Regulation W of the Federal Reserve System is the instrument of the Federal Government to control and regulate the American citizen's personal right to use his credit as he purchases the products of our economy; in contrast to the right of others possessing sufficient cash to cover their wants, to use it freely and unregulated.

By actual tally, more than 91 percent of the members of the Retail Credit Institute of America believe that such regulation of the consumer by the Federal Government is unwise, unfair, and detrimental to the best interests of the consumer and private enterprise.

By following a simple outline the major objections to such regulation may be brought to light.

I. REGULATION—DEFINITION

The regulation was issued by the Federal Reserve System on authority of Executive Order No. 8843, August 9, 1941. Its objective was: "Whereas the public interest requires control of the use of installment credit for financing and refinancing purchases of consumers' durable goods the production of which absorbs resources needed for national defense, in order (a) to facilitate the transfer of productive resources to defense industries, (b) to assist in curbing unwarranted price advances and profiteering which tend to result when the supply of such goods is curtailed without corresponding curtailment of demand, (c) to assist in restraining general inflationary tendencies, and to promote the accumulation of savings available for financing the defense program, (d) to aid in creating a backlog of demand for consumers' durable goods, and (e) to restrain the development of a consumer debt structure that would repress effective demand for goods and services in the postdefense period."

We think that these objectives no longer hold. By the language of the order, the subtopics (a), (b), (c), (d), and (e), are all subsidiary to the general purpose of preserving "resources needed for national defense."

II. THE STATUTORY AUTHORITY—THE TRADING WITH THE ENEMY ACT, OCTOBER 6, 1917, SECTION 5 (B)

The Administration gives as its authority for Executive Order No. 8843, Section 5 (b) of the act of October 6, 1917 (Trading With the Enemy).

Without going into detail, we believe that this act did not contemplate regulation of consumer credit in the United States, certainly not in time of peace. Credit transactions between citizens of single States, for purchase of goods sold in a local retail capacity and consumed in the United States usually in the same State where sold. Many have felt that the regulation has no authority, statutory nor constitutional, but have refused to raise this question during national emergency, patriotically supporting every effort to present a unified war front. Today, the war over, the interpretation of the Trading With the Enemy Act of 1917 as statutory authority for regulation W may be questioned. A typed copy of section 5 (b) of the Trading with the Enemy Act of 1917 is attached at the end of this brief.

There is grave question of underlying constitutionality in time of peace, but we do not intend to explore it at this time.

III. THE PRACTICAL REASONS WHY REGULATION W SHOULD BE ENDED IMMEDIATELY

(A) *It is ineffectual as an economic control*

Consumer credit outstanding, now close to \$10,000,000,000, constitutes only about 11 percent of the national income. Of the \$10,000,000,000 of consumer credit, installment sales credit, credit used directly to buy products is now only \$1,000,000,000, exclusive of automobiles. With automobile credit, the total is about \$1,600,000,000. This is the part of consumer sale credit rigidly controlled today. Twice this amount of credit, more than \$3,000,000,000 in "charge accounts" now, the Federal Reserve System of its own accord freed of control as no longer "in the public interest."

In requesting continued power to control, the Reserve System indicates that the present coverage of regulation W may be considered essentially the framework of any continuing device. The balance of the present \$10,000,000,000 total of consumer credit is in loans—largely also freed of control by the Federal Reserve, the small portion still controlled being loans to make down payments on goods still controlled. The bitter pill here for the consumer is that making any loan he must tell the Government just the reason why, name and address of hospital or doctor he is paying, etc., which results in widespread refusal to disclose the truth—understandingly so. It is obvious that any effect upon the national economy and business cycle of the remaining "W" control is infinitesimal and ineffectual—just as that upon the recently decontrolled charge accounts was found ineffectual.

Consumers will always pay their accounts fast or slow as their available stream of income payments rises and falls, not by virtue of any artificial regulation from Washington. Regulation can be, and is today, prohibitive to many citizens. It is designed so as to stifle purchasing and does so—but by "class" dividing our fellow citi-

zens. The Regulation did not speed payments during the war period, nor hold consumer debt balances low as you may be asked to believe. The Federal Reserve System admits this in its writings. The unusual wartime cash holdings and ready earnings of a large segment of the people accomplished what the Regulation has been credited with doing.

Likewise no regulation caused people to refrain from buying the durables not produced during the war. It was the production stoppage obviously that did it. Nor did the regulation stop consumer buying—it merely shifted it to nonregulated lines. See what happened in so many of these “soft lines.”

It did not foster savings—the excess of war earnings over heavy pay envelopes did this—if one doubts, he need only study the breakdown of “who had how much of the earnings as the war ended.”

Nor could any regulation force a citizen temporarily in an unfortunate economic situation, to pay up his accounts more quickly. And as for those with plenty of cash—there never was any attempt to regulate their spending.

The whole substance of the control has been unfortunate and unfair as well as ineffective.

In considering it as an accelerating or retarding influence on the economy, which is what the Federal Reserve System would like to make of it, one must remember that it will never apply at all to the great bulk of credit purchasers, but rather only to those who need credit most, or need special consideration most. These folk are no less worthy of reasonable individual treatment according to their circumstances than is the cash customer for all his economic independence.

Back during the depression years of the 1930's the average installment account in furniture was being paid off in 7 or 8 months. It is those who struggle hardest to achieve an American standard of living, those striving to rise from less advantageous to more advantageous circumstances who ask more lenient credit, and hence fall prey to the meshes of this sort of regulation. If the terms of regulation W were made doubly severe, statistically the average of installment account repayments would not decrease by more than a month, from 8 months to 7, or from 7 to 6, as the case might be; certainly not enough in the aggregate to change the picture of the national economy. But countless thousands of Americans would be terribly hurt.

Remember, however, that drastic terms under such a regulation, while not changing to any real degree the rate of repayment of outstanding accounts, might well stagnate the purchase of products in the first instance, driving consumers from markets to the extent of dangerously reducing sales and starting a downward spiral of purchasing even by those with cash. First this would apply to the “regulated” industries—later by contagion to others. The dangerous feature of reducing American business, artificially or otherwise in times of peace, is that downward spirals are contagious.

It is noteworthy that not one of the objectives mentioned in its “preamble” was achieved by regulation W in practice. Every one of them was actually achieved, but by economic conditions upon which regulation had little, if any, effect.

It was most fortunate indeed that business conditions in the country during the war brought this about, for if regulation W had been relied upon alone and the public had really felt the pinch of this control, administering and enforcing it would have been one of the greatest headaches Washington has ever ex-

perenced. And this it will be in the future if regulation W continues, because not always will business conditions play into the hands of those who do the regulating. Right now, today, enforcement is getting harder as the public is readily preparing to disregard Washington authority over purchasing for everyday living. Several Reserve officials have been heard to say they personally want no responsibility for enforcing it once the regulation actually irks consumers generally.

(B) The regulation is inconsistent

One present-day national objective sponsored by the White House, and with which we have no quarrel, is that prices must go downward, "to increase the purchasing power of consumers." A logical aim, but for what? Is it not to permit consumers to raise their standard of living—to buy more products with their money?

Yet the Federal Reserve System seeks to continue regulation W to decrease the purchasing power of the poor—those who need credit. The Reserve System says just this—to reduce demand for goods.

The only logical conclusion one can draw is that we are to drive prices down to permit those with cash to purchase even more than they would otherwise, and achieve this by a regulation to force the poor to purchase less than they want—less than their rightful share, they would say, of America's products.

In passing it seems important to say that an adequate supply of durable products is entirely contingent upon adequate demand, and if demand should buckle, supply itself will never reach high proportions, prices will never come down. So regulation W to a large extent nullifies one of the Administration's published purposes, that is adequate supply and continuing broad demand, without which there can be no full employment or prosperity.

The contributin of instalment selling to the economy has been always mass consumption, making possible mass production. Let mass consumption buckle and depression through loss of mass production will follow. The effect of credit purchasing on prices in the past has always been to decrease them, as is historically known. But the Federal Reserve Governors now would have you believe that the need for regulation W lies in an attempt to cut consumption in order to reduce prices. This would be true in war when production was artificially prohibited—not today when the pipe lines for practically every produce have finally been refilled to overflowing.

The Reserve Governors know that Government economists now predict 6½ million unemployed within 6 months or so. Why? Obviously for lack of adequate demand—while regulation W would continue to stem demand.

So long as regulation W requires high down payments and fast maturity of accounts for durable products, soft goods, and other unregulated markets will suffer because consumers, having done without durables through the war, will strain financially to procure these "regulated" things despite the Government's inferred prohibition, while other markets in oversupply already go begging for business and lay off men. Regulation W is one of the direct causes for the present slow-down of these "unregulated" industries.

(C) Regulation W commits injustice

Regulation W can be described from beginning to end with one word—"discrimination," and it attacks rights which are fundamentally our inalienable possession.

(1) Obviously it strikes at the working families of the country and others not well off financially—but equally Americans with all the rest.

(2) It strikes at labor, saying to the workingman that he may not have direct open competitive access to markets, where they sell products he makes with his own hands.

(3) It discriminates against new families whose struggle to furnish a home and way of life requires reasonably liberal treatment at the hands of Government and enterprise. It is the things these couples need most that are singled out as the targets of this regulation.

(4) It discriminates against the veterans who have had no opportunity to accumulate cash during the war, who return home, invited by the Government to acquire low-cost housing with special priority, special loans and privileges. Yet when they come to furnishing these homes regulation W stands in the way with prohibitive demands for cash in advance and payments many thousands cannot meet.

(5) It spells discrimination between the poor and wealthy, saying to the rich, "You with cash may have as many and as much as you want, whenever you want"; to the poor, "You may buy only what we permit and have it only when we say."

(6) It discriminates between Americans who habitually choose to use the "charge account" method of buying, charge accounts being unregulated, and the other family which habitually chooses to buy on installments, the installment account being regulated drastically.

(7) It discriminates between the stores which habitually offer charge account service and those which habitually serve others, offering the installment method—and relating to the same American products as far as both types of stores are concerned. Is this fair competitively? Is it a fair business principle?

(8) Regulation W discriminates between those who would purchase from retailers with arrangements to pay later and others who would prefer to borrow and purchase with that cash; for the borrower is subject to a few questions under the regulation while the purchaser on credit is fixed, hard and fast in the meshes of down payment and terms on balance.

(9) It discriminates among the products of American industry, inviting the public to patronize some and not permitting free market access to others. Incidentally the products discriminated against are those which the Reserve System's ace economist, Dr. E. A. Goldenweiser, says must be made and consumed in the period ahead in unit quantity 150 percent of the prewar peaks per year or we face unemployment and depression such as we struggled with in the 1930's.

(D) It tampers with inalienable rights of free people

(1) Regulation W discriminates among Americans with respect to the right to make contracts, a right which the Supreme Court of the United States has several times held tantamount to constitutional guarantee; the right to contract for the ordinary things of life, which we English-speaking people wrested from the British Crown centuries ago, not lightly to be given up at the whim of economic planning.

(2) It denies the right of a man to choose his way of living. Unregulated is the family that finds most of its desires in soft goods, travel, shirts, and clothes, jewelry and luxuries. Regulated is the family which desires beds, furniture, baby carriages, and other things just as necessitous. What a ridiculous way to divide the American people.

(E) An impossible type of regulation

(1) *Cannot fit need of whole Nation*—Business conditions are never the same in all marketing areas of the Nation. All top analysts recognize this. Regulation W could not apply properly for the economic effect desired in any one section, without disastrously affecting business and consumers in another. Stiffened to halt trade in New York, the regulation would unavoidably cripple business already low in some other section.

The use of credit is personalized to the immediate need of individuals. Americans must not be made pawns of economic experimenters. The Federal Government must not reach out with over-all control and interfere with the millions of Americans striving individually to achieve their personal living goals, a right so constantly guaranteed them by our Government and the political parties.

In the period of the OPA and the WPB we lived through attempted over-all Federal controls over business margins. The Government found this position untenable and ended the method. Costs of doing business in various communities varied and the costs in different stores of the same community likewise. So it is with the needs of families for credit service. Men are not averages.

(2) *Who is Government's best guesser?*—Nor can the Government correctly predict future conditions. Last August the Reserve Governors in their annual report intimated that they could do so.

At least a half-dozen times in the last 5 years Government has reversed its prediction of the reconversion period. The departments, the Federal Reserve System quoted them often, predicted 6 to 8 millions unemployed where history showed 2 million. So it has been over and over.

Would it be wise for the American people to put control of family spending into the hands of Washington guessers?

A recent study showed a cross-section of economists to be right only 47 percent of their aggregate predictions over a period of recent years. This was publicized under the caption, "Better we had followed the flip of a coin." The men involved here were no less in stature than the Federal Reserve officials.

Dr. Carl E. Parry, chief of the Reserve Board's division in charge of regulation W, once said that in 1926 and thereabouts, the Federal Reserve Board for saw the depression of the 1930's. He claimed that they would have done something if they had had the power.

The fact is that during this period Americans were encouraged to put billions of dollars in foreign securities sold them by member banks of the Reserve System without warning of oncoming default. If they saw "it" coming, the people should have been warned—the banks could have been advised to stop marketing these securities.

Right today the Government through one department is pointing to oncoming recession while the Federal Reserve Board asks for continued controls over the consumer purchasing to avoid oncoming inflation.

Both cannot be correct. Yet always there will be such divergence among officials and economists. Can any group of appointed men regularly outguess the combined judgment of all the American people? What happens in the American market place reflects this combined judgment. No illustration in economic history shows officials doing so.

If a prediction at Washington, by those with power to regulate, is incorrect, the result may be greatly intensified gyrations of the so-called business cycle, and actual harm to business and the public. Regulation W cannot increase consumption at will. Of course it could kill business and stop consumption. It can never induce consumers to buy when they are not ready to do so. Presidents Hoover and Roosevelt found this true when, over the radio and in every way possible, they begged and cajoled, in the early 1930's, but the consumers did not buy until in their combined judgment business conditions seemed to favor them.

For this reason regulation W over periods of time can have but one effect, that is, total net reduction in production, distribution, consumption, and employment; hence lower average over-all prosperity, lower standards of living.

(3) *Consumer credit not inflationary.*—Whatever inflationary effects there are in the accelerated buying power of consumers when they use credit, is offset in the ensuing months as buyers pay off their accounts, by an equal deflationary effect. Even in the "tip-off" years of 1929 and 1930 as the depression hit this country, installment accounts, created in 1929 and 1930 were 85 percent paid off within the next 7 months, which illustrates this compensatory equalizing factor. Instalment sales in 1929 would not have had any effect on that depression and deflation a year later for they were paid off by that time and to the contrary every monthly payment made on 1929's instalment accounts through 1930 added money, revolving cash, to the income streams of the country.

(4) *Better conserve war bonds—buy from earnings.*—To continue regulation W is to encourage consumers to cash war bonds. To the extent that they are able the people will purchase durable products so long denied them during the war. They will do so out of income, if allowed. If not, they will do it out of savings. Business sincerely wants to encourage retention of savings whether in bonds or accounts.

There is great national benefit in paying for durables out of income, retaining savings as a security backlog against turns of the business cycle and other emergencies. (Incidentally all business, railroads, factories practice this great truth. They buy "equipment," machines, cars, etc., almost always out of income—not long-term capital or savings.) Conserving savings will arm the consumer against the psychological ills and fears of depression, lay-off, and sickness. This far more than outweighs any supposed ill effect of freedom in using personal credit.

(5) *And who has these savings?*—Those who so lightly suggest that our durable products should be purchased out of savings should also remember the figures of the Department of Agriculture, gathered for the Federal Reserve System a few months ago. The figures are available to this committee. Fundamentally they show that huge segments of the public do not have wartime savings; that 40 percent of the people have less than \$40 each, that 60 percent of the Nation's individual savings is held by the top 10 percent economically. Thus such advocates really say, "Let the rich man buy all that he wants, let the poor man go without, severely regulated by the Federal Government in his purchases."

(6) *Nullifies national policy of open competition.*—There are merchants who want regulation W. Obviously, acting as a collecting agent for a retailer, the

Reserve System can make it possible for any one retailer to do more business with less capital, just as a retailer with a cash business can do more volume with less capital, even while killing off business nationally and damaging the whole economy.

Regulation W is anticompetitive. It strikes a solar-plexus blow at a national policy of the Government, open, free competition, usually held to be the secret to prosperity, high standards of living, and equality in the market place.

Regulation W stands for inequality in the market place. It stamps out competition, divides the American people into classes, the "haves" and the "may not haves."

Businessmen willing to compete and serve in accordance with the individual needs of customers and not by averages, want none of this tampering with the consumers' purchasing power, the average man's use of the credit that is his; just as they want no Government regulation over the way a citizen may use his savings, his cash or income, as he reaches for his standard of living.

IV. IT IS 142 MILLION AMERICAN CITIZENS WHO ARE REGULATED—NOT BUSINESS

Regulation W is erroneously defined as a regulation of business. This is because the Reserve System naturally fears to emphasize its attempt to regulate millions of individual Americans.

Credit is not granted. If it were, you could regulate the grantors, and incidentally hurt those to whom credit is granted. Merely the recipients of something for nothing, they could not kick strenuously. There would be a few political implications in such regulation.

One hundred forty-two million American consumers, however, all citizens of the United States, bear the brunt of regulation W directly.

The credit used for consumer purchasing belongs to them, the consumers, not to business. Curb it and you curb consumers, not business. One day the people will rise up and throw off such a regulation if the Government does not do so voluntarily. They did it when prohibition was foisted upon them. Even those opposed to the liquor business rose up and killed a constitutional amendment.

The right of contract belongs to a free people. They will not have it curbed as they use it for the everyday necessities of life and to attain their desired standard of living.

When a family buys a refrigerator that lasts for 15 years and pays for it in 2 years, only the silliest of economists would argue that he asks for credit. He pays seven times as fast as his satisfaction is delivered to him—advances, in fact, 13 years of his own credit to the makers.

In fact, the refrigerator was produced by industry on credit. Short-term bank loans and long-term bond issues help to provide the cost of labor and materials that go into it. Once a refrigerator is finished, the American consumer buys it with his own credit, substitutes his credit for industrial credit already used.

In the aggregate the credit of millions of American consumers is the bedrock foundation of production and distribution.

Let no one confuse the issue by talking of retailers granting credit to consumers, or of regulation W being a regulation upon retailers. Neither retailers nor manufacturers possess the credit necessary to finance the American consumer. Only he has this much credit, and he has never given his Government a mandate to regulate or curtail it.

"W" is a positive direct regulation, to some degree a prohibition of the American family's use of its own possession—its credit.

People acquiesce to curbs and regulations to win a war, but do not give up their rights permanently in this acquiescence.

The Congress, representing the people more directly than any branch of the executive department, should obliterate regulation W immediately.

V. TERRIFIC AND UNNECESSARY EXPENSE OF CONTINUATION

To continue control in time of peace will involve a very heavy financial burden for the employment of administrative and enforcement personnel.

Officers of the several Federal Reserve banks have complained already of the high cost of carrying out regulation W, continued and continuous expense of examining the entire bookkeeping set-up of retail stores and others involved.

But thus far business has complied with the regulation for patriotic war reasons. Likewise the public has not demanded evasion on a heavy scale, partly for patriotic reasons and partly because most of the people have had fairly good income.

The expenditure of this quasi-public money has no excuse at a time when the Government is attempting to eliminate financial burdens.

Two very unfair practices are developing out of the enforcement of regulation W: (1) The inconvenient and unnecessary probing into the private accounts of retail stores by Government; and (2) a very noticeable failure of the Reserve System to check any more than a "cross-section" of the stores. Many retailers have never seen a Federal Reserve investigator. Many others have been investigated at least dozens of times, even though on no occasion have they been found violating "W" which means their names must appear on a permanent list of those to be investigated, while the names of others apparently appear on no list at all.

If regulation W continues and it is enforced, retailing will insist upon complete enforcement which would mean many times the financial expenditure thus far made. In time of peace neither the public nor business will have any real interest in cooperation any more than they did in the days of prohibition. An unpopular regulation becomes an impossible matter of enforcement.

SUPPLEMENTARY BRIEF FILED BY THE RETAIL CREDIT INSTITUTE OF AMERICA, INC., WASHINGTON, D. C., FOLLOWING THE STATEMENT BY MARRINER S. ECCLES, CHAIRMAN OF THE BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, ON JUNE 12, 1947

The institute feels that certain of Mr. Eccles' remarks should be reviewed in an effort to clarify the committee and to correct misunderstanding. To be brief, some of the statements of Mr. Eccles are paraphrased here (no attempt being made at direct quotation, for they were noted in longhand at the hearing June 12). For example:

Mr. Eccles. People can only spend the amount of their income. Credit does not enlarge this.

Observation. This is naturally true of any one individual. Economists are distinctly divided as to whether consumer credit in the aggregate increases total purchasing power. The phenomenon of national growth during the period in which consumer credit has been used most, and the tremendous growth of certain big industries whose products are sold from 50 to 85 percent on instalment credit seem to indicate that national growth at least was tremendously accelerated by instalment credit, and having accelerated it, actually did increase.

It is difficult to picture a \$180,000,000,000 economy (as of today) if the instalment credit industries (all the major "controlled" durables) had never received the impetus of credit purchasing.

Mr. Eccles. Credit does not increase the total sale of goods, but I do admit that because of it major portions of certain products are sold that otherwise would not be sold.

Observation. Dr. E. A. Goldenweiser, recently chief economist of the Federal Reserve System, says that unless the consumer durable goods industries (chiefly the ones now covered by regulation W) achieve postwar distribution 150 percent of the highest peaks before the war, we face depression. This means it is absolutely essential, not just to maintain present volume, but to see that the total consumer durable goods markets distribute at least 50 percent more units of sale than before the war (and because of price increases, this means at least twice as many dollars of sale as prewar).

Mr. Eccles. Excessive use of credit serves no public good—nor even for the sellers nor buyers.

Observation: Everyone agrees with this, but the figures Mr. Eccles presented do not show "excessive" use.

Mr. Eccles: Total volume of instalment credit which we want the power to regulate is now \$4,000,000,000.

Question by Mr. Wolcott: What proportion of this represents the sale of the 12 product lines covered by regulation W?

Mr. Eccles' answer: About \$3,600,000,000 or 75 percent.

Observation: The latest Federal Reserve figures show total outstandings for instalment sales credit was \$1,000,000,000 plus \$689,000,000 for automobiles or

a total of less than \$1,700,000,000. A very small portion of consumer "small loans" is procured to purchase these 12 product lines.

Also, as Mr. Eccles said, subtract from these totals the items under \$50 exempt from control, but the total credit outstanding on such items is included in the above figures.

And also subtract more than \$100,000,000, representing jewelry credit, not controlled since December 1946.

This leaves the total on "regulated" products probably less than \$1,500,000,000, including automobiles.

Not mentioned by Mr. Eccles is the fact that the Federal Reserve through regulation W is not controlling this total of \$1,500,000,000 outstandings. It only controls that portion of consumer buying which is on the margin, that is, that portion of business which would be transacted were it not for regulation W but which has not been transacted because of regulation W.

Mr. Eccles: The people ought to be protected from overbuying!

Observation: Why then did the Board free jewelry from regulation and continue to regulate furniture? Is not furniture possibly a more conservative purchase than jewelry generally? And does he infer that people do not "extend" themselves on charge accounts? There probably are more overdue charge accounts, several times as many, as installment accounts. Yet these are freed.

Mr. Eccles: The opposition to regulation comes from those who want to sell credit. It does not come from producers or consumers.

Observation: (1) A large list of producers, some of the most important durable producers in America, can be gotten together, producers who oppose the regulation. Mr. Eccles merely meant that the producers have not come before the committee to be heard.

(2) The American Federation of Labor did appear before the committee to oppose the regulation. Presumably it appeared for labor as consumers.

(3) The national organization of consumer credit unions, presumably made up entirely of consumers, including tens of thousands of Government workers and hundreds of thousands of others, joined the Retail Credit Institute of America and other organizations in opposing regulation W.

(4) Mr. Eccles admitted that the regulation of charge accounts was dropped because neither consumers nor merchants would further cooperate. If charge account consumers refused to cooperate, making administration impossible, how can he say consumers using instalment accounts will be more cooperative or more in favor of the regulation?

The only way consumers generally have of voicing disapproval of a regulation like this is through lack of cooperation. Does Mr. Eccles expect consumers individually to come to Washington or write him letters?

Does he think the Federal Reserve System will not have to spend millions of dollars policing American business and American consumers? The answer is quite obvious to those of us in the retail business where we meet consumers.

Does Mr. Eccles fear more the opposition of charge account consumers, who often are a little more wealthy than those who use instalment accounts? Would he continue controls over the instalment consumers because they are weaker, less dangerous in their opposition? From his testimony it would seem so.

Possibly you can force an instalment buyer to make his down payment but you can never force him to meet the rest of his terms unless he cooperates.

Mr. Eccles: The Federal Reserve Board opposed control over real estate mortgage credit because of the great complexity in the problem of administering it. Any other Government bureau or department "is welcome to the job," he said. The Reserve System does not want it.

Observation: Does Mr. Eccles mean that there are more real estate mortgages than consumer-credit transactions—a greater problem of enforcement in real estate than in the vast army of consumer credit transactions?

Mr. Eccles: Practically every bank in the United States is opposed to regulation W and this is understandable.

Observation: The Reserve Governors ought not to view the attitude of all of these banks, members of the Reserve System, as mere selfish opinion. With these banks almost unanimously opposing regulation W, isn't there reasonable reason to question the Board's advocacy of it?

Mr. Eccles: The retailers oppose regulation W because they too are selling credit and the regulation is necessary because without it their interest would be to overload the people, sell them more than they should buy, on excessive credit terms.

Observation: This implication will and should arouse the ire of American businessmen. The retailers' objective in offering credit service is diametrically opposed to what Mr. Eccles infers. It is rather to distribute American products to the largest possible number of American homes; able to afford the American living standard; homes which if they realized the Federal Reserve System opposes their possession of these things, like refrigerators, bathtubs, etc., might likewise become very much incensed at the social doctrine proposed by Mr. Eccles.

Mr. Eccles: The public is getting into debt again and at a time when greater cash savings than ever before are "widely held by consumers."

Observation: Mr. Eccles carefully refrained from referring to the savings studies made by the Department of Agriculture for the Federal Reserve System. These show that 40 percent of the American families possess an average of less than \$40 each in savings. It is this 40 percent which largely is served by the stores which permit buying out of income.

Lack of income is not exactly what is involved here, but rather lack of desire or propensity to save.

Never has the Federal Government taken the position that the American people must save in the form of money, to prove that they are substantial citizens. There are many hundreds of thousands of these families which possess only an average of \$40 each, which are perfectly good credit risks and have accumulated a considerable supply of consumers' durable goods in their homes by buying on installments and without the paternal regulation of the Federal Reserve System. And these should be contrasted with the suggested pattern of Mr. Eccles—that they might better switch their expenditures to nondurables.

Mr. Eccles failed to point out, when showing his charts, that the top prewar totals of consumer installment credit (at the highest point \$6,000,000,000 including automobiles, all durables and installment loans) was achieved in an \$80,000,000,000 economy. In other words, the ratio of installment credit to the total was as 6 is to 80, or about 7 percent. Today the total of the same installment credit outstanding is about four billions in an economy of \$180,000,000,000. A ratio today of 4 to 180 or 2½ percent.

He would have you look at total dollar figures rather than at the relationship of credit outstanding to the total national economy.

He also failed to mention that there are 17 percent more families to be served by the American economy now than in the earlier period. It is ridiculous to compare national totals in such a way as to say that a particular family should have less credit facility than it had before the war, as Mr. Eccles does.

It would take approximately \$13,000,000,000 of installment credit outstanding today to equal prewar installment levels when you compare the relative size of the economy, now and then. The figure today as \$4,000,000,000 is about 30 percent of the prewar level by this comparison.

As retailers pointed out in the hearings, contrary to Mr. Eccles, a great bulk of the items now controlled and over which he seeks control, are not in short supply. Retailers stated accurately that already several furniture factories are closed today because of oversupply while many others are running on short shifts because demand has been met. Electrical appliances will be in this position in a few months. Only automobiles remain conspicuously in short supply.

Mr. Eccles spoke on the long-term depressing effect of the overhanging consumer debt in time of depression—the long period during which the consumers are paying off debt created during the preceding boom.

Does Mr. Eccles know that 75 percent of the entire consumer installment debt at the beginning of the 1930 collapse was paid off in full within 7 months? Does this bear out the theory of long-term depressing effect on business?

Does this fit logically into Mr. Eccles' statement that the Reserve System does not want to control real estate mortgages? Mortgages do have long-time repayment schedules. Their effect is felt over periods of years. Yet the Reserve System asks power to control short term consumer paper to get at what they describe as the depressing effect on the economy as people pay it off.

Credit sales remained approximately between 12 and 13 percent of total sales of American products all through the latter 20's and 30's as shown in Simon Kuznets' National Income and Its Composition, indicating that sales of American products for cash rose and fell just about as fast as sales on credit in all those years. The volatility involved is inherent in the durable goods industries more than it is a credit phenomenon. The rise and fall of sales for cash and credit for the same durable products showed about the same volatility. In fact, cash sales dropped faster in the depression than did credit sales in many instances.

Senator BUCK. We will next hear from Mr. Bone.

STATEMENT OF BYRON BONE, VICE PRESIDENT, AMERICAN INDUSTRIAL BANKERS ASSOCIATION, FORT WAYNE, IND.

Mr. BONE. Mr. Chairman, my name is Myron R. Bone. I am a vice president of the American Industrial Bankers Association, which maintains its national headquarters at Fort Wayne, Ind. I have made that city my home for the last 25 years. I am appearing before you, on behalf of our members and their millions of customers in opposition to a resolution that would extend for 1 year the authority of the Federal Reserve Board to continue its wartime control of consumer credit.

In large measure, this statement is a repetition of one I made on May 27 of this year, before the Banking and Currency Committee of the House of Representatives in support of three resolutions introduced into the Congress for the prompt return to the American people of their right to free use of their credit. They gave up that right, temporarily, almost 6 years ago, when a Government order, oddly based on First World War powers of the Chief Executive, decreed the sacrifice necessary to national defense.

The need for regulation W, if one ever existed, which is very doubtful, has long since ceased to exist. It was devised to "dampen the demand" for consumer durable goods, but their manufacture was stopped soon after we entered the war.

Regulation W might well have been cancelled 5 years ago. It has lingered on, under various pretexts, founded on faulty theories of economic planners who would fasten permanently on America their ideologies of state socialism.

The case against regulation W is clear cut. It is class regulation of the worst type. It gives to the man of financial means priority of rights to buy whatever he wants and whenever he is willing to pay the price. It denies to the individual of limited means his inherent right to use his credit on the best terms he can secure for the purpose of buying necessities.

During the war, food was rationed on a per capita basis. That was fair. Now, in times of peace, the Federal Reserve Board still prescribes, arbitrarily, the terms on which American citizens may purchase the necessities of life. Its rules, which give priorities to the rich, are undemocratic and un-American. It seeks to have its power extended.

Mr. Chairman, I have fought for years against the provisions of regulation W, which grant purchasing priorities to people who have plenty. I am grateful for this opportunity to lay the facts before your committee.

When the first draft of the regulation was submitted by the Federal Reserve Board to a selected group of us, in August 1941, we accepted its terms as a necessary contribution to the cause of national defense. Members of the association I am privileged to represent endorsed the sound requirements of regulation W regarding down payments, length of contracts, maturities, and uniform payments. They are such as we have found by years of experience to be in the best interest of consumer installment buyers, borrowers who make repayment in systematic installments and consumer bankers themselves.

Experience has taught us, however, that character is the basis of sound credit and, so, many exceptions can be made, safely, to usual

rules of practice. This leeway of business judgment is denied by regulation W. Furthermore, economic conditions vary with the seasons and at any one time in different sections of our country. They vary with individuals in the same community. It borders on the ludicrous to think of specifying hard-and-fast rules for the extension of personal credit.

Inferentially, we were promised that the regulation would be withdrawn at the end of the war. That promise has been defaulted. Instead, the Federal Reserve Board sought a law making consumer credit control by the Federal Government permanent.

Recently, the House Banking and Currency Committee held extensive hearings on proposed legislation to terminate consumer credit controls. That committee heard the plea of the chairman of the Federal Reserve Board for favorable consideration of his proposal that Congress enact a law providing for permanent power to control extensions of consumer credit. That committee heard the promise of Mr. Eccles that the Federal Reserve Board would recommend to the President that the Executive order giving it authority for regulation W be withdrawn, if approval were not accorded the proposal for peacetime control. That promise, also, has been defaulted.

Within a few hours after the House Banking and Currency Committee had approved legislation calling for a prompt end to wartime controls over extensions of consumer credit, Mr. Eccles appeared before this committee to plead for 1 more year of bureaucratic power.

Federal regulation of a small segment of consumer credit is a dangerous encroachment on personal liberty and a pernicious interference in the relationship between debtors and their creditors.

Why should a Federal board be given authority to limit the distribution of durable goods to those who have ready cash? Why should it have the right to deny those goods to individuals who prefer to hold their war bonds or other savings and use their credit instead?

Mass consumption is a vital corollary to mass production and consumer credit is essential to mass consumption. High levels of production and consumption of durable goods have only been possible in the past through the upbuilding of very large outstandings of consumer credit. We may be able to do otherwise in the future, but the burden of proof of that ability rests upon those who seek to promote peacetime prosperity by restricting the rights of individuals to use their credit. They would substitute their untried theories for time-tested realities and would do so at the expense of personal rights.

Consumer financing is only a means to attain a desired end. When the consumer buys durable goods, he buys a "stored-up volume of satisfaction which he can use only over a period of time." In a true economic sense the purchaser of an automobile is buying transportation rather than a physical object. When he takes advantage of a consumer plan he is paying for that transportation as he uses it.

If no one ever bought a house, an automobile, a business enterprise, or anything else of value until able to pay the full amount in cash our economic structure would collapse. Both consumer credit and producer credit are essential to a sustained prosperity.

While it is a known fact that the volume of consumer credit follows the business cycle, no sound evidence has ever been produced to indicate it causes the cycle to rise and fall.

There is nothing in the Federal Reserve Board's own figures to support the Board's contention that consumer credit is or ever has been of sufficient volume to exert even a minor influence on the total business picture or on either inflation or depression.

Consumer credit is likely to expand in good times and to contract when they are not so good, for the simple reason that, when the outlook is good, people will obligate themselves more heavily; because they are reasonably confident of being able to liquidate their debts. They stay out of debt, as nearly as they can, when the outlook is not good for prompt liquidation.

Officials of the Federal Reserve Board have contended, repeatedly, that practically all of the opposition to regulation W has come from money lenders only. They have asserted that they have not had protests from "consumer groups." They choose to ignore the steadily mounting volume of objections from war veterans, labor unions, chambers of commerce, members of Congress, newspaper editors, and many other citizens. All of them are consumers. In fact, everyone is a consumer.

A typical example is that of a Pennsylvania labor leader, who said on March 21:

Jobs and employment cannot continue at the present level unless regulation W is repealed * * * If durable goods are not taken out of the market by consumers, the workers who produce those goods will lose their jobs. The fall in purchasing power will then react adversely on workers in the soft-goods lines as well, and we will have a mounting tide of unemployment.

One of the favorite arguments of the Federal Reserve Board is that "over-extension of consumer credit has always ended in serious economic trouble." Such statements are made without supporting proof or even any evidence. According to the Board's published statistics on consumer credit, the total was only \$7,637,000,000 in 1929. It was down to only slightly more than \$4,000,000,000 when the depression came in 1942. That was not the cause of the depression, it was one of its results. When the American people became fearful of their future income they restricted their purchases, payable in installments, and reduced their borrowings. That is normal.

Gradually, during the next decade, as business conditions slowly improved, consumers were more willing to use their credit and, naturally, the volume of consumer credit increased. These, gentlemen, are the facts derived from Federal Reserve Board figures, as contrasted to their current fanciful theories.

The Board claims, also, that "over-extension of consumer credit" has resulted in "curtailed production and unemployment." That also is untrue and is best refuted by the fact presented in statistics compiled by the Federal Reserve Board. With the help of consumer credit in the thirties, production was increased and unemployment decreased.

Another pet theory of the Federal Reserve Board, unsupported by facts, is that without Federal restraint, "it is likely that sellers of durable goods will seek to expand their sales by easing terms, instead of reducing prices." The fact is that the selling price of merchandise in a free market is determined by its cost to the merchant and by competition. Easing of terms might increase the physical volume of

sales, but if so, that increased volume would mean lower prices. The classic example is the automobile. America was put on wheels in low cost transportation with the help of consumer credit. If the Federal Reserve Board were sincerely interested in reducing prices of durable goods and maintaining their mass production, it would have surrendered voluntarily, its control over consumer credit, instead of appealing to you for a fresh grant of power.

Mr. Chairman, we firmly believe that character and capacity to pay should always be the determining factors in extensions of personal credit; that neither can be determined by bureaucratic economists and that rationing of credit on the basis of wealth is unsound, unworkable and un-American.

I thank you.

Senator BUCK. Thank you, Mr. Bone.

Are there any questions?

Senator ROBERTSON. How many of the 15 items now covered by regulation W are included in the Bureau of Labor Statistics in the cost of living?

Mr. BONE. I am not an economist. I do not know, sir.

Senator ROBERTSON. Then of course you would not know to what extent an increase in the cost of these items would be reflected in the general cost of living index.

Mr. BONE. No; I do not.

Senator ROBERTSON. Is it your opinion that the majority of the people who are affected by regulation W are opposed to it?

Mr. BONE. Yes, sir.

Senator ROBERTSON. I am speaking now particularly with reference to consumers.

Mr. BONE. To the consumers; yes, sir.

Senator MCCARTHY. I believe that most of the labor unions, but a number of them have gone on record as opposed to regulation W.

Senator ROBERTSON. Do you agree with the previous witness that this is a situation where the regulation, if continued, could not be properly enforced?

Mr. BONE. It is becoming increasingly difficult, and there is too much evasion. After 5 or 6 years people have found ways to evade it. It has become largely a farce. I do not like to see any Federal regulation or Federal law become a farce, such as happened to the prohibition law.

Senator ROBERTSON. Speaking of the injustice between those who can pay cash, those who have good credit and are not subject, and those who cannot pay cash and are subject to this regulation, what percentage of the buying is done by the first two classes, and how much of the buying would be increased if the third class, by ending this regulation, would be put on a parity with them?

Mr. BONE. I cannot say as to the buying, because our association is engaged in the business of lending.

Senator BUCK. Any other questions?

Senator MCCARTHY. Mr. Bone, as I view this situation, regulation W in effect channelizes the spending of those in the low income groups from durable to nondurable.

Mr. BONE. It only relates that cost between \$50 and \$200, so anything above is off, anything below \$50 is out.

Senator McCARTHY. That is the over-all effect of regulation W.

Mr. BONE. Yes.

Senator McCARTHY. It says to those in the low-income groups, you can spend your money on nondurable goods, but we will prevent your spending on durable goods.

Mr. BONE. Yes.

Senator McCARTHY. That seems to be rather unsound economics to you, does it?

Mr. BONE. It does to me, unsound and unfair.

Senator McCARTHY. You are in effect saying that if we allow people to use their cash to buy durable goods but prevent those in the lower income bracket from using their credit to buy durable goods, which they also want, that by doing that we can in effect keep the price down for those in the upper brackets. That is the ultimate result, is it not?

Mr. BONE. I think so.

Senator McCARTHY. I think you have covered this in your statement, but I am not sure. I think you perhaps covered it. However, there is no question at all, is there, but what we are in effect saying we will ration the durable goods, we will ration it by preventing people who have credit from buying, and allow those who have cash to buy it?

Mr. BONE. That is right, unless they can meet the requirements.

Senator McCARTHY. This is a system of rationing never used before.

Mr. BONE. That is right.

Senator McCARTHY. And it discriminates against the people in the low-income brackets in favor of those in the higher-income brackets.

Mr. BONE. That is right.

Senator McCARTHY. No further questions.

Senator BUCK. Any further questions?

Thank you, Mr. Bone.

Mr. BONE. Thank you.

Senator BUCK. Give the reporter your name.

STATEMENT OF P. LYNN WERTZ, SECRETARY-TREASURER, NATIONAL USED CAR DEALERS ASSOCIATION, WASHINGTON, D. C.

Mr. WERTZ. My name is P. Lynn Wertz. I am secretary treasurer of the National Used Car Dealers Association.

I have a brief statement which I would like to make.

The National Used Car Dealers Association has gone on record as advocating a general downward price re-adjustment in the used motor vehicle field throughout the country. The National Association and all local associations affiliated with it are making every effort and using every device at their command to produce a leveling off process in the prices of used motor vehicles in an effort to create a healthier economic condition in the industry as a whole. It is our belief that continuation of regulation W will aid and abet the present inflationary market in motor vehicles. It is our belief that elimination of regulation W will tend to ease the market and cause an immediate sharp downward trend in all motor vehicle prices.

Senator BUCK. Will you explain that, how that would happen. If you take it off, the prices will go down; if you keep it on, it will go up?

Mr. WERTZ. We are not of the opinion that there is not an acute shortage of used automobiles in the sense that the regulation would

fit into the picture. Cheap or low priced automobiles are not in acute shortage at this time. Regulation W has closed the door to the prospective purchasers of that type of transportation.

Senator BUCK. If there is not a shortage of second hand cars, how can the dealers get the prices that they are getting for them today?

In some instances I understand they cost more than cars did several years ago, is that correct?

Mr. WERTZ. That is more or less common knowledge that they are getting excessive prices. I question that there are excessive prices in the field covered generally by regulation W.

Senator BUCK. What are the prices today of used cars, the average price, generally speaking?

Mr. WERTZ. The prices of used cars today are in two categories; current and late model used automobiles and the earlier or the used cars which are in the lower-priced category.

I would say the regulation W has no appreciable effect on the purchase of the cars in the higher priced category, but it definitely has a discriminatory effect on the people that purchase cars in the lower priced category. It is closing the door to them in their efforts to acquire transportation.

Senator ROBERTSON. If I may interrupt, I think the witness would be helpful if he would draw the distinction for us between what is known normally as a used car, and what we now refer to as a black market operation in new cars masquerading as a used car. Drive it around the block a few times, add \$100 to the price, and it is sold by the secondhand dealer that much above the used car price that the dealer cannot charge.

Senator McCARTHY. I do not believe regulation W would affect that transaction.

Senator ROBERTSON. If they could sell the new cars on credit, the dealers say they could sell more cars at the list price, whereas they claim, I do not know whether it is true or not, that the black market operators do not pay any attention to regulation W. They get the additional price that they find some way of evading; how I do not know. Is there anything in that?

Mr. WERTZ. I believe that the proposition of the excess prices in the current publicity in relation to that subject is something that is somewhat removed from the proposition of regulation W. I would be glad to go into that further, and furnish the committee with a memorandum on that subject.

Senator ROBERTSON. I understand you made the contention here that if we had an immediate end to regulation W, the price of cars would come down, and that is what the chairman asked you to explain.

Mr. WERTZ. I mentioned that the elimination of regulation W would have a tendency to reduce the prices of used cars. I am speaking of used cars in the terms of what is commonly accepted as a used car.

Senator McCARTHY. How could the elimination of regulation W reduce the price? I do not think you have answered that question.

Mr. WERTZ. I was just at the point of getting to that subject by attempting to bring out the fact that there are definitely two different fields of used automobiles today, an unprecedented condition in the automobile industry.

Senator McCARTHY. The effect of regulation W, of course, is to prevent people in low-income groups from doing certain buying. In this instance you refer to automobiles. The continuation of regulation W, I believe we both agree, will cause less people in the lower-income groups to buy used cars. And if you take off regulation W, and allow them to use their credit as I think you should, I cannot see how that will drop the price of used cars.

Mr. WERTZ. Well, I might be able to give you an example of that. I would say that today if every show room in the country was in possession of an adequate supply of new cars, regulation W would cause a condition to exist which would find the dealer in the position of having merchandise and no customers.

Senator McCARTHY. That would cause the price to drop.

Mr. WERTZ. That is right.

Senator McCARTHY. That is in direct contradiction to what you said.

Senator ROBERTSON. I would suggest that this and other witnesses may not be very helpful to us to argue that if we now have \$3,000,000,000 of credit, of those who have good credit, and we add another \$3,000,000,000 of those who do not have good credit, that would not be inflation, because it creates \$3,000,000,000 of demand for more goods which may not be there to fill it.

I think they should stress the fact that if they believe it to be true, that it should be on a voluntary basis, and that these consumers do not want us to save them, they want to buy and use their own judgment to the extent that they are going in the hole or not; that it is unfair then between those who have the financial status and the others or that controlling 15 items out of all of those the people of this country might purchase, and if adequately controlled and enforced against everybody, it would materially affect the question of cost of living.

Senator BUCK. If you take regulation W in the interest of second-hand-car prices, the prices would go down, he said; to me it would likely react the other way, prices would go up.

Senator ROBERTSON. I do not know about that. The better price you can get when you are the man fixing the price, and you have a sellers' market.

Senator BUCK. You have a large buyers' market, and no more cars. The price seems to me would be sure to go up.

Senator McCARTHY. I think it is obvious if you say to one group that they cannot buy certain articles, that will tend to cause the price to do down. I do not agree that it is a wise thing, but I certainly cannot agree with the witness if you do away with the regulation, that that will cause the prices to drop.

Mr. WERTZ. My theory in that respect was that the existence of regulation W today is driving a great number of potential new car buyers into the used-car market because of the fact they are unable to meet the existing terms under regulation W, which will enable them to acquire a new car.

Senator McCARTHY. I get you now.

Mr. WERTZ. People that have entered their order a year and a half ago or 2 years ago for an automobile at \$1,200 or \$1,300 and when they find their number is up, and they have an opportunity to purchase that automobile, the price has increased to the extent that pro-

hibits them from making the purchase so they are in turn forced into the used-car market.

Senator BUCK. If the price of old cars was not almost more than new cars that would hold. Is it not true, that they are, at least in excess of what they cost originally?

Mr. WERTZ. That is a rather delicate subject which will take more time than we have here to go into it.

Senator BUCK. You go ahead with the statement.

I will go further to say this discriminatory regulation has absolutely failed to contribute anything tangible toward a downward trend in the prices of automobiles.

Having no desire to impose upon the committee's time in presenting any specific cases in which regulation W indicates itself to be a burden on the average American or where it definitely deprives a man of his personal liberty, I wish to call attention to the statement of our vice president, J. B. Caldwell, containing an incident relative to definite discrimination which I hand you herewith.

Further, speaking as the manager for one of the largest independent used car operators in the country, I have observed evidence of the discriminatory nature of this regulation, the manner in which it discriminates against the low income white-collar worker and others engaged in occupations with limited incomes.

After careful analysis and consideration, it is the belief of the National Used Car Dealers Association that the elimination of regulation W will be conducive to the welfare and best interests of the public.

Senator McCARTHY. Mr. Wertz, am I correct in this, that regulation W is more obnoxious to dealers and consumers in smaller localities than in larger localities, and for this reason, that you find a greater variation in the type of contract given a smaller locality, for example, take a town of two, three, five, or ten thousand people where the furniture dealer, the car dealer, whatever it happens to be, knows the buyer, knows his boss, knows his background, you may decide to give him much more liberal terms than in your larger communities where things are done more or less according to rule.

Mr. WERTZ. Yes; I understand what you mean. I am of the opinion that regulation W is inconsistent for the reasons that you have advanced, and also I am of the opinion that elimination of regulation W would be an aid generally throughout the country. Each individual locality have their own economic problems, and I believe that the finance companies and banks are in a position to regulate the velocity of credit in accordance with their particular economy or conditions that exist in their locality.

Down through the years of this business the loan companies and banks and finance companies have more or less controlled excessive credit or overcredits. It has been their business to watch that. They have their finger on the pulse of their particular locality, and I believe they are in a position to regulate that in a manner that is conducive to the best interests of the public in their particular community.

Senator McCARTHY. As I understand it, this is not a question of allowing people with bad credit to buy, but rather it is those who advocate the elimination of regulation W, and in effect say that instead of having the Federal Government decide what credit John Johns will give to Pete Smith, in Podunk, Iowa, that the seller and the buyer themselves will determine the terms.

Mr. WERTZ. I think that is more in keeping with the proper principle of good business.

Another objection I have to regulation W is the inconsistency of having to use a book to determine the value of a used commodity. It stands to reason that a used automobile that has been driven 20,000 miles has greater value than one that has been driven 120,000 miles. But no provision is in the regulation to take care of a situation of that kind.

Senator McCARTHY. Can you see any reason, any reason at all, why the Government should say to the people in the lower-income groups that you cannot spend your money for durable goods, we will let you spend all of the money you want for nondurable goods? Do you see any reason for it at all?

Mr. WERTZ. My own personal opinion in those matters is that I am radically opposed to any form of control or regulation, and I would have to say that I do not believe in that principle.

Senator McCARTHY. Can you not go a step farther and say it is unsound economically that you force the people in that group to spend their money on nondurable goods; that it would be sound economics if you can induce people in lower income brackets to save by purchasing durable goods?

Mr. WERTZ. Well, I am not an economist, and that would be difficult for me to answer, but I am of the opinion that the average American today is certainly entitled to purchase transportation which represents some of the few pleasures that he has available.

Senator McCARTHY. No further questions.

I would like to say at this point, Mr. Chairman, that I wish the witnesses who appear would give us their thought on this particular thing. I feel that it is so inconceivably unsound for the American Government, or some branch of it, to say we will force people in the lower-income brackets to spend their money on nondurable goods; we will make it impossible for them, even though they have good credit, to save money by spending on durable goods.

Senator BUCK. That is on the assumption that they will spend it anyhow.

Senator McCARTHY. I think that is a fairly safe assumption.

Senator ROBERTSON. I am not the sponsor of this program or the defendant of Mr. Eccles, but I think in fairness to Mr. Eccles, I should say that his theory is that the Government is justified in putting some credit restrictions on items that are in short supply, and it is not that he wants people to spend their money on nondurable goods and restrict them on durable goods, but he picked out certain items of durable and semidurable goods of which the supply is going to be inadequate for the present demand, and he said if you increase the demand you will necessarily increase the price, because you are bidding for a limited output.

Senator McCARTHY. Let me say this to you: Knowing your basically sound line of thinking, I think you will agree with me however that we should not say to Mr. Eccles that he can ration scarce goods and say to people who have perfectly good credit, who need the goods, you cannot buy and say to the people who have cash, instead of credit, you can buy. It seems to me basically unfair.

Senator ROBERTSON. I agree with that.

Senator BUCK. Thank you, Mr. Wertz.

Mr. WERTZ. Thank you.

Senator BUCK. Give your name for the record.

**STATEMENT OF MILTON RAYNOR, COUNSEL, GREATER CHICAGO
USED CAR DEALERS ASSOCIATION, CHICAGO, ILL.**

Mr. RAYNOR. Milton Raynor. I am the attorney for the Greater Chicago Used Car Dealers Association, and I am speaking for the Nation.

Before starting I want to go back to the question that the Senator asked about why the prices of used cars are so high.

The picture is very clear. There are some of these other questions I want to answer before I go to my statement.

What determines the price of a used automobile? The price of a used car works in direct ratio to the price of the current model 1947 automobile; that has been basic in the industry.

For example, we will take an ordinary Chevrolet, one of the biggest selling items on the market, and you have an automobile where the current market price runs to \$2,300. The buying public is buying that automobile for \$2,300 where the list is \$1,500.

Senator ROBERTSON. Buying it from whom at that price?

Mr. RAYNOR. They are buying it from anyone or everyone that they can possibly buy the automobile from, whether they had their orders in five different new car dealers' places or buy from other individuals who advertise cars, or they buy from used-car dealers.

The usual method of determining the price of a used car which has been set for years and years is to take an allowance of \$200 per year for depreciation. That has been set for over a period of a number of years. You allow a car that is 1 year old to deduct \$100 for depreciation, and that is the sales value. So when you take a 1941 automobile, which is 6 years old, and determine what its value is on the going market, the price of that 1941 Chevrolet is going to be correspondingly higher, because we cannot purchase that 1941 Chevrolet unless we pay for it on the basis of a going market. So we pay a certain amount of money for that automobile, take a small profit on it so we can make the measure of profit we are entitled to and resell it to the public.

Senator ROBERTSON. Which one are you, the legitimate or the black market?

Mr. RAYNOR. There is no black market.

Senator ROBERTSON. If the list price of the Chevrolet is \$1,500, let us say it is \$1,500, I do not know what it is, you say you sell it for \$2,300; no legitimate dealer is going to ask \$2,300 for it, and they do not do that, and they sell at the list price. That is what I call the legitimate market.

I say that when some other dealer gets one of those new cars and drives it around the block and then sells it for \$2,300, he is operating on what I call the black market.

Mr. RAYNOR. Let us be realistic about that.

Senator ROBERTSON. That is what I am trying to be.

Mr. RAYNOR. There are dealers that we call the legitimate dealers that sell their automobiles at the legitimate list price. There are

people that have orders on 15 or 20 dealers' places of business. We cannot control those individuals. There are people that want automobiles and cannot buy them. We have people that have been on the lists of dealers for over 1 year, going back to December of 1946, October of 1946, people that need transportation and want automobiles and cannot get them. I mean new automobiles.

As a consequence, people with numerous orders are in turn selling these cars into a going market and it is not a question of the used-car dealer trying to connive to raise the price of that new automobile. They are only going into an actual going market and selling that car for what the market value of that automobile is to those people that want transportation.

Senator BUCK. Do not the manufacturers set a price on every car?

Mr. RAYNOR. The manufacturer when he puts to a franchised dealer puts a list price on the automobile.

Senator BUCK. Then he is allowed to add so much to it?

Mr. RAYNOR. Correct, and put his accessories in and sell that automobile.

Now, the question that follows that, Senator Buck, is where do these automobiles come from under those circumstances. If a new-car dealer who is the only man that can obtain a new automobile under a franchise and has a limitation on the sales price of that automobile, where is the source of this so-called evil that the Senator is talking about?

These cars are on the market. He says that they are brand-new. Where are they coming from?

Senator BUCK. I presume the legitimate dealer sells the car as the Senator suggests for the proper price; the man takes it and 2 days later takes it to the second-hand place and sells it again for \$300 or \$400 more.

Mr. RAYNOR. Exactly. That happens that way, and it happens with individuals that are trafficking in the situation that take advantage of the market condition.

I want to say just a few words here. Mr. Wertz made the statement that the National Used Car Dealers Association is doing everything in its power to reduce the prices on used cars. He did not explain why, and I want to take a moment to explain why.

Senator McCARTHY. Mr. Chairman, I do not think we are much concerned with what the National Association of Used Car Dealers is doing in regard to reducing and increasing prices. We are not concerned with that today. It is the effect of removal of regulation W on the economy of the country.

Mr. RAYNOR. That is right. I bring this in only for one reason. Chairman Eccles made the statement that prices would rise with the removal of regulation W. I do not take it that will bring a downturn in prices, because as the Senator pointed out, there will be an influx of new purchasers in the market which will cause prices to rise. All of those who are discriminated against and cannot purchase will now come into the market and be able to buy.

However, what Chairman Eccles does not understand or recognize is that we ourselves within the industry, as was pointed out, the salvation must come from the industry itself. We are treading on thin financial ice from an economic standpoint. Used-car dealers investment back

in 1939 and 1940 and 1941, where he would have a certain number of units to show to the public, was approximately \$10,000. Today to display the same number of units he must invest \$35,000 to \$40,000, because of what he must pay to get the units on his display.

As a consequence, he is financed up to the hilt and treading on thin ice, and we have all come to the recognition in the present market we must bring the prices down ourselves or wind up in a situation where we will not be able to carry on our normal business operations.

Secondly, we operate on a very close competitive market. The theory of the used-car dealer has always been a big volume and a small profit. That has always been the experience of the used-car dealer, and we cannot get that big volume by catering to the individual that can come in with a larger cash payment and segregating that portion of the population which normally constitutes our buying public.

The bread and butter items of the used car dealer is the '38, and '39 and '40 automobile. He is not in the new car business. We cannot sell the '38 and '39 and '40 items which is the automobile that we normally sell unless we can reach the working class of the public. That public comes in to buy transportation at a price where they can afford to buy it, and we feel that by getting back to our normal operation, which is the sale of '39 and '40 automobiles to the working population, where these people can come in and buy these cars that the competition among the used car dealers in selling these cars—

Senator McCARTHY. You do not claim that if you open up the market to another vast group of people that is going to result in reducing the price of used cars.

Mr. RAYNOR. I do not. I could not possibly make that statement. But I say the salvation is for ourselves to recognize what the problem is and to bring our own economy into line where we can sell the cars to the people that we have been normally selling them, and the fact that we are forced into a situation where we are selling used cars at higher prices is something to be rectified by ourselves, and regulation W has not acted as a lever to keep the prices down in any respect whatsoever, because today the people that have cash are in the market buying these 1947 automobiles, or 1942 or 1941 model automobiles, and they are able to pay for them, whereas the other portions of the population are completely discriminated against, and not able to buy decent transportation.

Senator McCARTHY. I might say for your benefit that I think if we are dealing only with the used car business, I personally would be in favor of continuation of regulation W.

Mr. RAYNOR. I can understand your reaction would be that. There has been a lot of publicity pertaining to the whole automobile industry, as a matter of fact, but a good percentage of it has been without justification. I assure you of that. The used car industry is in its knee pants, but it has recognized that it is an entity. We have been an appendage of an industry in the past years. Today it has been recognized that it is an industry. Remember, there are four used cars sold to every new automobile. There have to be 4,000,000 used cars for every 1,000,000 new cars. And if the 4,000,000 are not used there is a backlog and bottleneck created with the production of new automobiles, and their distribution.

Senator BUCK. How can you sell four for one? Where do they come from?

Mr. RAYNOR. The vast millions of cars now in existence, the turn-over that takes place with the used automobiles.

Senator BUCK. The used automobiles come out of the new car field. If you only sell one new car and sell four used ones, you are going to run short of supply of the old ones.

Mr. RAYNOR. You are correct in your original statement that the first instance, the source is when the new car dealer sells the new automobile and takes the second-hand car in trade. He wholesales it. That creates one car for one.

In the meantime you have millions of automobiles that are now being driven on the street which are constantly being turned over to the working people. When a person rids himself of an automobile, and it is in turn sold to the lower income population—

Senator BUCK. Have you finished?

Mr. RAYNOR. Yes, sir. Thank you.

Senator BUCK. Any questions?

Thank you.

Mr. RAYNOR. Thank you.

Senator BUCK. We will next hear from Mr. Rhodes.

Give your name to the reporter.

STATEMENT OF H. M. RHODES, REPRESENTING CREDIT UNION NATIONAL ASSOCIATION, INC.

Mr. RHODES. Mr. Chairman, my name is H. M. Rhodes, and I am a representative of the Credit Union National Association. In behalf of credit unions and their members I should like to present the following statement by Mr. Thomas W. Doig, managing director of the Credit Union National Association, in opposition to the continuance of regulation W.

(The following statement by Mr. Doig was submitted for the record.)

Credit unions are a sort of people's banks; they are cooperative thrift and credit organizations organized by, serving, and belonging to groups of people having a mutual bond of interest. They are chartered under and regulated by Federal and State Government authority. Their chief purposes are:

- (1) To promote thrift and encourage systematic saving.
- (2) To provide credit facilities for members for helpful purposes at moderate cost.
- (3) To train members in the management of their financial affairs and in working together to help each other.

The Credit Union National Association is the central organization of credit unions in this country. Through it credit unions have gone on record as opposing further regulation of consumer credit. We have received many expressions of opinion from credit unions throughout the country in this regard.

For several months we have gathered resolutions from them favoring the elimination of regulation W. We have them now from 2,042 credit unions representing 901,717 members. Our people are consumers and the cooperative owners of their organizations. Considering an average of three people to the families of members, this protest represents more than 2,700,000 consumers. This is a fair cross-section of our members from the entire country. It is a representative expression from consumers who are affected by the restrictions on credit imposed by regulation W. We are opposed to the further continuance of this regulation for the following reasons:

- (1) We believe that it served the purpose for which it was inaugurated, effective September 15, 1941, to aid the war effort in the following manner,

namely, to transfer production resources to defense industries, to restrain unwarranted price advances and to aid in creating a backlog of demand for consumer goods in postwar period. We believe that it is no longer needed since the termination of the war, and that it is no longer in tune with other Government action.

(2) We feel that regulation W definitely discriminates against those who have the least in the way of liquid assets. There are many who do not have much in cash reserve. According to figures gathered by the Bureau of Agricultural Economics of the United States Department of Agriculture at the request of the Federal Reserve Board, the bottom 40 percent of spending units (family pools) in the United States held at the end of 1945 only 1 percent of the liquid assets; the next higher 30 percent of spending units held only 12 percent. These are the ones who do feel heavily the restrictions on consumer credit under regulation W.

(3) We feel confident that our organizations will continue a safe and sound policy as regards extending loans to their members when regulation W is removed. We desire to do so without the necessity of operating under extra rules and regulations and to be able to serve our members as we did before regulation W was promulgated.

We hope, therefore, that no action will be taken to continue it longer.

THOMAS W. DOIG.

Managing Director, Credit Union, National Association.

Thank you for this opportunity to state the position of credit union people who are opposed to the extension of consumer credit restrictions under regulation W.

Senator BUCK. Are there any questions, gentlemen?

Senator McCARTHY. Mr. Rhodes, let me ask you, is it your opinion that if you make it possible for people in the low-income brackets to buy under more liberal terms durable goods, that actually induces the people in those brackets to save money?

Mr. RHODES. To save money?

Senator McCARTHY. To save by purchasing durable goods, making their monthly payments.

Mr. RHODES. Well, under our organizations, the rate of course is reasonable; we feel that by buying on cash that they save money in that respect.

I do not know whether I get the question.

Senator BUCK. Thank you, Mr. Rhodes.

Mr. RHODES. Thank you.

Senator McCARTHY. I would like to have the right to read into the record parts of the testimony given by Mr. Padway before the House Committee, who is representing the A. F. of L. I think he has well stated the position of labor towards regulation W.

Senator BUCK. The request is approved.

Senator McCARTHY. He opposes the continuation of regulation W. (The testimony of Mr. Padway read into the record by Senator McCarthy is as follows:)

STATEMENT OF JOSEPH PADWAY, GENERAL COUNSEL OF THE AMERICAN
FEDERATION OF LABOR

Mr. PADWAY. Mr. Chairman and members of the committee, I do not want to go into a discussion of the economic and social implications involved in regulation W. I am rather here to report to you how most of our people feel about this regulation. Only yesterday I took the matter up with Mr. Hushing. Mr. Hushing is the chairman of the legislative board of the American Federation of Labor, and its function and business is to read these bills and see what effect they have on labor and to come to conclusions respecting them—that is, whether they are bills that ought to be supported or otherwise.

The CHAIRMAN. Is that William Hushing?

Mr. PADWAY. Yes. Only yesterday he informed me that he had received information from State federations of labor affiliated with the American Federation of Labor to the effect that they are opposed to regulation W.

The State federations—there are 48 of them—act in the same manner as the American Federation of Labor acts nationally. The State federations act within the borders of their States.

From such personal study as I have been able to give to the subject I am of the opinion that regulation W is not altogether in the interests of labor. I think it would be much better to have the regulation abolished.

There may be arguments that can be made for some control, and some people may go as far, even within our own movement, as to support the retention of regulation W, but on the whole, viewed from the various angles, pro and con, Mr. Hushing and I have come to the conclusion that it would be better to have it done away with.

We are not for controls. We do not want too much government in our affairs. Just as business does not want too much government in its affairs, labor feels the same way. This has a tendency, at times, to pry into the personal affairs of workers—the way the regulation is set up—in connection with what they must do to obtain credit when they need that credit.

The regulation as it stands now, in the postwar conditions, is discriminatory. People with a lot of money can get the things that they need, while those with less money, such as wage earners, have found it, in many instances, impossible to obtain the things they need.

Others have been compelled to cash in their savings bonds in order to obtain things they cannot obtain otherwise, whereas if there were no regulation W, or regulations of that nature, they could retain those savings and holdings and obtain their credit and pay out over a period of time for the articles they need and still have their savings and their bonds.

It is not necessary for me to go into a long discussion on the subject. I am not an economist. But I heard Mr. Davis of Georgia testify, and I agree with everything he said. I think that in the short period of time he testified here he made a splendid representation of the entire subject which seems to fit in my ideas and with the ideas of Mr. Hushing. I assure you that we have only the interests of our workers at heart.

The CHAIRMAN. Thank you very much, Judge Padway.

Are there any questions?

It not, and if you have any supplemental statement you care to file or any further information, we will be glad to have it.

Mr. PADWAY. I will be very glad to. Thank you.

Senator BUCK. Mr. Adams.

**STATEMENT OF J. N. ADAMS, BRANCH MANAGER, HOOVER CO.,
PHILADELPHIA, PA., REPRESENTING NATIONAL AFFAIRS COM-
MITTEE, VACUUM CLEANER MANUFACTURERS ASSOCIATION**

Mr. ADAMS. My name is J. N. Adams. I am the branch manager of the Hoover Co. of Philadelphia. This statement is being made on behalf of the National Affairs Committee.

Senator BUCK. What is the Hoover Co.?

Mr. ADAMS. Manufacturers of the Hoover cleaner.

On behalf of the national affairs committee of the Vacuum Cleaner Manufacturers Association.

The Board of Governors of the Federal Reserve System amended regulation W in December 1946, but retained vacuum cleaners on the list of the appliances still controlled by this regulation.

Therefore, on December 10, 1946, the national affairs committee of the Vacuum Cleaner Manufacturers Association filed a petition with the Board of Governors of the Federal Reserve System asking that vacuum cleaners be added to the list of consumers goods that had been removed from regulation W.

In this petition we set forth our reasons. No. 1, that an investigation conducted by the Office of Price Administration had resulted in the vacuum cleaner prices being decontrolled on November 6, 1946; that the action had been taken because they found that the supply was more than equal to the demand, that the vacuum cleaners were available for immediate delivery in dealers stores.

No. 2, that the monthly production and sales of vacuum cleaners was now far in excess of either 1940 or 1941.

No. 3, that the vacuum cleaner industry was anxious to continue producing vacuum cleaners as they had been during that past few months, but felt very definitely to enable them to do so, it needs to be removed from the list of products controlled by regulation W.

No. 4, that vacuum cleaners have always been sold with a reasonable down payment and on monthly terms, and that to enable the industry to keep on selling in volume, the industry needs the stimulus of being removed from the provisions of regulation W.

No. 5, that approximately 50 percent of the 30,000,000 wired homes in the United States are still without the services of a vacuum cleaner of any kind.

No. 6, that other merchandise can be purchased with lower down payments, that the action of the Board of Governors was discriminatory.

The survey conducted by the Bureau of Agricultural Economics indicated that almost 70 percent of the families have insufficient savings and liquid assets to provide a satisfactory market for the sale of vacuum cleaners.

Senator BUCK. I understand that the industry applied to be released and the Board of Governors would not grant it even though OPA in December 1946 had removed and taken off controls?

Mr. ADAMS. That is right.

That the people living in the wired homes should be given opportunity to purchase vacuum cleaners on the terms that might be arranged with the retail merchants for these reasons.

The vacuum cleaner is perhaps the greatest labor-saving appliance used in the home. It is important that the dangerous disease-laden dirt lurking in all of the furnishings of the home be removed, that a single thimbleful of dirt has been shown to contain millions of disease germs of various kinds, particularly children's diseases. The use of the vacuum cleaner is looked upon as both life and health insurance for all of the members of the family, and for all of the furnishings in the home as well.

It is a well known fact that damage done by moths in the homes of our country is greater than the damage done by fires.

We pointed out to the Board of Governors of the Federal Reserve System they should immediately remove vacuum cleaners from the products controlled by regulation W so that these homes can be equipped with this much needed electric appliance, and therefore save the time of the housewife and remove the disease germ laden dirt.

Our dealers and salesmen representing dealers report that there are large numbers of people who are anxious to purchase cleaners now out of their regular earnings, and thereby secure the benefits of this labor-saving device, but are not in a position to make the one-third down

payment required by this regulation. Yet they are prepared to purchase it under the satisfactory terms of the retail merchant.

This required down payment plus another provision of regulation W is retarding the sales and it is for that reason that we feel that the regulation W should be discontinued.

The other provision in the regulation W that is retarding sales, I can explain in this way: Mrs. Prospect visits our dealer or a vacuum cleaner salesman contacts her, and she becomes interested, and asks that the cleaner be demonstrated in her home. When it is demonstrated there, she becomes further interested in it, and asks that it be left until her husband can see it, and she can ask him for approval to buy it.

But regulation W will not permit that to be done until the one third down payment is made.

Regulation W therefore will not permit us, unless the initial payment of one-third of the retail price is paid, and it is our definite feeling that regulation W is retarding sales in the vacuum cleaner industry, and should be discontinued or at least vacuum cleaners should be removed from the list of articles still controlled by it.

Senator BUCK. You can certify, Mr. Adams, that the supply of cleaners is well in excess of the demand?

Mr. ADAMS. Yes, sir.

Senator BUCK. What is the reason given you by the Federal Reserve Board for not taking this off?

Mr. ADAMS. I do not know that. I do not know the reason given why it was not removed at that time.

Senator BUCK. Any questions that the members would like to ask Mr. Adams?

Mr. ADAMS. I would like to answer the question that you asked the other witness, and I would say definitely yes. I am sure you understand it is better to pay a little more and get a great deal more than to pay a little less, and get a great deal less, and the people in the low-income brackets today can buy a vacuum cleaner, but it is under the \$50 mark, which is the inefficient and cheap type of cleaner. The majority of the cleaners average above the \$50 mark.

Senator BUCK. Thank you, Mr. Adams.

Senator McCARTHY. In other words, you feel that the removal of the regulation W will allow the people in the lower-income brackets to buy a better grade of furniture.

Mr. ADAMS. Of quality merchandise, and thereby save.

Senator McCARTHY. I would like to ask another question. I believe the answer is obvious; it may not be, however.

Take John Jones out in some small town. He has a wife and family, and makes, say, \$40 a week. Ordinarily, of course, he does not save any of that money, or does not save enough to buy the furniture, the vacuum cleaner he wants. If his credit is good, you make it possible for him to buy the vacuum cleaner, the piece of furniture, make the payments over 18 or 24 months, whatever he and the seller agree upon.

He will make those payments, and ultimately he gets to be a more stable citizen than if he is in effect to spend it on nondurable goods.

Mr. ADAMS. That is true.

Senator McCARTHY. So from that standpoint alone, it would be an excellent idea to do away with regulation W, and put this question of credit back in the hands of the local people.

Mr. ADAMS. Yes, sir.
Senator BUCK. Is Mr. Wilson here?

**STATEMENT OF WILLIAM L. WILSON, REPRESENTING CIT,
WASHINGTON, D. C.**

Mr. WILSON. My name is William L. Wilson; I represent CIT Financial Corp. I have a statement, Senator, which I would like to provide the committee with, but I will avoid that at this time.

There is one question which I would like to clarify for the committee.

Directed to Mr. Fulbright's question regarding the intention of the Federal Reserve Board, as expressed in Mr. Eccles' testimony before this committee, I have page 23 of the committee record, and I will read you a few lines of Mr. Eccles' testimony.

We had first thought of legislation, but it is too late in this session of Congress. The legislation is extremely controversial, and it is our feeling that it would not be passed and possibly not desirable. It would not be possible to get legislation and it would not be desirable in any case to press for permanent legislation at this time. The case for permanent legislation seems to the Board to be very strong. At the same time we recognize that Congress may not feel that there is time enough at the present session to give adequate consideration to a permanent measure. For this reason, and because it now appears that there is a great need for restraint during the coming year, we suggest that the committee give consideration to the adoption of a joint resolution providing that consumer credit controls should continue under the existing executive order until a specified date, until July 1948, and then be terminated unless it is otherwise extended again.

I think that I imply that it is perfectly evident that Mr. Eccles, speaking for the board there, is much in the question of permanent consumer credit control or installment credit control.

We are opposed to that, and our appearance is basically directed at the question of permanency. We do not think we are closing that out when we say all right, let us have a few more months. You have heard very persuasive testimony which I do not want to repeat. I want to identify ourselves a little more.

We are one of the larger financial institutions of the United States. Last year we advanced more than a billion and a half to the American industry in credits of one kind; over a billion and a quarter of this was in the form not of consumer credit, but industrial credit of one sort or another. We have a big stake in the American system.

We would not advise anything that we felt was wrong, and we urge that on any point we subscribe to, one more quotation which I would like to read to you from the Wall Street Journal.

If the Government should control one kind of credit, why not other kinds? If the general welfare requires that John Smith be stopped from borrowing to buy an automobile, will it never be that the general welfare in the opinion of Washington requires that the maker of automobiles be denied credit lest he make too many at the wrong time? If the Government can withhold credit in one place, why can it not act in other cases? The results of such extensive authority can be appreciated. If some Government agency can say who is to get credit, when and under what circumstances, it needs no other authority to run the whole economy, and decide who shall enter what business, and how he shall conduct himself once he is in business.

Senator BUCK. If this regulation as now in effect were modified, would that remove some of your objections to it?

Mr. WILSON. Senator, no; it would not. Obviously, it would solve some of the problems which have been raised before the committee, but we do not feel that it is the proper type of control for the central Government to extend over this economy, as I have expressed it.

Senator BUCK. You would rather have it modified than the way it is, if we have to have it.

Mr. WILSON. If the clear-cut, logical, and intellectual question can be settled by keeping it tough, I think we would prefer that to modification.

The New York Times a week ago carried a story on the new credit black market, summarizing the various evasions going on in credit because of regulation W. We are a large organization. We operate nationally. We observe regulations scrupulously, as so many others do, but there are many organizations we know of affected in this story which are evading regulations. This committee and the Federal Reserve Board and Congress, if they continue it, they assume responsibility for the protection of those of us who are observing it.

Mr. Eccles said there were over 200,000 registrants, and there were 50 enforcement officers. The job cannot be done on that basis.

Senator BUCK. Any questions?

Thank you, Mr. Wilson.

Mr. WILSON. Thank you.

Senator BUCK. We have one more witness, Mr. McClure.

Give your name to the reporter.

STATEMENT OF WARRAN A. McCLURE, PRESIDENT, MICHIGAN USED CAR DEALERS ASSOCIATION, DETROIT, MICH.

Mr. McCLURE. Warran A. McClure, president of the Michigan Used Car Dealers Association.

One point they did not cover here, gentlemen, this has been a pretty rugged industry; it did not ask any help of anybody.

Senator BUCK. What is it you represent?

Mr. McCLURE. Michigan Used Car Dealers Association.

As this thing built up, it built up on credit, and when you put this regulation in, you took the base out from under us.

Now, we regulated credit ourselves. We gave them 8 or 10 or 12 or 18 months up to 24 on the coast; at one time it got to 36 months.

Senator McARTHUR. I have had quite a bit of experience with some of your used car dealers on the coast. I was stationed at Altura, Calif. I had a lot of my boys in the Marine Corps who came back, and they had considerable experience with the dealers. California has an unusual set-up as you know. There is a cash price and a time-payment price. The difference between your cash-payment price and the time-payment price is not considered as interest, so the usury laws do not apply.

And out there we had the experience of finding used-car dealers refusing to sell for the cash price, because they had to stick to the OPA ceiling, so they would oftentimes double the price and consider the extra \$600 to \$800 as the time-payment fee.

While we are talking about used-car dealers, this is not a witch hunt, so far as they are concerned, but there have been newspaper stories to the effect that in a number of cases used-car dealers have refused to sell for cash.

Do you know anything about that situation?

Mr. McCCLURE. There are, of course, some dealers who have peculiar finance set-ups where their State laws allow it, whereby I was going to get into that. You know these dealers used to charge 25 percent on the unpaid balance, and that is 20 years or 25 years ago. Now it is down to 4, 5, 6, and 7, and an average of 7½ percent by financing. We did not get any help from anybody. The industry did it itself.

To build as we did, roughly 5,000,000 cars at one time, we had to have a good, broad foundation without any regulations. We could not have it ourselves, and we did it ourselves.

We had a farmers plan where he paid three times a year or four times a year or twice a year. We had a teachers plan where 3 months of the year she did not pay. We had all kinds of plans.

Senator McCARTHY. You are speaking of Michigan.

Mr. McCCLURE. We are talking of the industry, as well as Michigan; that is the cradle of this market.

Senator McCARTHY. Apparently you do not have very good discipline over the entire industry. You talk about charging 4 percent on the balance; that is not true, of course, in all cases.

Mr. McCCLURE. Yes; it is true.

Senator McCARTHY. It so happens that I know it is not. I can give you cases and places where they added 50 percent.

Mr. McCCLURE. A railroad employee can go to his corner bank today and borrow at 4 percent, and come in and buy for cash from me. He can go to Kroger, A. & P., Society for Railroad Engineers, there are a hundred of them that will loan at 4, 5, or 6 percent. The Teachers Unions will do it, at 6 and 7 percent, and then they pay off in cash, so far as we are concerned.

Nevertheless it is contracted at that rate. The CIT was just here. They will loan money at 5 percent. It gets right back to where I started, that we gave them credit according to their ability to pay. If it was necessary to give them 18 or 24 months, we did; if they were good credits.

We had a plan even where we could sell the man on the Great Lakes that sailed during the summer. He only paid a couple of times a year. We had teachers plan, farmers plan, every plan. We did not need any regulation, nor did we ever get any help in the industry from banks and financing to start.

As they get this up to 5,000,000, gentlemen, he told you four to one; it is about 3½ to 1 nationally on used cars, based on 1941 figures. They were not the top figures. The top figures were 1929. In that year, to show you about Michigan, we are a great wholesale State, your f. o. b. starts there, we sold in Detroit in what we call the metropolitan area 140,000 units in 1929. That same year Los Angeles was next with 109,000; Philadelphia with 3 times the people only sold 48,000. So we are wholesalers.

You want to know about these prices. Everybody's mother and brother has been in this business, veterans and everybody else. But the total amount of these cars, the total number out is about 2 percent, and they got out of it at a profit.

This regulation up to the last 4 or 5 months has not been so disastrous, but from here on as we get into high gear, we have to have that broad base for credit. We have to be able to judge it. You have

to take the halter off of us if we are going to go and a great deal of the economy of this country depends on what that automobile industry does.

Senator BUCK. If you do not have it, what down payment do you generally get?

Mr. McCLURE. Well, we got as low as 20 percent and 15 percent; it depends on the man's credit. I have delivered a lot of automobiles and given them an invoice at the end of 30 days, and if he did not pay it in 30 or 60 or 90, it was all right. When you strangle us, you cut our base out from under us, and the economy of this country requires it. We have to have transportation.

Maldistribution now of the few new cars, getting into what we call strong hands, men with money, the fellow without money is excluded from this market unless he wants to buy junk. There just is not any sense to it at all, and it is not helping. It is not doing a bit of good. They are not going to drop. The only thing that will drop these prices is production, and you will not get a sufficient amount for 3 years. You might as well know it.

We are down now with steel. I talked to one of the officials of the General Motors, and the picture does not look so good. We have 60,000 or 70,000 men laid off last week because of sheet steel. That goes back to regulations where they messed up everything and stuff went to the wrong place.

Today we are feeling it. I talked with officials of the Chrysler Corporation, General Motors, the presidents of the two largest banks in Detroit, before I came down, and they all said, "Go on down and see what you can do, and tell them the story." They are all against this regulation, so far as cars are concerned, because we can see the future on this. We are wholesalers. We have to sell that merchandise and redistribute it, and we have to have this credit. We will decide how long a man can take and how good he is. The Government cannot decide that for us.

Senator BUCK. Any questions?

Thank you very much, Mr. McClure.

Mr. McCLURE. Thank you.

Senator BUCK. We will insert in the record a statement by Mr. Selby at this point.

(The statement referred to is as follows:)

STATEMENT OF PAUL L. SELBY, EXECUTIVE VICE PRESIDENT, NATIONAL CONSUMER FINANCE ASSOCIATION, WASHINGTON, D. C.

The National Consumer Finance Association is the national trade association of the licensed small-loan companies operating in 32 States having adequate regulatory laws for the licensing and supervision of small-loan companies. There are approximately 5,000 of these licensed small-loan offices who are authorized to and do business in the principal industrial States of the United States. These companies are united in their opposition to regulation W as now effective, and are opposed to any permanent authority to regulate consumer credit by the Federal Reserve Board.

Some of the reasons for our position are the following:

1. *Regulation W was an emergency wartime measure and should now be abolished in a peacetime economy.*

Regulation W was promulgated pursuant to an Executive order under the alleged authority of the Trading With the Enemy Act of 1917 as amended, for the stated purposes:

1. To reduce the demand for strategic materials necessary for the war effort;
2. To build up a backlog of purchasing power for post-war use, and

3. To reduce the inflationary pressure for goods and services in general.

Any meaning of the first of these stated purposes ceased to exist with the termination of the war and has no application now. The second objective, the building up of a backlog of savings for postwar use, has also lost its significance. We are in the postwar era now, and the objective to be accomplished is the reverse of that stated in the original purpose. Regulation W never was effective for this purpose anyway. The recent survey of the Bureau of Agricultural Economics, as announced by the Federal Reserve Board, shows that more than half of the families of the United States have no accumulated savings, while the top 10 percent holds 60 percent of the liquid savings. Regulation W was ineffective for this purpose even during the wartime. The third purpose was based upon the theory that consumer credit contributed to the upswings and the downswings of the economic cycle, and therefore might have some effect in controlling inflation. This theory is not generally accepted by the economists. Our observation and experience is to the effect that outstandings in consumer credit follow economic trends rather than cause or accentuate them.

Regulation W as now effective applies only to 12 classes of durable goods, known the "listed" items. The total outstandings in installment sale credit amount to less than \$2,000,000,000. The total outstandings in installment loan credit are only about \$2,500,000,000. The total installment credit amounts to only approximately \$4,000,000,000. With the national income ranging from \$165,000,000,000 to \$175,000,000,000, the outstanding installment sales and loan credit amounts to something like 2 percent of the national income, and less than 4 percent of the annual purchases by American consumers. These ratios are too small to support the theory that these consumer credit outstandings have any tangible effect upon the economic cycles or add substantially to inflationary pressures.

2. *The rise in consumer credit is not substantial*

In the last few months, outstanding consumer credit has reached the dollar volume which it attained at the peak in 1941. During that period, the population has increased 5 percent, the number of family units has increased 7 percent, and the percentage of persons employed has increased even more. The buying power of some consumer units has climbed even higher. The outstandings in total consumer credit today are only 5½ percent of the national income. Prior to the war, consumer credit varied in dollar volume, but from 1929 to 1941 approximated 10 percent of the national income. On this historic basis, the normal outstandings in consumer credit would be \$16,000,000,000 to \$18,000,000,000, instead of the present \$10,000,000,000 outstanding. The changes in purchasing power and increased economic activity indicate that more consumer credit is needed if we are to maintain sound economic relationships.

Prior to the war, the amount of outstanding production credit extended by federally insured banks to business firms and corporations and the outstanding consumer credit roughly paralleled each other in amount. For example: In 1941, production loans by banks amounted to 9.3 billions, when consumer credit was approximately 9.7 billions. Commercial and industrial loans have increased from \$6,500,000,000 to 14,000,000,000 since V-J-day, while consumer credit in the same period has gone up to only \$10,000,000,000. American industry has an enormous productive capacity. Supply lines are rapidly being filled, and it is vitally essential that consumer credit be made more available in order to provide consumer purchasing power to take up the enormous output of production and distribution if we are to avoid a break-down in the economy through a lack of consumer purchasing power.

3. *Regulation W is highly discriminatory*

The higher income groups during the war and since the war have been able to satisfy their needs by buying all of their requirements for cash, without resorting to the use of installment credit. The American wage earner, the white-collar worker, the school teacher and low salaried income groups have been and remain unable to accumulate large sums with which to buy for cash. They live on periodic incomes, and their purchasing power, with installment credit available is tremendous. The well-to-do can buy an automobile, a refrigerator, or household furnishings for cash, without limitation or restriction. The poor must pay down one-third of the purchase price and the remainder is not to exceed 15 months. The purchaser of the lowest priced car today must accumulate at least \$500 to make the down payment and then meet monthly payment requirements of approximately \$80 per month. The wage earner is unable to meet these terms.

The veteran, encouraged to purchase a home or to go into a small business on long-term Government credit of 15 to 20 years, may be able to finance a home but wholly unable to buy the furnishings to put in the home under the restrictive terms and requirements of regulation W.

So far as we know, regulation W is the only wartime regulation which directly discriminates against low income groups and in favor of the rich and well-to-do. Discrimination is abhorrent in Government, and this discriminatory regulation should be abolished.

4. Regulation W creates disrespect for Government

One of the requirements which applies to every application for an installment loan is that the borrower sign a statement of purpose for which he proposes to use the proceeds of the loan. If for medical, hospital or educational purposes, he may be exempt from the regulation. Borrowers consider this requirement that they sign a written statement of purpose for which they will use the money as an invasion of their personal rights. When told that it is a governmental requirement, the reaction is unfavorable to Government. Borrowers resent Government prying into personal affairs and demanding from them the name and address of their physician, the hospital, or the details of their private spending. They resent as deeply the limitation and restrictions on the free exercise of their own judgment and their ability to make an agreement with a credit grantor as to the terms under which they may borrow.

5. Regulation W is a burden on business

Every credit grantor is required to comply with the Government regulation requiring the obtaining of statements from borrowers, the making, keeping, and maintenance of records subject to examination by the agents of the Federal Government, and all of the red tape and annoyance incident to the administration of the regulation. Our companies cooperated fully with the Federal Reserve Board during the war, as a patriotic gesture and as evidence of their willingness to do anything to contribute to the war effort. Our people helped in drafting and as consultants with respect to the administration of the regulation. As chief of the Division of Securities in the State of Ohio, and as a member of the National Conference of State Small Loan Supervisors, I know from experience that the State supervisory authorities cooperated fully with the Federal Reserve Board, but I also know that the regulation has involved an immeasurable burden upon operators and supervisors alike. Our people feel that it serves no valuable purpose whatsoever, and resent the imposition of these unnecessary burdens upon the operation of a business so fully regulated and supervised by State authority.

6. There is no danger of consumer credit running wild if the regulation is removed

Credit grantors have more at stake in the maintenance of sound credit extension than anyone else. Our companies do business with private funds. They are lending their own money. They are vigorously opposed to overextension of credit. The wage earners of America are honest. Even through the depression years, they paid their installment obligations, their record has been splendid during the war, and we have a constantly growing faith in the integrity of the American wage earner and his conscientious desire to meet his obligations. He is cautious. Both the lenders and borrowers are interested in the maintaining of sound budget borrowing. The American people make their money on a series of pay days. Their incomes are monthly or semimonthly. With sound credit, they can budget their purchasing, acquire things of utility and value, and raise their standard of living, while remaining on a sound economic basis. Regulation W is an interference with the ordinary buying habits of the honest working people of America. It serves no sound economic purpose and should be abolished without delay, and the authority to encroach upon this field of free enterprise should not be granted for the future.

7. Emergency credit demands are not controllable; hence borrowers and lenders should be free to exercise sound judgment as to credit terms

The Federal Reserve Board has recognized that credit emergencies do exist. For example, the Federal Reserve Bank of Chicago, under the authority contained in section 7 (i) of regulation W, as revised effective December 1, 1946, on June 25 declared that an emergency exists affecting a substantial number of inhabitants in those portions of the State of Iowa inundated by flood waters during the month of June 1947, and ordered that any extension of credit to finance the repair or replacement of property damaged or lost as a result of the flood is

exempt from the provisions of regulation W. Similar action was taken in the emergency created by the recent Texas City explosions. These blanket exemptions by the Federal Reserve Board are commendable and necessary, but individual credit emergencies are just as tragic to the individual as these disasters are to communities. When a wage earner's home and furnishings and automobile have been burned or destroyed by a fire, he is faced with an emergency as serious to him as though it covered an entire community or area. It is impractical to grant exemptions hit or miss to cover such situations, but since these situations do exist regulation W is an iniquitous restraint upon the freedom of a credit grantor to give full credit service under such conditions. The extension of credit should be left to the sound judgment and discretion of experienced credit grantors and careful borrowers. Regulation W is not workable.

8. *Governor Eccles distorts the position of the small loan company*

Gov. Marriner Eccles has indicated that the small loan companies of America are the principal opponents of regulation W. The small loan companies are opposed to regulation W for the reasons stated in this memorandum, but the view presented by Mr. Eccles was grossly distorted. The total outstandings of the small loan companies, as shown by the Federal Reserve Board statistics, were only \$637,000,000 at the end of April 1947. Less than 25 percent of these loans were subject to the limitation of terms provided by regulation W; that is to say that more than 75 percent of the loans made by these companies were exempt from the limitations imposed by regulation W, but only after obtaining from the borrower a statement of the purpose for which the proceeds of the loan were to be used—if for medical, dental, or hospital purposes, also naming the physician or the hospital. Borrowers resent the requirement that they sign these statements, and the expense of keeping and maintaining records under the Federal Reserve Board requirement is extremely burdensome, even though loans are exempt. The total volume of small loan outstanding which is related to durable goods purchases will probably not exceed \$150,000,000, and certainly can have no inflationary effect upon the general economy of the country as compared with general banking and money policies, the public debt of more than \$250,000,000,000 and the billions of dollars extended by the Federal Government in veterans' loans of one kind or another, some of them running for as long as 25 years.

9. *The business of small loan companies is rigidly regulated by State law*

Our small loan companies operate in 32 States which have rigid small loan laws requiring a license, State supervision and examination and reports. These statutes in nearly all cases fix a maximum ceiling on the amount of the loan, maximum rates, and maximum length of term. The Uniform Small Loan Act is the basic framework for nearly all of these laws. It was originated by research and welfare organizations and is strictly designed as a borrowers' protection law. These laws are widely accepted as constructive social measures and are so recognized by those who know and understand the problem of furnishing credit to needy and necessitous borrowers at rates designed to keep private capital invested in the business at a profit return comparable to or less than the return on investments in bank capital. One of the outstanding examples is the small loan law of the State of New York, which was signed by Franklin D. Roosevelt as Governor of that State. Governors of 31 other States have signed modern small loan acts. A number of these Governors are now serving in the Senate of the United States and are aware of the extended research and study which has made the Uniform Small Loan Act the accepted method through which small borrowers may be served at fair and reasonable rates. The traditional \$300 ceiling limit, of course, prevents these companies from making the larger loans involved in the purchase of automobiles, and ordinary fairness requires the statement that when small loan companies do purchase automobile paper under authority other than the small loan law they do so at competitive rates much lower than the rates required to make cash loans in small amounts. Rate structures are not involved in the consideration of regulation W controls.

10. *Regulation W was not designed to control prices and is ineffective for that purpose*

Mr. Eccles made the statement to this committee that he desired to retain regulation W in order to keep prices down. This purpose is a wide departure from the original stated purpose of regulation W and has no place in a peace-time approach to the general economy. The Federal Government tried direct control of prices under the Office of Price Administration. The unlamented OPA yielded

to the popular demand for its termination and is deceased. Regulation W is wholly ineffective to accomplish price controls and is certainly inconsistent with the entire public policy of the country. It would be quite illogical for an administration which terminated OPA controls to attempt an indirect control of prices through the control of a small segment of the economy representing less than 4 percent of the annual income and spending of the American public. Regulation W should be abolished forthwith.

Senator BUCK. That concludes the hearing this morning. We stand adjourned.

(Thereupon, at 12:15 p. m., the committee adjourned.)

(The following items were submitted for the record:)

[S. J. Res. 148, 80th Cong., 1st sess.]

JOINT RESOLUTION To authorize the temporary continuation of regulation of consumer credit

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Board of Governors of the Federal Reserve System is authorized to continue to exercise consumer credit controls pursuant to Executive Order Numbered 8843 until December 31, 1947: *Provided,* That no such regulation shall fix a maximum maturity of installment credit of less than twenty-four months, or require a down payment in excess of 20 percent of the purchase price.

SEC. 2. Except during any war beginning after December 31, 1947, or any national emergency proclaimed by the President after such date, no such consumer credit controls shall be exercised after such date.

[From a board of governors of the Federal Reserve System pamphlet]

REGULATION W, AS REVISED EFFECTIVE DECEMBER 1, 1946¹

CONSUMER CREDIT

SECTION 1. SCOPE AND APPLICATION OF REGULATION

This regulation is issued by the Board of Governors of the Federal Reserve System (hereinafter called the "Board") under authority of section 5 (b) of the act of October 6, 1917, as amended, and Executive Order No. 8843, dated August 9, 1941 (hereinafter called the "Executive order").

The regulation applies, in general, to any person who is engaged in the business of making extensions of instalment credit in amounts of \$2,000 or less, or discounting or purchasing obligations arising out of such extensions of credit. It applies whether the person is a bank, loan company, or finance company, or a person who is so engaged in connection with any other business, such as by making such extensions of credit as a dealer, retailer, or other person in connection with the selling of consumers' durable goods.

SECTION 2. GENERAL REQUIREMENTS AND REGISTRATION

(a) *General requirements.*—No person engaged in the business of making instalment sales² or instalment loans,³ or engaged in the business of lending on the security of or discounting or purchasing obligations arising out of such extensions of credit, shall make or receive any payment which constitutes or arises directly or indirectly out of any such extension of credit made by him or out of any such obligation lent on or discounted or purchased by him, except on the following conditions:

(1) He must be licensed pursuant to this section (any person so licensed being hereinafter called a "Registrant"); and

¹ This revised regulation shall apply to transactions effected on or after December 1, 1946, and the revision shall not affect any transaction prior to such date.

² It is to be noted that "instalment sale" is defined to include only instalment credit arising out of the sale of an article listed in the Supplement, hereinafter called a "listed article."

³ Both "instalment sale" and "instalment loan" are defined to exclude credits in a principal amount exceeding \$2,000.

(2) The extension of credit made, renewed, revised or consolidated by him, or giving rise to the obligation discounted or purchased by him or acquired by him as collateral, must comply with the applicable requirements of this regulation.

(b) *Registration and general license.*—Any person whose license is not suspended under section 8 (b) may become licensed by filing, with the Federal Reserve Bank or any branch thereof in the district in which the main office of the registrant is located, a registration statement on forms obtainable from any Federal Reserve Bank or branch. Whenever any person who was not formerly subject to section 2 (a) becomes subject thereto, such person is hereby granted a general license for 60 days.

SECTION 3. INSTALMENT SALES: GENERAL RULES

Except as otherwise permitted by this regulation, each instalment sale shall comply with the following requirements:

(a) *Down payment and maturity.*—There shall be a down payment not less than that specified for the listed article in the supplement, such down payment to be calculated as therein specified; and the maturity shall not exceed that specified for the listed article in the Supplement.

(b) *Amounts and intervals of instalments.*—Except as permitted by section 6 (a) for seasonal incomes, the time balance shall be payable in instalments which shall be (1) substantially equal in amount or so arranged that no instalment is substantially greater than any preceding instalment, (2) payable at approximately equal intervals not exceeding one month, and (3) not less than \$5 per month or \$1.25 per week on the aggregate instalment indebtedness of one debtor to the same creditor.

(c) *Statement of transaction.*—The instalment sale shall be evidenced by a written instrument or record which shall set forth the information specified in section 6 (c).

SECTION 4. INSTALMENT LOANS: GENERAL RULES

Except as otherwise permitted by this regulation, each instalment loan shall comply with the following requirements:

(a) *Instalment loans to purchase listed articles.*—If the Registrant knows or has reason to know that the proceeds of an instalment loan are to be used to purchase any listed article:

(1) The principal amount lent (excluding any interest or finance charges and the cost of any insurance) shall not exceed the maximum loan value specified for the article in the Supplement, such loan value to be calculated as therein specified; and

(2) The maturity shall not exceed the maximum maturity specified for the listed article in the Supplement.

(b) *Unclassified instalment loans.*—In the case of an instalment loan which is not subject to section 4 (a), the maximum maturity shall not exceed the maximum maturity specified therefor in the supplement.

(c) *Amounts and intervals of instalments; record.*—Whether subject to section 4 (a) or section 4 (b), the instalment loan, except as permitted by section 6 (a) for seasonal incomes, shall be payable in instalments which shall be (1) substantially equal in amount or so arranged that no instalment is substantially greater in amount than any preceding instalment, (2) payable at approximately equal intervals not exceeding one month, and (3) not less than \$5 per month or \$1.25 per week on the aggregate instalment indebtedness of one debtor to the same creditor. It shall be evidenced by a written instrument or record which shall set forth the terms of payment.

(d) *Statement of the borrower.*—No Registrant shall make any instalment loan subject to section 4 (a) or 4 (b) unless he shall have accepted in good faith a signed statement of the borrower as to the purposes of the loan. Such statement shall state whether or not any of the proceeds of the loan are to be used to make a down payment on the purchase of a listed article or to be used to purchase any listed article, and if any of the proceeds of the loan are to be used for the latter purpose such statement shall identify such listed article and shall state the cash price thereof and the value of any trade-in. If a registrant relies in good faith on the facts set out by the obligor in such statement, it shall be deemed to be correct for the purposes of the registrant.

(e) *Loans to make down payments prohibited.*—A registrant shall not make any instalment loan if he knows or has reason to know that any part of the proceeds thereof is to be used to make a down payment on the purchase price of any listed article.

SECTION 5. RENEWALS, REVISIONS AND ADDITIONS

(i) *General requirements.*—In the case of an instalment sale or instalment loan which results from a renewal or revision of any such credit already outstanding, or which results from the combination of any such outstanding credit with an additional extension of instalment credit, the renewed, revised, or consolidated obligation shall comply with all the requirements of this regulation as if it were a new extension of credit except that:

(1) The requirements as to statement of borrower and down payment or maximum loan value, if any, shall not apply to the outstanding credit already held by the registrant; and

(2) The renewed, revised or consolidated obligation may, in so far as the maturity and instalment requirements are concerned, be treated as if it were a new credit with the maximum maturity calculated from the date of the renewal, revision or consolidation. The payments on such renewed, revised, or consolidated obligation shall not be less than \$5 per month or \$1.25 per week on the aggregate instalment indebtedness of one debtor to the same creditor.

(b) *Statement of changed conditions.*—Notwithstanding any other provision of this regulation, if a registrant accepts in good faith a *statement of changed conditions* as provided in the following paragraph, an extension of instalment credit that refinances any outstanding obligation (whether or not such obligation is held by the registrant or is itself payable in instalments) may have a maturity not exceeding that specified in the supplement for refinancing pursuant to such statements, but such maturity shall be applicable only to the credit refinanced. The payments on the credit refinanced need not be as large as \$5 per month or \$1.25 per week.

The requirements of a *statement of changed conditions* will be complied with only if the registrant accepts in good faith a written statement signed by the obligor that the contemplated refinancing is necessary in order to avoid undue hardship upon the obligor or his dependents resulting from contingencies that were unforeseen by him at the time of obtaining the original extension of credit or which were beyond his control, which statement also sets forth briefly the principal facts and circumstances (1) with respect to the original extension of credit and (2) with respect to such contingencies, and specifically states in addition that the contemplated refinancing is not pursuant to a preconceived plan or an intention to evade or circumvent the requirements of this regulation.

(c) *Bona fide collection effort; servicemen's preinduction debt.*—Nothing in this regulation shall be construed to prevent any registrant from making any renewal or revision, or taking any action that he shall deem necessary in good faith (1) for the registrant's own protection with any obligation which is in default and is the subject of *bona fide* collection effort by the registrant, or (2) with respect to any obligation of any member or former member of the armed forces of the United States incurred prior to his induction into such service.

SECTION 6. CERTAIN TECHNICAL PROVISIONS

(a) *Special payment schedules for seasonal incomes.*—If the income received by an obligor from the main sources of his income customarily fluctuates materially from month to month or from season to season, the payment schedule may be adapted, within the applicable maximum maturity, to such customary flow of income, provided the obligation complies with one or the other of the following requirements: (1) at least half of the credit is to be repaid within the first half of the applicable maximum maturity; or (2) payments are reduced or omitted in not more than 4 months of any calendar year but are otherwise in equal monthly amounts. In all such cases, a statement of the facts relied upon shall be preserved in the registrant's files for the life of the obligation.

(b) *Calculating maximum maturity of contract.*—In calculating the maximum maturity of an instalment sale or instalment loan, a registrant may, at his option, use any date not more than 15 days subsequent to the actual date of the sale or loan.

(c) *Record of instalment sale.*—The instrument or record evidencing an instalment sale pursuant to section 3 (c) shall set forth (in any order) the following information:

- (1) A brief description identifying the article purchased;
- (2) The cash price of the article;
- (3) The amount of the purchaser's down payment (i) in cash and (ii) in goods accepted in trade, together with a brief description identifying such goods and stating the monetary value assigned thereto in good faith;
- (4) The amount of any insurance premium for which credit is extended and of any finance charges or interest by way of discount included in the principal amount of the obligation, or the sum of these amounts;
- (5) The time balance owed by the purchaser, which is the sum of items (2) and (4) *minus* item (3); and
- (6) The terms of payment.

The instrument or record need not include a description of the article if it is purchased by means of a *coupon book* or similar medium of instalment credit upon which a cash down payment of at least one-third of its purchase value has been made. The instrument or record need not include the information called for by items (2) and (4) if the registrant is one who quotes to the public a *time price* for the article which includes the finance charge if any, provided he sets forth such time price in such instrument or record, and provided he obtains a cash down payment which is at least as large as would be required if the present-age specified for the article in the Supplement were applicable to the time price.

(d) *Extension of credit for mixed purposes.*—In case an extension of credit is partly subject to one section of this regulation and partly subject to another section, the amount and terms of such extension of credit shall be such as would result if the credit were divided into two or more parts and each part were treated as if it stood alone. In case an extension of credit is partly subject to this regulation and partly not subject to the regulation, the amount and terms of such extension of credit shall be such as would result if the credit were divided and the part subject to the regulation were treated according to the applicable provisions of the regulation; the part not subject to the regulation may be treated as if the regulation did not exist.

(e) *"Lay-away" plans.*—With respect to any extension of credit involving a *bona fide* "lay-away" plan, or other similar plan by which a purchaser makes one or more payments on an article before receiving delivery thereof, the registrant may, for the purposes of this regulation, treat the extension of credit as not having been made until the date of the delivery of the article to the purchaser.

(f) *Mail orders.*—An instalment sale shall not be deemed to be in violation of the down payment requirement of section 3 (a) if the sale is made upon the receipt of a mail order for one or more articles and the cash deposit received with the order falls by less than \$1 to equal the sum of the down payments required by this regulation for all of the articles included in the order.

(g) *Delivery in anticipation of instalment sale.*—In case a listed article is delivered in anticipation of an instalment sale of that article or a similar article (such as a delivery "on approval", "on trial", or as a "demonstrator"), the registrant shall require, at or before the time of such delivery, a deposit equal to the down payment that would be required on such an instalment sale.

(h) *Sets and groups of articles.*—In determining whether an article is a "listed article" the word "article" shall be deemed to include any set, group or assembly commonly considered, sold or used as a single unit, if the component parts thereof are sold or delivered at substantially the same time.

(i) *Evasive side agreements.*—No extension of credit complies with the requirements of this regulation if at the time it is made there is any agreement, arrangement, or understanding (1) by which the obligation is to be renewed or revised on terms which would permit final payment to be deferred beyond the date permitted, by this regulation for such credit at its inception, or (2) by which the obligor is to be enabled to make repayment on conditions inconsistent in any other respect with those required by this regulation, or (3) by which there is to be any evasion or circumvention, or any concealment of any evasion or circumvention, of any requirement of this regulation.

(j) *Side loan to make down payment.*—A registrant shall not make an extension of instalment credit to finance the purchase of any listed article if he knows or has reason to know that there is, or that there is to be, any other extension of credit of any kind in connection with the purchase of the listed article which would bring the *total amount* of credit extended in connection with such purchase beyond the amount of instalment credit permitted by this reg-

ulation; but, if the registrant accepts in good faith a written statement signed by the obligor that no such other extension exists or is to be made, such statement shall be deemed to be correct for the purposes of the registrant.

(k) *Purchase of article in lieu of trade-in.*—Anything which the seller of a listed article buys, or arranges to have bought, from the purchaser at or about the time of the purchase of the listed article shall be regarded as a trade-in for the purposes of this regulation.

(l) *Misuse of coupon plans.*—No coupon, ticket or similar medium of credit, whether paid for in instalments or otherwise, shall be accepted by any registrant in payment, in whole or in part, for any listed article if such acceptance, in effect, would permit the article to be sold on terms not complying with the requirements of this regulation.

SECTION 7. EXEMPT CREDITS

This regulation shall not apply to any of the following:

(a) *Business or agricultural loans.*—Any loan for business purposes to a business enterprise or for agricultural purposes to a person engaged in agriculture, provided the loan is not for the purpose of purchasing a listed article.

(b) *Credit to dealers and certain salesmen.*—Any extension of credit to a wholesaler or retailer to finance the purchase of any article for resale, or any extension of credit which is made to a *bona fide* salesman of automobiles in order to finance the purchase of a new automobile to be used by him principally as a demonstrator.

(c) *Credit to governmental agencies, religious institutions, etc.*—Any extension of credit to the Federal Government, any State government, any political subdivision, or any department, agency or establishment thereof, or to any church, hospital, clinic, sanitarium, school, college, or other religious, educational, charitable, or eleemosynary institution.

(d) *Credits under Government rehabilitation and readjustment programs.*—Any extension of credit (1) made by the Land Bank Commissioner on behalf of the Federal Farm Mortgage Corporation or by any Federal land bank and found, pursuant to regulations issued by the Commissioner, to be necessary to maintain or increase production of essential agricultural commodities, (2) made or insured by the Farmers' Home Administration, (3) made in accordance with the regulations of the Secretary of the Interior for the economic development or rehabilitation of Indians, (4) made by the Disaster Loan Corporation, or (5) made, guaranteed or insured in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of title III of the Servicemen's Readjustment Act of 1944, or by any State agency pursuant to similar State legislation.

(e) *Loans to pay fire and casualty insurance premiums.*—Any loan to finance a premium in excess of 1 year on a fire or casualty insurance policy, if the loan is fully secured by the unearned portion of such premium.

(f) *Credit for purchasing securities.*—Any extension of credit which is subject to the Board's regulations under the Securities Exchange Act of 1934 or which is otherwise for the purpose of purchasing or carrying stocks, bonds, or other investment securities.

(g) *Real estate and home improvement loans.*—Any extension of credit which is for the purpose of financing or refinancing (1) the construction or purchase of an entire residential building or other entire structure or (2) repairs, alterations, or improvements upon urban, suburban or rural real property in connection with existing structures, *except* to the extent that such repairs, alterations, or improvements incorporate any listed article.

(h) *Loans to meet medical expenses, etc.*—Any loan as to which the Registrant accepts in good faith a written statement signed by the borrower certifying that the proceeds are to be used for *bona fide* educational, medical, hospital, dental, or funeral expenses, or to pay debts incurred for such expenses, and that such proceeds (unless they are to be used exclusively for educational expenses) are to be paid over in amounts specified in such statement to persons whose names, addresses, and occupations are stated therein.

(i) *Disaster credits.*—Any extension of credit to finance the repair or replacement of property damaged or lost as a result of a flood or other similar disaster which the Federal Reserve Bank of the district in which the disaster occurred finds has created an emergency affecting a substantial number of the inhabitants of the stricken area, provided such extension is made prior to the end of the sixth calendar month following the month in which the disaster occurred and a statement describing the damage or loss is preserved in the registrant's files.

SECTION 8. MISCELLANEOUS PROVISIONS; DEFINITIONS

(a) *Preservation of records; inspections.*—Every registrant shall preserve, for the life of the obligation to which they relate, such books of account, records, and other papers (including any statements required by or obtained pursuant to this regulation) as are relevant to establishing whether or not an extension of credit within the scope of this regulation was in conformity with the requirements thereof, provided, however, that the registrant may preserve photographic reproductions in lieu of such books of account, records, or papers.

For the purpose of determining whether or not there has been compliance with the requirements of this regulation, every person required to be licensed under section 2 (a) shall permit the Board or any Federal Reserve Bank by its duly authorized representatives, to make such inspections of his business operations as the Board or Federal Reserve Bank may deem necessary or appropriate, including inspections of books of account, contracts, letters, or other relevant papers wherever located, and, for such purpose, shall furnish such reports as the Board or the Federal Reserve Bank may require. When ordered to do so by the Board, every such person shall furnish, under oath or otherwise, such information relative to any transaction within the scope of the Executive order as the Board may deem necessary or appropriate for such purpose, including the production of books of account, contracts, letters or other papers in the custody or control of such person.

(b) *Suspension of license.*⁴—The license of any registrant may, after reasonable notice and opportunity for hearing, be suspended by the Board, in its entirety or as to particular activities or particular offices or for specified periods, on any of the following grounds:

(1) Any material misstatement or omission willfully or negligently made in the registration statement;

(2) Any willful or negligent failure to comply with any provision of this regulation or any requirement of the Board pursuant thereto.

A license which is suspended for a specified period will again become effective upon the expiration of such period. A license which is suspended indefinitely may be restored by the Board, in its discretion, if the Board is satisfied that its restoration would not lead to further violations of this regulation and would not be otherwise incompatible with the public interest.

(c) *Enforceability of contracts.*—Except as may subsequently be otherwise provided, all provisions of this regulation are designated, pursuant to section 2 (d) of the Executive order, as being "for administrative purposes" within the meaning of said section 2 (d), which provides that noncompliance with provisions of the regulation so designated shall not affect the right to enforce contracts.

(d) *Clerical errors.*—Any failure to comply with this regulation resulting from a mistake in determining, calculating, or recording any price, down payment, or extension of credit, or other similar matter, shall not be construed to be a violation of this regulation if the registrant establishes that such failure to comply was the result of excusable error and was not occasioned by a regular course of dealing.

(e) *Noncompliance due to facts outside registrant's knowledge.*—The prohibitions of this regulation shall not apply to a registrant with respect to any failure to comply with this regulation in connection with (1) an extension of credit made by him if, at the time he made it, he did not know or have reason to know any fact by reason of which such extension failed to comply; (2) an obligation purchased, discounted, or acquired as collateral by him if, when he purchased or discounted the obligation or acquired it as collateral, the obligation did not show on its face any failure to comply and he did not know any fact by reason of which the extension of credit giving rise to the obligation failed to comply; or (3) an obligation renewed, revised, or consolidated by him if, at the time when he renewed, revised, or consolidated it, he did not know or have reason to know any fact by reason of which such renewal, revision, or consolidation failed to comply. With respect to any loan on the security of an obli-

⁴ In addition, any registrant who willfully violates or knowingly participates in a violation of this regulation is subject to the penalties prescribed in sec. 5 (b) of the act of October 6, 1917, as amended, which reads in part as follows: "Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule, or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both."

gation which rises out of an extension of credit subject to this regulation, the prohibitions of this regulation shall be deemed to apply only to payments arising out of the obligation rather than to payments arising out of the loan.

(f) *Transactions outside United States.*—Nothing in this regulation shall apply with respect to any extension of credit made in Alaska, the Panama Canal Zone, or any Territory or possession outside the continental United States.

(g) *Right of registrant to impose stricter requirements.*—Any registrant has the right to refuse to extend credit, or to extend less credit than the amount permitted by this regulation, or to require that repayment be made within a shorter period than the maximum permitted by this regulation.

(h) *Definitions.*—For the purposes of this regulation, unless the context otherwise requires:

(1) "Person" means an individual, partnership, association, or corporation.

(2) "Registrant" means a person who is licensed pursuant to section 2 (b).

(3) "Extension of credit" has the meaning given it in the Executive order.⁵

(4) "Installment credit" means an extension of credit which the obligor undertakes to repay in two or more scheduled payments or as to which the obligor undertakes to make two or more scheduled payments or deposits usable to liquidate the credit, or which has a similar purpose or effect.

(5) "Installment sale" means an instalment credit in a principal, agent or broker, by any seller of any consumers' durable good listed in the Supplement to this regulation (herein called a "listed article") and which arises out of a sale of such listed article. For this purpose, "sale" includes a lease, bailment, or other transaction which is similar in purpose or effect to a sale.

(6) "Installment loan" means an instalment credit, other than an instalment sale, in the form of a loan which is in a principal amount of \$2,000 or less; but the definition does not include any loan upon the security of any obligation which arises out of any instalment sale or instalment loan.

(7) "Cash price" means the *bona fide* cash purchase of an article, including *bona fide* cash purchase price of any accessories, any *bona fide* delivery, installation and service charges (other than interest, finance or insurance charges), and any applicable sales taxes.

SUPPLEMENT TO REGULATION W, EFFECTIVE DECEMBER 1, 1946

Part I. Listed article, maturities, down payments, loan values.—For the purpose of regulation W, the following articles, whether new or used, are "listed articles", and the following maximum maturities, required down payments and maximum loan values are prescribed (such down payments and loan values to be calculated as specified in parts 4 and 5 of this Supplement); but *no article having a cash price of less than \$50 shall be considered a listed article*:

Group A—15 months maximum maturity, 33 $\frac{1}{3}$ percent minimum down payment, 66 $\frac{2}{3}$ percent maximum loan value:

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

Group B—15 months maximum maturity, 33 $\frac{1}{3}$ percent minimum down payment, 66 $\frac{2}{3}$ percent maximum loan value:

1. Cooking stoves and ranges, designed for household use.
2. Dishwashers, mechanical, designed for household use.
3. Ironers designed for household use.
4. Refrigerators, mechanical, of less than 12 cubic feet rated storage capacity (including food freezers).
5. Washing machines designed for household use.
6. Combination units incorporating any listed article in the foregoing classifications of this group B.

⁵The pertinent part of the Executive order reads as follows: "Extension of credit" means any loan or mortgage; any instalment purchase contract, any conditional sales contract, or any sale or contract of sale under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; any contract creating any lien or similar claim or property to be discharged by the payment of money; any purchase, discount, or other acquisition of, or any extension of credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

7. Air conditioners, room unit.
8. Radio receiving sets, phonographs, or combinations.
9. Sewing machines designed for household use.
10. Suction cleaners designed for household use.

Group C—15 months maximum maturity, 20 percent minimum down payment, 80 per cent maximum loan value:

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

Part 2. Unclassified instalment loans.—The maximum maturity of any instalment loan subject to section 4 (b) shall be 15 months.

Part 3. Refinancing pursuant to statement of changed conditions.—The maximum maturity of any refinancing pursuant to a statement of changed conditions as specified in section 5 (b) shall be 18 months.

Part 4. Calculation of down payments for automobiles.—In the case of a new automobile, the required down payment and maximum loan value shall be the specified percentage of the cash price; and such down payment may be obtained in the form of cash, trade-in, or both.

The same rule shall apply in the case of a used automobile, except that after January 1, 1947, the maximum loan value shall be the specified percentage of the cash price or of the "appraisal guide value", whichever is lower, and the required down payment shall be the difference between the cash price and the maximum loan value as so calculated.

"Appraisal guide value" means the estimated average retail value as stated in such edition of any regularly published automobile appraisal guide as the Board may designate for this purpose for use in the territory in which such used automobile is sold, plus any applicable sales taxes. Information as to the guide or guides designated for any given territory may be obtained from any Federal Reserve Bank or branch.

Part 5. Calculation of down payments for articles in group B or group C.—If any article is traded in by the purchaser on an article listed in group B or group C, the required down payment and the maximum loan value shall be the specified percentage of the net price of the article after deducting from the cash price the amount allowed for the trade-in; and such down payment shall be obtained in cash in addition to the trade-in.

ARGUMENT THAT REGULATION W DISCRIMINATES AGAINST LOW-INCOME GROUPS AND RETURNING VETERANS

It must be remembered that credit has to be repaid. The real restriction on the person of low income is his low income—a restriction which is found throughout our system and does not derive from regulation W. The only way the proponents of this argument could remove the "discrimination" is by having zero down payments and permitting unlimited time for repayment. This is something which they obviously do not propose to do. This argument, therefore, must be intended to confuse the issue.

The "discrimination" argument also ignores the fact that the person of small income suffers most because of a rise in the price of things he has to buy. The elimination of regulation W would throw additional demand into the market at this particular time. This would tend to hold prices high, or press them still higher, and thus would deal an especially heavy blow to the man of low income.

Of course, the man of low income also has a special interest in avoiding the unemployment that goes with depression. He thus has a special interest in the anti-depression effect of regulation W.

ARGUMENT THAT CONSUMER CREDIT (OR THE INSTALMENT PART OF IT) IS UNIMPORTANT

Total consumer credit in 1941 was about \$10,000,000,000 and the instalment part of this was about \$6,500,000,000. The argument is that these are relatively inconsequential when compared with national income, which at that time was about \$97,000,000,000.

Such a comparison, however, does not give a true picture of the situation; almost any figure looks insignificant when compared with national income. For example, everybody knows that commercial and industrial loans of banks are important; yet the total of all those loans at all member banks was only about

\$8,000,000,000 in 1941—a figure smaller than total consumer credit and roughly similar to the instalment part of consumer credit * * * Another example: There was only about \$11,000,000,000 of stock market credit in 1929 when national income was about \$80,000,000,000, but we all know that this was ample for the stock market “boom and crash” in 1929.

ARGUMENT THAT CONSUMER CREDIT IS NEEDED FOR MASS PRODUCTION AND EMPLOYMENT AND THAT REGULATION W RESTRAINS PRODUCTION AND EMPLOYMENT

The arguments about the need for consumer credit in the economy are irrelevant to the present question. No one is proposing now, or has proposed, that consumer credit be abolished. Regulation W merely restrains consumer-installment credit, and rather mildly.

The irrelevance of the argument about the need for consumer credit to sustain production and employment is especially glaring in present circumstances. Under present conditions, no one can seriously claim that the restraints of regulation W are holding down production of automobiles, appliances or furniture—or employment in these industries. The things holding down production are shortages in materials, productive capacity, and labor. Removal of regulation W in present circumstances would not increase production or employment; it would only swell the already excessive present demand for articles in short supply.

ARGUMENT THAT SELF-INTEREST OF THE CREDIT GRANTOR WILL PRESENT OVEREXPANSION OF CONSUMER INSTALLMENT CREDIT

This argument assumes that any credit which is repaid (and therefore is sound from the viewpoint of the creditor) is sound from the viewpoint of the general economy. This assumption is incorrect.

The great trouble with overexpansions of consumer installment credit—aside from its inflationary effect during a boom—is the fact that the consumer is forced, during time of depression, to use his income to pay the excessive debts which he was induced to incur during time of boom. This diverts this income from the purchases that are needed to sustain production and employment during the depression.

The credit grantor comes out without loss; but the general public suffers from the inflationary high prices while the excessive debt is being built up and from the ravages of depression while it is being liquidated.

The situation is similar to that in connection with excessive stock market credit. Banks and brokers lost almost nothing on stock market credit all during the 1929 boom and the depression that followed it. Yet the building up of the excessive stock market credit and its consequent liquidation caused untold damage throughout the general economy.

CERTAIN INFORMATION REGARDING NATIONAL AUTOMOBILE DEALERS ASSOCIATION

The replies of members of this association to the questionnaire submitted to them on the subject of regulation W by the association do not support any contention that the membership is insistent that regulation W be abolished.

Only 12,309 of its 28,264 members, or about 43 percent, replied to the questionnaire at all. Of those who replied, 36 percent favored modification of regulation W, which very probably means that they favor retention on a modified basis. Twelve percent favored retention without change. In other words, probably a total of 48 percent, of the members who replied to the questionnaire favored retention of the regulation.

RETAIL CREDIT INSTITUTE OF AMERICA, INC.,
Washington 5, D. C., June 25, 1947.

HON. CHARLES W. TOBEY,
Senate of the United States, Washington, D. C.

DEAR SENATOR TOBEY: The matter of ending regulation W of the Federal Reserve System (consumer credit control) is one of far greater import than the testimony offered this morning to the Banking and Currency Committee by proponents of the control would infer. It is of extreme importance to the retailers of the United States who serve with credit terms when people buy consumers' durable products.

In behalf of these retailers, whom we represent, (in practically all of the fields of durable products), we respectfully ask permission to tell our side of the story. We were not aware of the arrangement for hearings until Monday and

did not believe that the committee would close hearings after only one witness had appeared.

On the other hand, if the committee should decide the question without further hearings, we ask that you glance through the attached two short briefs which were offered by retailers when the House Banking and Currency Committee considered the matter, before it adopted the resolution calling for the immediate end of regulation W.

We ask that you notice particularly, in this brief, that it is not true that labor, consumers, and veterans favor the regulation, as was inferred to you today.

We ask you further to notice from the attached list that the opponents of the regulation are not small loan people but include many representative American organizations of the public and business, whose position cannot be waived aside as biased or unimportant. We were chagrined that in testimony this morning this too was inferred.

We truly urge that regulation W should be rescinded immediately for the good of consumers against whom it mitigates terribly, and in behalf of sound business judgment.

Sincerely yours,

EUGENE KELLY.

A random list of some of the organizations known to be opposed to the regulation of consumer credit

- | | |
|--|--|
| 1. Chamber of Commerce of the United States. | 10. National Association of Credit Jewelers. |
| 2. Chamber of Commerce of the State of New York. | 11. American National Retail Jewelers Association. |
| 3. National Electrical Manufacturers Association. | 12. American Finance Conference. |
| 4. Retail Credit Institute of America (Retail Store Owners). | 13. National Used Car Dealers Association. |
| 5. National Retail Credit Association. | 14. American Industrial Bankers Association. |
| 6. American Federation of Labor. | 15. National Consumer Finance Association. |
| 7. American Bankers Association. | 16. National Electrical Wholesalers Association. |
| 8. National Automobile Dealers Association. | |
| 9. Credit Union National Association. | |

A half dozen, perhaps 10, regional and State posts of the American Legion have passed resolutions opposing regulation W. We know of none which have voted down such a resolution.

Several large labor unions in addition to the American Federation of Labor are on record. The United Brotherhood of Carpenters and Joiners of America; International Electrical Workers and Operators, at least one or two of the Pacific Northwest shipping unions. We presume there are others—no attempt has been made to ascertain.

We know of no consumer organization which favors regulation W.

NATIONAL AUTOMOBILE DEALERS ASSOCIATION.

Washington 6, D. C., June 25, 1947.

HON. CHARLES WILLIAM TOBEY,

*Chairman, Banking and Currency Committee,
Senate Office Building, Washington, D. C.*

MY DEAR MR. CHAIRMAN: Our president, M. O. Anderson, of Seattle, Washington, has requested me to file with your committee a copy of his statement on the attitude of the members of the National Automobile Dealers Association toward continuing or abolishing regulation W. A majority of them favor its abolition.

A copy of this statement also has been filed with the House Banking and Currency Committee.

You will note that the chief concern of the dealers in new cars, who comprise our association, is about the possibility of regulation W slowing up new car sales when full production is reached. So far as used car sales, to which Chairman Eccles has referred, are concerned, most of them are made on a cash basis. Hence the continuance or termination of regulation W would have little or no effect on such sales.

Sincerely yours,

W. L. MALLON,

Chairman, Public Contacts Committee.

STATEMENT OF NATIONAL AUTOMOBILE DEALERS ASSOCIATION

This is an official statement from the National Automobile Dealers Association, 1026 Seventeenth Street NW, Washington, D. C., on the dealer attitude toward elimination of regulation W. The National Automobile Dealers Association has a membership of 28,264, or more than 70 percent of all the new car dealers in the country.

Dealers are vitally interested in the future of regulation W because new and used automobiles are included in that small group of commodities still coming under the provisions of the regulation. Regulation W controls the amount of down payment and the length of monthly terms on the sale of all new and used automobiles with an unpaid balance of \$2,000 or less. The terms of the regulation, at the present time, require a one-third down payment and limit the monthly payments to 15 months. These regulations, it should be noted, apply only to the low- and medium-priced cars. The credit of the man least able to pay is restricted. The large car buyer is not regulated.

The National Automobile Dealers Association has constantly watched the effect of regulation W as it applies to automobile dealers. In order to determine the position of its members on the subject, the National Automobile Dealers Association recently addressed a questionnaire to all members. Replies were received from 12,307 dealers, or about 43 percent of the membership of the association.

Dealer opinions were expressed in those returns as follows:

Favoring outright elimination of regulation W	6,312
Favoring modification of regulation W	4,453
Favoring continuance of regulation W as-is	1,542

These results indicate a majority in favor of elimination of the regulation. Those dealers who cast a vote in favor of modification, together with those in favor of elimination, total 10,765. This indicates a decided dissatisfaction with the regulation in its present form.

The survey has been broken down by States.

State	Member-ship	Total votes cast	In favor of elimination	In favor of continuance	In favor of modification
Alabama	455	182	100	35	47
Arizona	127	63	25	8	30
Arkansas	354	119	58	29	32
California	1,394	849	242	90	517
Colorado	301	152	74	27	51
Connecticut	395	179	100	13	66
Delaware	48	22	11	3	8
District of Columbia	71	47	34	3	10
Florida	373	169	88	22	59
Georgia	453	182	102	30	50
Idaho	220	106	45	13	48
Illinois	1,529	683	397	64	222
Indiana	938	346	149	33	164
Iowa	1,065	334	189	55	90
Kansas	920	312	174	48	90
Kentucky	423	157	94	27	36
Louisiana	362	169	95	23	51
Maine	227	87	46	13	28
Maryland	322	140	88	16	36
Massachusetts	722	357	198	24	135
Michigan	653	539	312	58	169
Minnesota	1,186	334	186	55	93
Mississippi	462	149	61	36	52
Missouri	640	301	184	32	85
Montana	267	129	65	18	46
Nebraska	347	130	79	27	24
Nevada	45	26	10	3	13
New Hampshire	226	107	43	13	51
New Jersey	937	504	326	20	158
New Mexico	135	67	22	15	30
New York	1,817	773	476	48	249
North Carolina	725	318	175	48	95
North Dakota	284	79	41	19	19
Ohio	1,733	767	426	83	258
Oklahoma	539	240	119	33	88
Oregon	419	205	83	32	90
Pennsylvania	1,635	756	351	98	307
Rhode Island	179	73	48	3	22
South Carolina	381	131	85	18	28

State	Member-ship	Total votes cast	In favor of elimination	In favor of continuance	In favor of modification
South Dakota.....	237	57	20	14	23
Tennessee.....	346	139	69	28	42
Texas.....	1,276	610	281	103	226
Utah.....	212	94	38	15	41
Vermont.....	128	57	28	11	18
Virginia.....	587	271	128	26	117
Washington.....	541	288	95	30	163
West Virginia.....	362	131	76	21	34
Wisconsin.....	527	241	129	29	83
Wyoming.....	169	70	27	19	24
Unidentified States.....	10	66	20	11	35
Total.....	28,264	12,307	6,312	1,542	4,453

In common fairness, it must be stated that today, from a strictly dealer standpoint, the application of regulation W to dealer operations is not a serious problem. Because of a shortage of new cars and the current amount of ready cash in the hands of some, he can move all the cars he is obtaining.

The situation of buyers in the lower income groups, including returned veterans, however, requires serious consideration now. Millions of them want and need new cars. Many veterans are in this category and find it impossible to finance the purchase of a lower priced car within the 15-month period permitted. The livelihood of many individuals is entirely dependent upon the use of private motor transportation. Only the fact that a great new car shortage exists prevents the stringency of present new car credit regulations from becoming a far more active public issue. If a normal supply of new cars were being produced, undoubtedly there would be bitter complaints over the terms of the present regulation. An example of the increased amount of cash required as down payment and the increased monthly payments needed to purchase a typical low priced new car under regulation W follows:

	Cash down payment		Monthly payments
1941.....	\$311	18 months, at.....	\$42.00
1947.....	476	15 months, at.....	77.96

The day of normal production and widespread public complaint against regulation W may be imminent. New car production is picking up rapidly and indications are that the 1939-40-41 production average soon may be achieved. A comparison of passenger car production for domestic consumption shows:

First quarter, 1946.....	187,791
First quarter, 1947.....	750,141

In view of the recent increase in production it may be that the first quarter of 1948 would equal or exceed the same period in 1941 when 1,198,175 passenger cars were produced.

As this level of production is reached, public resentment against a credit regulation which denies an honest man a new car on reasonable time payments will be quick and decisive.

It is upon knowledge of these conditions that dealers throughout the country have based their insistence that regulation W should be abolished.

M. O. ANDERSON, *President.*

STATEMENT OF GARY M. UNDERHILL, EXECUTIVE DIRECTOR, CONSUMER BANKERS ASSOCIATION, ON FEDERAL REGULATION OF CONSUMER CREDIT

The Consumer Bankers Association was until last fall known as the Morris Plan Bankers Association. It was organized in 1919. Its 73 members throughout the United States pioneered in bank consumer credit, the first institution being organized for this specific purpose in 1910.

The writer was, until he entered naval service in 1944, an assistant vice president of the Bank of Virginia at Richmond, whose employ he first entered in 1928. Upon his release from active duty in the Navy, he assumed his present position as executive director of the national association in Washington.

To conserve the time of this committee, we shall not argue the merits of "consumer credit" as such, as a contributing factor in the American economy and the American standard of living; nor shall we quote voluminous statistics. We shall assume that the issue is solely whether or not this type of credit should be regulated by Federal Government authority.

It is the official opinion of the members of this association that regulation of consumer credit by Federal authority is unnecessary, ineffective, un-American, unsocial, inconsistent, and impractical.

Certainly in peacetime, it is an unnecessary regimentation of the personal affairs of the individual citizens of this country. From the banker's point of view, it is unnecessary because no banker in his right mind is going to permit unsound or unreasonable terms, either directly to the purchaser or in discounting dealer paper, or even so indirectly as through the finance companies whose paper the larger banks purchase. It is axiomatic that the smaller the down payment on consumer durable goods, for example, the faster the obligation must be liquidated for the banker to maintain a proper equity ratio in the underlying collateral which is subject to depreciation from use and age. It is a simple matter of arithmetic that the smaller the down payment, and the shorter the maturity, the larger monthly payments it will take out of the purchaser's income to pay off the obligation in a given period of time. The banker does not need Federal or any other kind of regulation to take care of that. We submit that there is no evidence to indicate that such regulation is necessary from the point of view of either the banker or the citizens of this country as a whole.

In order to appreciate the second point, i. e., that Federal regulation of consumer credit has been and will continue to be ineffective as an economic policy, it is necessary to point out that the term "consumer credit" has been loosely used. Actually, nonfarm, single-family residential mortgage credit is a long-term form of consumer credit. Even in speaking of consumer credit with its ordinary short-term connotation, it should be pointed out that the term cannot be used interchangeably with "instalment credit" or "instalment sales credit." Instalment sales credit amounts to less than half of the total of "instalment credit." In turn, instalment credit amounts to less than half of total short-term "consumer credit." The remaining, and larger, portion of total short-term consumer credit is composed of single-payment loans (roughly one-fifth of the total), charge accounts (about one-fourth of the total), and service credit (a little less than one-tenth of the total). It is interesting to note that these last three forms of short-term consumer credit, comprising better than half the total, were completely released from regulation W last December by the administrative agency, the Federal Reserve Board of Governors. Control of instalment credit, somewhat less than half the total, is all that remains.

In this connection it is interesting to note that noninstalment consumer credit, which was supposedly "regulated" during the war, rose from its 1941 peak through the end of the war in 1945; whereas instalment credit during the same period of time decreased from 5.9 billion dollars to 2.4 billion dollars. The explanation of this latter decrease can therefore largely be attributed to the lack of consumer durables to purchase or finance during the war, rather than to the effectiveness of Regulation.

It is also worthy of note that many types of installment credit are exempt from the regulation. Insured repair and modernization loans, which amount to some \$354,000,000, are exempt. Loans for educational purposes and for hospital, medical, and dental care, as well as loans for commercial or agricultural purposes and other minor purposes, are likewise exempt. So are any instalment transactions of less than \$50 or more than \$2,000, regardless of purpose.

The point is that the remaining regulated portion of installment credit, which in itself represents less than half of total short-term consumer credit, is an infinitesimal amount in comparison with the aggregate influence on the economy of mortgage loans and other forms of private debt, Government debt, currency outstanding, bank deposits, and in relation to retail sales and total income payments to individuals.

What disturbs the banking fraternity as much as, if not more than, any other aspect of Federal regulation of consumer credit is its un-American connotations * * * the social and political implications of such a policy. A primary tenet of communistic doctrine, as expressed in *Das Kapital*, by Karl Marx, is that of the necessary for the central government to have control of credit in all its forms. It would be an unhappy day for the American way of life

were Congress officially to sanction the power of a Federal agency to say on what terms and conditions consumer credit may be extended to individual American citizens in connection with their personal financial affairs.

The staff and membership of the Consumer Bankers Association cooperated wholeheartedly with the Federal Reserve officials in inaugurating regulation W as a part of the national defense program in mid-1941. In this connection, we quote the following paragraph from a letter dated April 2, 1947, received by this association from Richard H. Stout, executive vice president of the Bank of Louisville, who was the executive head of the Association from 1938 to 1945:

"Any of those who sat in on the first meetings of Federal Reserve, or who occasion to visit with Governor Ransom and other Federal Reserve officials, during the first 2 or 3 years of regulation W, will recall numerous occasions on which it was stated that Federal Reserve was accepting the charge reluctantly and as a matter of duty; that it would be happy to terminate its assumed responsibilities as soon as the emergency was declared at an end by the Executive. To the best of my knowledge, it has been only during the past 2 years that Federal Reserve officials have begun to talk in terms suggesting a perpetual control machinery for consumer credit."

The members of this association, who have been serving the credit requirements of men and women as individuals for 35 years and more, deplore the unsocial aspects of Federal regulation of consumer credit. The present regulation says, in effect, that individual desires for better things for better living must be foregone or sacrificed to the over-all economy of the State.

We have the situation where if you are in the income brackets high enough to make a purchase and command installment credit of over \$2,000—or if your credit is good enough to get a single-payment loan from your bank in any required amount—you can buy or repay on any terms you wish. But if you are going to buy a Ford instead of a Cadillac, for example, on the *instalment plan*, you have to pay one-third down and the balance in 15 months.

The regulation is not only inconsistent with the American philosophy, it is inconsistent with other Federal Government economic policies; and it is even inconsistent within itself.

We have the situation where the Treasury Department is desirous of doing everything it can to persuade the American public to hold on to its war bonds rather than cash them in. Yet the restriction of consumer credit leaves many people, particularly the masses, in the position where they can not meet the required credit terms available to them and they must either cash in their war bonds or give up their place in line for the purchase of postwar durable goods to those others fortunate enough to have the cash to buy outright or sufficient income to meet the credit terms.

We have the situation where one Government agency seeks to dampen, restrict, and control short-term consumer credit in the form of installment direct loans and sales finance credit, while another Government agency has relaxed and lengthened and broadened the terms in another and several-fold larger field of consumer credit, i. e., long-term home mortgage loans. We have the situation where a veteran can buy a home with no down payment and take up to 25 years to pay off the loan; but if he wants to buy a refrigerator and other essential appliances to make the house a home, he must pay one-third down and the balance in 15 months—that is, in every State except New Jersey.

We have the situation where the veterans in one State of the Union (New Jersey) can buy furniture and appliances for their homes with no down payment and up to 2 years to repay, but the veterans in other States must pay 20 percent down on furniture and one-third down on appliances and repay in 15 months.

We have the situation where you can go to a dealer and buy certain "nonlisted" merchandise on any terms you wish, and the bank can in turn buy that note or contract from the dealer; but if you go directly to the bank to borrow the money to buy that article or merchandise you must repay the obligation in not over 15 months.

We have the situation where an ordinary bank loan evidenced by a promissory note payable in full at maturity is not an "installment" loan subject to the regulation even though the bank may "anticipate" that at maturity of the note it may accept partial payment and a renewal note, provided the bank makes no commitment to do so and the transaction is entered into in good faith and not as a means of evading the regulation. That may not be exactly an inconsistency, but it is close to it.

We have the situation where if a loan is originally made in good faith on a single-payment basis, it may subsequently be converted to an installment basis on

any terms whatsoever, completely outside the regulation. That may not be a literal inconsistency, either, but it illustrates the extreme difficulty of trying to work out rules and interpretations in connection with the regulation of consumer credit, where the requirements of thousands of individual customers must be taken into consideration.

As one illustration as to the impracticability of regulation W, in connection with the rule mentioned immediately above, the warning is made that in any case where investigation shows that a registrant is converting an "undue" number of credits to an installment basis after originating them on a non-installment basis, the inference would be fairly plain that the registrant was guilty of "evasion" of the regulation. Now who is going to judge what constitutes an "undue" number of instances of this kind? Who is to say when "the inference would be fairly plain" that the registrant was guilty of evasion?

There is no way in the world to enforce such a regulation as far as the general public is concerned. It is impractical by its very nature. To enforce it, you would have to pass a law requiring every citizen 21 years of age or over to keep a complete set of books and then hire a gestapo to audit those books. Unless the banker "knows or has reason to know" something to the contrary, he can only accept the borrower's signed statement as to the purpose of the loan. If the borrower says it is for one purpose and uses it for another which is contrary to the regulation, what is the banker to do about it?

What is to prevent the borrower using his pay check to complete the down payment on an automobile and then coming into the bank to borrow the money to pay the rent, the grocery bill, the doctor and the insurance premium? How are you going to put a stop to that without a gestapo? People are doing it every day. It's the little fellow who cannot meet the high monthly payments that gets hurt any way he turns.

Even though it were not unnecessary, ineffective, un-American, unsocial, inconsistent, and impractical, the continuation of Federal regulation of consumer credit will do more to harm the Nation, by breaking down respect for and observance of Federal laws, rules, regulations, and interpretations than any good that could possibly come of it.

THE AMERICAN BANKERS ASSOCIATION

New York 16, N. Y.—Chicago 3, Ill.—Washington 5, D. C.

JULY 2, 1947.

SENATE COMMITTEE ON BANKING AND CURRENCY,

Senate Office Building, Washington, D. C.

Attention: Mr. Robert C. Hill, Clerk.

DEAR MR. HILL: There are transmitted herewith two copies of a statement setting forth the views of the American Bankers Association on consumer credit controls under regulation W of the Board of Governors of the Federal Reserve System.

It would be appreciated if you would see that this statement is included in the record of the hearings held today by the Committee on Banking and Currency on this subject.

Sincerely yours,

C. FRANCIS COCKE.

STATEMENT OF THE AMERICAN BANKERS ASSOCIATION FILED WITH THE SENATE BANKING AND CURRENCY COMMITTEE REGARDING REGULATION "W" IN CONNECTION WITH HEARINGS HELD BY THAT COMMITTEE ON JULY 2, 1947

The American Bankers Association opposes permanent extension of the authority extended to the Board of Governors of the Federal Reserve System to administer the selective credit controls imposed by regulation W. The association favors immediate discontinuance of the authority for such controls presently delegated to the Board of Governors of the Federal Reserve System.

As early as March 27, 1945, the association expressed its opposition to permanent continuation of the consumer credit restrictions provided by the regulation. At a meeting of the association's committee on consumer credit, held in Chicago on that date, the committee adopted the following resolution:

"Whereas, it is the opinion of the committee on consumer credit that the current provisions of regulation W impose unwarranted and unnecessary hardships on many individuals such as returning veterans; and

"Whereas, this committee believes that regulation W should in time be totally abolished, and

"Whereas, this committee believes that the restrictions of regulation W in respect to each 'listed article' as such article becomes unrationed should be removed, and

"Whereas, the employment of returning veterans and released war workers will be materially stimulated by the early repair and modernization of homes, this committee believes that as rapidly as labor and materials become available for these purposes, the restrictions imposed by regulation W in respect to these activities should be relaxed, and

"Whereas, regulation W imposes certain restrictions which now act as a hindrance to returning veterans in becoming reestablished in gainful employment and in acquiring the essentials of civilian life, the committee believes that these restrictions should now be relaxed.

"Now, There, be it resolved that the committee on consumer credit recommends to the administrative committee of the American Bankers Association that the foregoing principles be adopted as the official position of the association with respect to regulation W and that the association seek the cooperation of interested groups in implementing this program."

The position set forth in this resolution was reaffirmed by the association's committee on consumer credit and by its resolutions committee at the association's annual convention held in Chicago, September 25-27, 1946. The committee on consumer credit reported at this convention to the resolutions committee that:

"The committee on consumer credit believes that regulation W can be relaxed in relation to the production of consumer durable goods and the restrictions modified on each article as it becomes more plentiful, and, further, that regulation W should be abolished completely as the supply of such goods somewhat meets the demand.

"Further, the committee feels that consumer credit in the peacetime economy is undemocratic and contrary to the principles of free enterprise, and that the emergency for which this regulation was created will have ceased to exist when production of consumer's durable goods is sufficient to approximately meet the demand, and at that time consumer credit control should be abolished completely."

The association's resolutions committee thereupon presented to the convention the following resolution, which was unanimously adopted by the convention:

"During the depression of the 1930's and the carrying on of World War II, a huge bureaucracy has been built up in the United States that constitutes an enormous burden to our people from the standpoint of cost, from the standpoint of the loss of the manpower of those in the bureaus to constructive enterprise, and from the standpoint of the disruption of industry through subjecting it to unwise, unnecessary, and expensive controls that add to the consumer cost of the whole Nation.

"We recommend that the administration and Congress work together to reduce this enormous bureaucracy and allow those who are unnecessarily employed in it to become associated with non-Government, constructive interests that will increase their value to themselves and to the people.

"We further recommend that in accomplishing the reduction of the overexpanded Government agencies immediate consideration be given to the proper timing for the elimination of all war controls and activities that hamper the functioning of the private enterprise system.

"Among such controls and activities are those applying to the limitation of the use of consumer credit; Government loaning and guaranteeing agencies; and, governmental price controls."

On December 12, 1946, at a meeting of the association's committee on consumer credit held in Chicago, the chairman of the committee issued a statement with regard to regulation W, which read in part:

"On November 16 (1946), the Board of Governors of the Federal Reserve System announced the streamlining of regulation W. This was widely publicized as an important step in the Board's program of modifying regulation W, whereas in fact the principal relief it granted to consumers was in the matter of charge accounts. The limitation on the use of charge accounts was lifted; however, rigid controls were continued on the use of consumer installment credit.

"Now that all other controls governing the purchase of consumer durable goods have been removed, the time has come for the complete abandonment of regulation W.

"We recognize that some consumer durable goods, including automobiles, refrigerators, washing machines, etc., are still in scarce supply. However, we also realize that if the distribution of these goods is to be on a fair and equitable basis, the arbitrary restrictions imposed under regulation W on the consumer financing of these goods must be eliminated. The only way these goods can be made available to all groups of our citizens is to permit sound credit terms which are within the reach of the vast majority of the people. Under regulation W the present terms mean that the little fellow must obligate himself to make monthly payments of such size that they would obviously be a financial burden that he could not afford to assume.

"The consumer credit committee of the American Bankers Association is aware of its responsibility to help combat inflation. The committee recognizes that it would be a mistake to do anything that would contribute to inflationary pressures. However, the committee believes that the arbitrary control of consumer credit is inflationary because if the terms imposed are too severe for most people to buy needed consumer goods out of income they will be forced to cash war bonds to purchase such goods. The committee further believes that bankers and business men could put in effect sound credit terms. These terms would make it possible for people in the middle- and lower-income groups to buy necessary goods. These terms would not be inflationary, nor affect prices or require policing by the Government. What these terms should be is a matter of education on the part of each lender. This committee would be pleased to advise banks, for instance, what in its judgment are sound, standard terms in this particular period. The losses that would inevitably result from loose terms that create unsound loans is the natural check on our system of individual enterprise. A free yet sound flow of consumer credit can be maintained only if bankers and businessmen are free to use their own best judgment, based on their intimate knowledge of the borrower and local conditions.

"With the elimination of controls on prices and wages there is no longer any justification for the existence of regulation W. The Board of Governors of the Federal Reserve System suggested in a recent report to Congress that this regulation be made a permanent credit control. Regulation W was a war-emergency measure. It was never intended to be a permanent Government control and should be abolished now. It is hoped that the new Congress will agree with this view."

The association has previously offered testimony before the House Banking and Currency Committee with regard to regulation W. A statement submitted to the committee on June 4, 1947, by the chairman of the association's credit policy commission, read in part, with respect to regulation W, as follows:

"The real issue involved with any such regulation as W is whether Congress should extend the qualitative credit controls of the Federal Reserve Board or confine these powers to purely quantitative controls and other credit controls now existing, such as authority to charge the discount rate, required reserves, open market operations, etc. No one argues that our central banking authorities should not have the power to regulate the over-all supply or volume of credit to level booms and depressions. But the power to dictate the use of credit is altogether another and dangerous thing.

"If, for example, we agree that the principle of regulation of consumer credit is right, then I do not see how we can say that the principle of control of production credit is wrong. Subscribing to the theory of selective controls means that you are delegating to bureaucrats complete power over business, giving agencies carte blanche as to whom and for what and for how long they may extend credit.

"Such power is too great to delegate to anyone or any group or any government. It is incompatible with the philosophy upon which this country was founded and developed to be the greatest Nation in the world today, and those who seek such power should realize its implications and responsibilities.

"We are opposed to the selective control of consumer credit primarily because: First, from the standpoint of its economic soundness, we can find little evidence to support the view that consumer credit initiates the turns in the economy either up or down, and we think it more likely has tended to follow these turns rather than lead them. Second, from the standpoint of its social implications there already has been much said before this committee with respect to it resulting in discriminating against the low-income groups. Third, because we firmly believe it won't work and even if it did work, it is not worth its price.

"Also, much has been said as to the impossibility of the Federal Reserve Board or any other governmental agency to enforce the contraction of consumer credit without the use of a vast FBI if the people resist it. But the most important

thing is—is it worth its price? And, as I have herein stated, the delegation of selective credit control is far too dangerous to justify the meager results, if any, such a regulation could achieve.”

These resolutions, statements of policy, and official expressions of the position of the American Bankers Association with respect to regulation W demonstrate clearly the consistency of the association's opposition to permanent continuation of the powers granted to the board of governors of the Federal Reserve System, under which regulation W was established and has been administered.

The association not only opposes permanent continuation of the Board's present authority; it favors immediate discontinuance of that authority. The association is of the opinion that regulation W is now obsolete and wholly inadequate in terms of the original purpose of inflation control for which it was established during the war emergency; that it is an obstruction to the normal flow of goods and services in a peacetime economy; that it has operated against the lower-income groups, and particularly against the Nation's war veterans, in their efforts to obtain open and equal access to consumer goods heavily in demand; that it affords a quasi-governmental agency a selective and qualitative control of credit that impedes the free flow of credit in a free enterprise economy; that the sole argument which can now be advanced for its continuance, as an effective means of controlling the swings of the business cycle, cannot be substantiated; and, finally, that it is virtually impossible of effective administration because it seeks to regulate an infinity of day-to-day business transactions involving the use of consumer credit.

The adequacy and effectiveness of regulation W in controlling inflationary forces at work in the Nation's economy are now sufficiently doubtful to outweigh whatever advantages in this direction that the regulation might have provided during the war. The fact is that the chief cause of the postwar inflation has been the war-created shortage of goods, together with a relatively excessive quantity of purchasing power, resulting from monetization of the national debt.

To argue that consumer credit adds to the purchasing power of the public is to overlook that shortages of goods have been the inflationary factors deserving the most consideration, and it is also to argue, falsely, that curtailment of consumer credit would of itself be an automatic, inflation-controlling factor. Nothing could be further from the truth. In the last analysis, consumer credit is a substitute for business and commercial credit. Manufacturing and business concerns have probably expanded their loans in recent years above the amount of credit they would have had need for had regulation W not been in effect, in order to finance both inventories and the volume of business ordinarily financed by consumer credit. Regulation W, in curtailing the amount of credit available to consumers, thus has tended to expand the volume of commercial and business loans. The net result, in terms of inflationary effect, is the same.

A normal flow of goods and services in a peacetime economy is one of the basic requirements of the health of an economy. The pages of economic history are filled with illustrations of the ill effects of imbalances in prices, production, and distribution. To set one group of purchasers—those who have adequate cash to finance their transactions—as against another group who have lesser reserves and income—is to invite both social and economic difficulties.

Consumer credit is the established method by which low-income groups have acquired the consumer's goods that comprise the essentials of the American standard of living. What justification can exist for economic partiality which denies one family access to household goods or transportation, because it is unable to match the cash and income position of another family? Yet, that is the inevitable consequence of regulations which deny the low income group access to adequate credit which enables them to enter the markets where their necessities are bought. The basic purpose of a system of banking and credit is to provide credit to needful and worthy borrowers, not to withhold it from those in need of it.

While there is no denying the need for the quantitative credit controls presently and traditionally in the hands of the Board of Governors of the Federal Reserve System, there is no justification for qualitative or selective controls of credit. Inevitably, they result in hardship to the users of the select types of credit so controlled. Furthermore these selective controls are a source of economic instability. Regulation of demand and supply in certain types of markets through excessive credit control merely unsettles the stability of still other markets. For example, if consumers are barred from purchasing durable goods such as automobiles, because they are arbitrarily forbidden credit, that portion of their income which normally would have gone into installment pay-

ments on an automobile then finds its way into other markets, tending to force up the price of other goods, and ultimately the cost of living. Imbalances in prices are a further result, and these imbalances are the essence of violent fluctuations in economic and business conditions.

To argue that consumer-credit control, or any other type of selective credit control, is a desirable and effective means of regulating the fluctuations of the business cycle is therefore not only open to question, but is plainly a matter of serious doubt. The assertion that the provisions of regulation W serve not only as an effective check on the upward boom or inflationary phase of the business cycle, but could also be made to serve, through relaxation of the controls, as an effective stimulant to business when the business cycle turns downward, is likewise a contention of doubtful validity. To approach the question from the viewpoint of the "purchasing power" theory of periodic business fluctuations, is to repeat one of the mistaken economic theories of the depression era. During those years, literally billions of dollars of Government money, created through Government borrowing, were pumped into the stream of purchasing power, without significant effect in bringing about business recovery. What was then overlooked was the fact that business and industrial expansion in an atmosphere of business confidence create effective consumer demand, and that consumer demand is more an effect than a cause of the upturn of the business cycle. It is doubtful that consumer credit could have any consequential effect in bringing about business recovery in a future period of depression, because individuals make use of it principally during periods of business confidence, full employment and high incomes.

However, the immediate concern of the Nation is inflation, the high cost of living, and the inaccessibility of many types of goods to low-income purchasers, rather than deflation and depression. There is little consistency in the position of those who advocate permanent extension of regulation W as an economic nostrum equally effective in treating both conditions. If the power of regulation W to check the upward spiral of inflation has been challenged by the economic fact of inflation, as it has been challenged during the past 2 years, there is little point in giving further consideration to its potency as a business stimulant in any possible future period of deflation.

If the worth of regulation W as an economic control is at its face so questionable, then the fact that the regulation imposes unwarranted controls upon the consumer and business alike in the countless daily transactions between them is sufficient reason to justify its elimination. Like other business controls that have been established by the Government at the meeting point of business and consumers, such as the rationing of food during the war, the effectiveness of the control in the last analysis depends upon the willingness of the people to accept continued regulation of their daily economic life.

There is no more justification in the rationing of consumer credit only to those in the higher-income brackets than there would have been to ration foods during the war only to those most able to pay for their food purchases. Governmentally imposed inequities in the availability of credit could have only the same consequence—a social and economic inequity that would invite popular disrespect for the regulation, and a resulting impossibility of administration in the long run.

The American Bankers Association, for the reasons presented above, favors the immediate discontinuance of the authority of the Board of Governors of the Federal Reserve System to exercise selective controls of consumer credit under regulation W, and opposes the permanent extension of the presently existing authority.

EXCERPTS FROM TESTIMONY BEFORE JOINT COMMITTEE ON THE ECONOMIC REPORT

JUNE 24, 1947—S. SLOAN COLT, PRESIDENT, BANKERS TRUST CO., NEW YORK, N. Y.

The CHAIRMAN. What do you think of the regulation by Government control of consumer credit?

Mr. COLT. I believe that has been a good thing, and I would think it should be retained for the present. There may come a time when better conditions may permit and when the production of durable goods manufactures is slowing up for the reason that credit is being restricted, that consideration should be given, perhaps, to relaxing that regulation.

The CHAIRMAN. But as a banker you do not feel that we are restricting the free enterprise system by giving the Federal Government, the Federal Reserve Banks—now at least—the control of consumer credit?

Mr. COLT. I do not; no.

The CHAIRMAN. You think that is a proper weapon in discouraging undue inflation of buying power or purchasing power?

Mr. COLT. I think it is part of the whole credit control. I do not think you can eliminate it from the question of credit, and therefore I think it should be regulated, and I think the Federal Reserve is the proper place for that to be done.

JUNE 25, 1947—PAUL G. HOFFMAN, PRESIDENT, STUDEBAKER CORP., SOUTH BEND, IND.

The CHAIRMAN. This regulation W that was testified to, I think Mr. Colt thought it should be continued. Other bankers apparently disagree with him.

Mr. HOFFMAN. Of course, everyone in the automobile industry thinks it ought to be abandoned quickly except perhaps myself.

The CHAIRMAN. How do you feel about it?

Mr. HOFFMAN. Well, I don't see why we should loosen up on credits in the installment field at this time. I think they ought to be held down.

Senator O'MAHONEY. Why do you think they ought to be held down?

Mr. HOFFMAN. Because they are a great inflationary force and this is a period—

Senator O'MAHONEY. Is the fact that the automobile industry is not in position to produce as much as the market demands a factor, does that have a bearing on it?

Mr. HOFFMAN. It might influence my judgment, Senator, I don't think so, but it might. I would grant the possibility of that.

Senator O'MAHONEY. Why shouldn't it influence your judgment?

Mr. HOFFMAN. I don't think it should. I think we ought to be able to make our own judgments on policies of that kind.

I think that the control, regulation W, during the war period worked out well and during the postwar period worked out well in deferring the demand. There are very strong arguments against it, as you know, that have been made here about the regulation W repeal with respect to durable goods and the heavy commodities of one kind and another, and if you want to call it a philosophical argument, there is meat to it.

The CHAIRMAN. In the long run it is what it costs you per year. If you cannot afford it, you ought not to have it, I suppose.

Mr. HOFFMAN. As I say, I have listened to all the arguments and they have not convinced me.

Senator O'MAHONEY. That is a pretty good philosophy, Mr. Chairman, if you cannot afford it you shouldn't have it, but it has a double edge, I think, particularly when we are endeavoring to stabilize the economy so as to produce mass consumption. If industry were to be guided by this principle, that only those who can afford to buy, who can afford to pay cash should have what industry can produce, there wouldn't be very much production, would there?

Mr. HOFFMAN. I will have to think that question over. Would you mind repeating it, Senator? I didn't get it.

Senator O'MAHONEY. I say if industry had to depend for its market upon those who are able to pay cash there wouldn't be a mass market for a mass production industry.

Mr. HOFFMAN. The durable goods industry. The durable goods industry has been built up—I think that the installment credit has been a very substantial factor in building up the durable goods industry.

Mr. PATMAN. How many products are affected by regulation W now? About a dozen?

Mr. HOFFMAN. I wouldn't know that, Mr. Patman. I know the automobile industry is.

Mr. PATMAN. Jewelry and radios.

Mr. HOFFMAN. Jewelry and radios.

The CHAIRMAN. Of course, it doesn't abolish sales on credit.

Mr. HOFFMAN. That is right.

The CHAIRMAN. It simply regulates the extent to which that credit may be extended.

Mr. PATMAN. On purchases of two thousand dollars or less.

Mr. HOFFMAN. I happen to believe that we ought to bring all the counter-cyclical influences into play in this field for two reasons:

One, I think it puts a cost on the economy. Second, I think history clearly shows, just as a general business proposition, that the credits that prove to be unsound are those accumulated in periods of boom. Credits that you give in times of depression almost always are good credits. That is its history.

I know what I am talking about when I speak about that; particularly from the standpoint of business it is smart policy and I think from the standpoint of the impact on our economy it is highly desirable, a highly desirable policy. I don't think we have come anywhere near exhausting what can be done to bring about counter-cyclical losses in the field of credit. This would include installment credit.

The CHAIRMAN. If you have, say, \$5,000,000,000 as you view it it is not inflationary to keep on reducing that.

Mr. HOFFMAN. That is right.

The CHAIRMAN. What is inflationary is if you have \$5,000,000,000 and run it up to \$10,000,000,000 over a short period of time.

Mr. HOFFMAN. That is right.

The CHAIRMAN. That is the danger situation and that is where if you have in effect a restraint of the character of regulation W it would enable you to check that particular expansion.

Mr. HOFFMAN. The social factors also, I think, are important because if you are issuing credit loosely in times of boom—it is always a temptation—then the repossessions hit most heavily on those who can least afford the losses and it is not good for the economy. In other words, any policy that leads to any substantial volume of repossessions is an unsound policy.

The CHAIRMAN. And, of course, you have the very restraint on the purchase of stock in the stock market, another credit control.

Mr. HOFFMAN. Yes.

The CHAIRMAN. Besides the general control of bank credit through the control of reserves and open market policies.

JUNE 26 1947—EMIL RIEVE, ADMINISTRATIVE CHAIRMAN, CIO FULL EMPLOYMENT COMMITTEE; PRESIDENT, TEXTILE WORKERS UNION OF AMERICA; VICE PRESIDENT, CONGRESS OF INDUSTRIAL ORGANIZATIONS,

Mr. RIEVE. Purchasing power is now being bolstered by installment buying which is reaching all-time peaks. This is an unhealthy way to bridge the gap between income and purchases. Inflation first steals savings and then tends to continue on its merry way through expanding consumer credit.

OPINIONS ON CONSUMER CREDIT REGULATION

[Dun & Bradstreet Survey]

The Survey on Business Expectations and Governmental Policies conducted by Dun & Bradstreet, Inc., for the Joint Committee on the Economic Report asked the respondents to indicate whether restrictions on consumer credit should be "reduced" or "maintained without change."

In general, the respondents who are not directly affected by the regulation—manufacturing, mining, construction, utilities, and service industries—were about 60 to 40 in favor of reduction.

In the remaining fields, the following were the results:

Group	Number replying	Percent for reduction	Percent for no change
Retail trade.....	67	57	43
Consumer durables manufacture.....	17	53	47
Wholesale trade.....	38	50	50
Finance and insurance.....	36	50	50
Newspaper editors.....	16	44	56
Labor leaders.....	12	42	58
Economists.....	33	36	64
Farmers.....	94	32	68

[From the New York Times, June 30, 1947]

INDUSTRIAL SURVEY PREDICTS UP-TREND—INCREASED BUSINESS, MATERIAL AND EMPLOYMENT PROMISED FOR SECOND HALF OF 1947—600 COMPANIES POLLED—REPORTS MADE TO ASSOCIATION OF COMMERCE AND INDUSTRY SPLIT OF PRICE OUTLOOK

Increase in business, in employment, and in availability of materials, with little change or lower prices for materials, is the outlook for the second half of 1947 as reported by a large proportion of manufacturers in New York City in a spot survey made public over the week-end by Thomas Jefferson Miley, secretary of the Commerce and Industry Association of New York, Inc.

Of the companies reporting, among the 600 to whom questionnaires were sent, views on the mid-year business were expressed as follows:

Volume of business: 42.5 percent look for an increase; 35.2 percent see no change; 22.3 percent expect a decrease.

Employment: 43.2 percent expect to increase their labor force; 32.5 percent will make no change; 24.3 percent plan to decrease.

Material costs: 35.9 percent expect no change in price levels; 33.9 percent look for lower prices; 30.2 percent say prices will be "still high" or will go higher.

Availability of materials: 47.9 percent report supplies improving; 22.9 percent say present supplies are available or ample; 18.8 percent expect continued scarcity; 10.4 percent expect no change.

With respect to policy to be followed by Government and steps to be taken by management and labor to assist industry in maintaining a high level of employment, expressions of opinion were tabulated as follows:

Housing: 42.7 percent advocate some form of Government assistance in expediting construction; 22.9 percent recommend elimination of controls or leaving it to "private enterprise."

Farm product prices: 52.3 percent believe Government support should be dropped entirely; 25 percent want support reduced or continued to a limited extent; 18.2 percent favor continuing present support.

Federal taxes: 58.8 percent favor unqualified reduction; 25.4 percent want taxes reduced as much as possible.

Federal expenditures: 84.4 percent advocate reduction; 11.1 percent say "reduce without impairing essential services," and the balance want no change.

Restriction on consumer credit: 35 percent believe restriction should be lifted; 32.5 percent favor limited restriction; 24.3 percent want present restriction continued.

Voluntary industry-wide agreements to reduce prices: 56.4 percent in favor; 35.9 percent oppose.

For management, these steps were suggested: reduce prices wherever possible, 70.7 percent; develop new products, 69 percent; cut operating costs, 58.6 percent; do more advertising, 36.2 percent.

Labor was offered these suggestions: cooperate with management in increasing efficiency, 84.1 percent; abandon make-work and featherbedding practices, 81 percent; increase output per man hour, 77.6 percent.

The survey was conducted by the Industrial Research Division of the Association's Industrial Development Bureau. Seven of the city's major industries were queried: clothing, food, beverages, metal products, paper products, printing, and radio manufacturers.

[From the Texas Southwest Furniture News, February and March 1947]

MAJORITY SOUTHWEST FURNITURE DEALERS FAVOR CONTINUANCE CREDIT CONTROL

Retail furniture dealers in the Southwest have expressed themselves as being "five-to-one" against any immediate termination of credit controls as currently administered by the Board of Governors of the Federal Reserve System. Almost "four-to-one" favor specific legislation by the United States Congress to give the Federal Reserve Bank specific, statutory authority to continue controls, and to modify or terminate regulations at the discretion of the Board.

The above statements are contained in a bulletin recently released to its members by the Retail Furniture Association of Texas, Inc. Three hundred twenty-one furniture retailers replied to a questionnaire which was prepared by authority

of the association's directors. It is believed to be the only comprehensive survey of retail dealer sentiment that has been compiled within the past 2 years.

The survey to secure the opinion of its members consisted of three principal questions, with a further break-down by annual volume of sales, and size of city. A committee which approved the form of the questionnaire decided it would not be advisable to give dealers the "pro" or "con" arguments which are customarily advanced by opponents and proponents of regulation W.

The questions and break-down by sales volume and size of city:

A. Would you favor legislation by the United States Congress for immediate termination of regulation W?

42 answered "Yes"
201 answered "No"

Large stores over \$350,000 sales annually:

Size city:	Yes	No
Under 10,000.....	1	4
10 to 25,000.....	0	1
25 to 100,000.....	1	4
100 to 300,000.....	1	7
Over 300,000.....	3	7
Total.....	6	23

Medium stores—\$125,000 to \$350,000 sales annually:

Size city:	Yes	No
Under 10,000.....	3	13
10 to 25,000.....	2	22
25 to 100,000.....	4	12
100 to 300,000.....	0	13
Over 300,000.....	0	8
Total.....	9	68

Small stores—Under \$125,000 sales annually:

Size city:	Yes	No
Under 10,000.....	11	51
10 to 25,000.....	3	23
25 to 100,000.....	5	14
100 to 300,000.....	2	13
Over 300,000.....	6	9
Total.....	27	110

B. Should Regulation W be retained until it automatically ends with the official declaration of the end of the war emergency?

163 answered "Yes"
50 answered "No"

Large stores over \$350,000 sales annually:

Size city:	Yes	No
Under 10,000.....	4	1
10 to 25,000.....	1	0
25 to 100,000.....	3	0
100 to 300,000.....	4	3
Over 300,000.....	4	3
Total.....	16	7

Medium stores—\$125,000 to \$350,000 sales annually:

Size city:	Yes	No
Under 10,000.....	11	3
10 to 25,000.....	18	6
25 to 100,000.....	7	7
100 to 300,000.....	8	1
Over 300,000.....	4	3
Total.....	48	20

B. *Should Regulation W be retained until it automatically ends with the official declaration of the end of the war emergency?*—Continued

Small stores—Under \$125,000 sales annually:

Size city:			
Under 10,000	-----	49	8
10 to 25,000	-----	19	4
25 to 100,000	-----	12	7
100 to 300,000	-----	9	2
Over 300,000	-----	10	2
Total	-----	99	23

C. *Do you favor the enactment of legislation to retain Regulation "W" after the end of the war emergency under the supervision of the Federal Reserve Board—granting to the Board authority to modify or terminate control over credits?*

199 answered "Yes"
55 answered "No"

Large stores, over \$350,000 sales annually:

Size city:		Yes	No
Under 10,000	-----	4	2
10 to 25,000	-----	2	0
25 to 100,000	-----	6	0
100 to 300,000	-----	6	2
Over 300,000	-----	7	4
Total	-----	25	8

Medium stores—\$125,000 to \$350,000 sales annually:

Size city:			
Under 10,000	-----	13	2
10 to 25,000	-----	21	3
25 to 100,000	-----	13	2
100 to 300,000	-----	12	1
Over 300,000	-----	8	2
Total	-----	67	10

Small stores—Under \$125,000 sales annually:

Size city:			
Under 10,000	-----	47	14
10 to 25,000	-----	23	7
25 to 100,000	-----	14	8
100 to 300,000	-----	14	3
Over 300,000	-----	9	5
Total	-----	107	37

CREDIT REGULATION "PROS" AND "CONS"

LOCAL VOTE RESULTS

One of our local associations, in the course of a meeting, discussed the questionnaire, and reported sentiment of the 13 members in attendance was unanimous as follows: All voted "No" to question A; all voted "Yes" to question B; all voted "Yes" to question C. (This, however, is not included in the above compilation, unless some of these members returned their individual questionnaires.)

AGAINST CREDIT REGULATIONS

Among the separate letters enclosed with the questionnaire:

"Referring to the enclosed questionnaire, I have a strong conviction that business ultimately prospers when governmental regulations are at a minimum. There may seem to be some temporary advantages in governmental regulations,

but sooner or later these regulations become burdensome and disadvantageous. I think it is a mistake for business to encourage government to regulate its affairs. I have a feeling that an organization that fears independent credit competition should not be engaged in the sale of home furnishings * * * It has always seemed to me somewhat presumptuous for furniture retailers who are not interested in the credit business to take the position that dealers who wish to sell on credit should be curbed. If other stores wish to restrict the extension of credit, that is definitely their affair. I do not think, however, that they should encourage the government to curtail the type of business in which other dealers may be interested * * * To sum up, I am temperamentally and constitutionally opposed to Government controls."

Ten quotations taken at random from those who opposed regulation are—

1. All wartime Government control of business should be suspended now.
2. I do not feel that business should be hampered by controls of the Government on any phase of operation.
3. Maybe we are gun-shy, but we are afraid of anything the Government tries to handle in the line of individual enterprise. Having seen so many instances of gross inefficiency on the part of governmental appointees, we want the breed stopped as soon as possible. Free enterprise has built this nation and it will hold it up.
4. Government control of private investment in peacetime is definitely wrong in a free country.
5. I think regulation W was alright during the war and administered well—but I am opposed to regulation of credit by law.
6. If a person does not have the ability to operate his own business, he will not be in business long.
7. Although I favor the policy of credit extension advocated by regulation W, I do not like government control of any kind; and believe that the average businessman can see what advantage this control has been to him and regulate his business accordingly.
8. I am opposed to the Government interfering with free enterprise in any manner—let's get them out of business.
9. The terms of W are good, but I am for free, competitive enterprise—and less government.
10. Throw all war regulations over and get back on the law of supply and demand.

FAVORABLE TO CONTINUANCE OF CREDIT CONTROL

One of the separate letters which favored control :

We are in favor of retaining regulation W with any reasonable proviso as should coincide with prevailing economic conditions of the country. We fully realize the benefits of the regulation during wartimes, and it is our belief that a better standard of credit has generally been established through the enforcement of regulation W. From the standpoint of the smaller store, we who sell, approve applications for credit and effect collections, certainly have a close personal contact with the customer. In abiding by the regulation, we avoid the obligatory relation and quote the terms as set forth by the regulation with candor. Certainly with the small margin of profit on the sale and maintenance of appliances, 33 $\frac{1}{3}$ percent is not too large a down payment—neither is 20 percent on household furnishings, with 15 months allowed on time payments; whereas, the retailer must pay his accounts in full on a limited 10 day or 30 day basis.

Ten quotations taken at random from those who favor continuance of credit regulation are :

1. Regulation W, in our opinion, is one of the best things the country ever had. It has handicapped no one in buying, and sure does make good accounts and better citizens.
2. We need regulation to keep the low and medium salaried people from mortgaging their salary 2 and 3 years in advance—which eventually would bring a collapse like 1929.
3. Without credit control, we will find ourselves in a similar position to that of 1929. As soon as the market is saturated with consumer goods, then little money is in circulation and everyone indebted.
4. This is the only government regulation which was of real benefit to the furniture dealer.
5. Regulation W has not only been good for the merchant granting credit, but a help to the people getting credit. If they know a bill must be paid in 12 to 15

months, they figure how it can be done. If they have longer, they will not figure, for it is impossible to plan finances for a longer period than 12 to 15 months for the people who buy on the installment plan.

6. We feel that the last depression was caused by the fact that so many people were mortgaged beyond their ability to pay. Thus, the seller and the buyer both lost. Regulation W, we feel, will cause at least some of the people to buy what they can pay for; instead of what they would like to have and will not be able to pay for.

7. Large firms will extend longer and longer terms and less down payment—leading to an oversold condition if regulation W is not continued.

8. Twenty percent down and 12 to 18 months on balance would be fair to customer and good for the dealer.

9. While we do not favor government control of business, in general, we are of the opinion that our economic safety demands control for a while.

10. Regulation W is a life-saver for small business. It is difficult for small independent business to compete with large credit houses on terms. Small stores cannot carry large accounts receivable and keep proper inventory without outside help from some financial institution.

DANVILLE, VA., June 13, 1947.

Mr. MARRINER S. ECCLES,

Chairman, Federal Reserve Board, Washington, D. C.

DEAR Mr. ECCLES: We, the undersigned retail furniture dealers of Danville, Va. in the "small business man" class, sincerely believe that some form of credit control is very desirable and very necessary to prevent the return of the chaotic credit conditions which existed in this country prior to 1942. Therefore, we hereby earnestly petition you to do what you can to keep the present regulations in effect or to draft new ones dealing with down payments and time limit of credit.

Thanking you for your support in this matter, we are

Very truly yours,

Paul W. Cochran, G. M. Sales, Inc.; Motley & Lumpkin Furniture Co., E. P. Motley; Lewis Furniture Co., B. G. Lewis; R. S. Woolen Furniture Store, R. S. Woolen; C. R. Thomas; J. G. Bledsoe, Bledsoe Furniture Co.; Ingram Furniture Co., F. C. Ingram; Cole Furniture Co., N. W. Cole; Lea-Lewis Furniture Co., H. T. Lea, President; W. R. Mitchell Furniture Co., R. P. Mitchell, Vice President; W. E. Scudder Furniture Co., W. E. Scudder; Elliott Furniture Co., E. L. Elliott; Clutter Bros. Furniture Co., by R. V. Clutter; Taylor Mattress Co., W. M. Rowe; W. K. Wyatt, Wyatt Furniture Store; Danville Supply Co., J. H. Mehaffey.

THE PEOPLES SAVINGS BANK.

Cedar Rapids, Iowa, June 14, 1947.

Gov. R. M. EVANS,

Federal Reserve System, Washington, D. C.

DEAR Mr. EVANS: The enclosed cartoon appeared in this week's Cedar Rapids Tribune. I am sure you will remember something about our local labor paper and I thought you might wish to present this cartoon to Mr. Eccles.

I cannot speak for all the banks in Cedar Rapids, but we, here at the Peoples, have been in the automobile and personal loan business for more than the past 20 years and because of our experience in this field, we agree with Mr. Eccles and this cartoonist.

In discussing the subject at our officers' meeting yesterday, we were unanimous in our opinion that Mr. Eccles is right when he insists that some controls are needed. We feel that if all controls are lifted, competition between finance companies and banks plus pressure from the automobile and farm implement manufacturers, are very apt to produce a volume of paper much greater than has ever been known before in the history of our country. When the recession time arrives, the FDIC might very well be giving serious consideration to establishing a division for the sale of used automobiles, farm machinery, radios, etc.

The Cedar River is on a rampage due to heavy rains north of here and the best guess this morning is that we will have water just as high as in 1929. I understand most of the members of our city council got very little sleep last night.

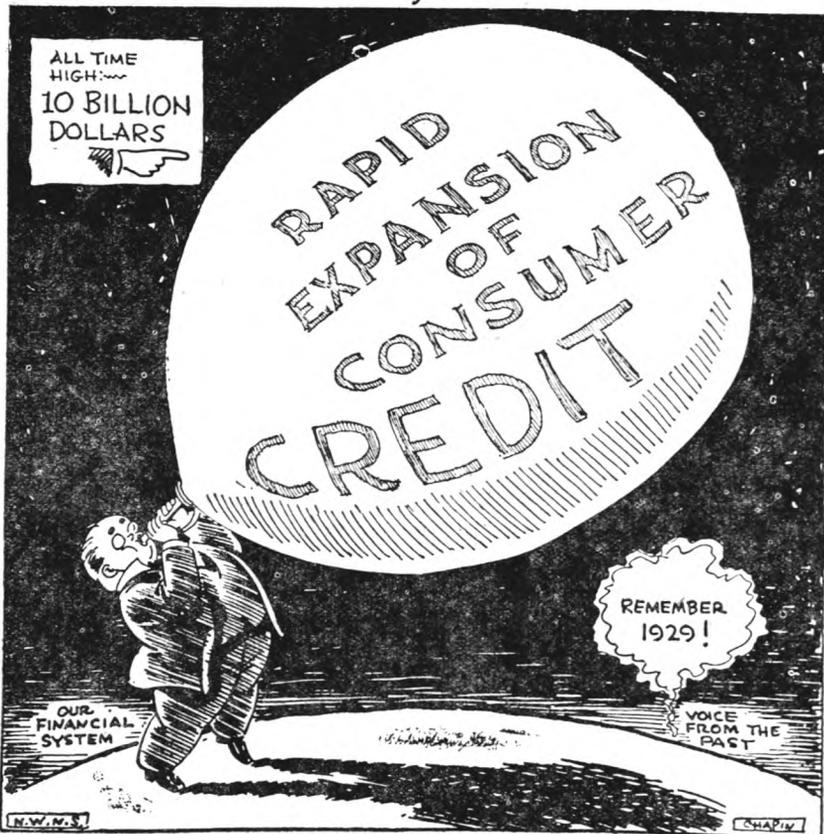
If Ronald Ransom is back on the job, tell him I said "howdy."

Kindest regards.

Sincerely yours

FRANK C. WELCH, *President.*

[From the Cedar Rapids Tribune, June 12, 1947]

Look Out for a Bust

MINNEAPOLIS 14, MINN., May 12, 1947.

REPRESENTATIVE WALTER JUDD,
House of Representatives, Washington, D. C.

DEAR REPRESENTATIVE JUDD: The Minneapolis Antiinflation Council, an organization of 75 women from the various church, consumer, labor, and civic organizations of this city, voted at its last meeting to support the restrictions on installment buying that are now in effect. This action was taken after a consideration of the inflationary danger of expanded consumer credit at this time.

We are aware that total consumer credit, most of it for installment buying, now outstanding has doubled since 1944, and that the total now equals the pre-war peak. The volume of consumer credit continues to expand even with the present restrictions. We are aware that there are numerous powerful forces at work applying pressure for the removal of these restrictions.

We ask that you lend your support to measures that will help keep the lid on further inflation. We ask that you help to protect the American consumer from this credit bubble that is such a threat to our continued prosperity.

We ask finally that you work for the maintenance of credit restrictions until such time as the economy becomes stable enough to bear a larger amount of consumer credit.

Very respectfully yours,

Mrs. MAGNUS OLSON, *Secretary,*
Minneapolis Antiinflation Council.

ASSOCIATES INVESTMENT CO.,
South Bend, Ind., March 21, 1947.

Dr. CARL E. PARRY.

In Charge of Consumer Credit Regulation,
Federal Reserve System, Washington 25, D. C.

DEAR DOCTOR: I notice from press releases that there has been some agitation to eliminate regulation W. We, in our company, have given the matter considerable thought and do not see the necessity of such elimination at this time. If it were eliminated I am afraid that terms, due to a competitive situation, might become quite long and the down payment quite small on used cars. While it will probably be some time before new cars are available to purchasers generally, yet they are becoming sufficiently available that the deflationary effect in used cars is becoming noticeable. This does not mean, of course, that the terms could not be relaxed a little later on; for instance 18 months, or possibly 24 on new cars would not be out of the way. I do not believe there is any necessity now for changing the down payment.

I thought I would like to write you this in view of the fact that you are getting numerous requests for a change or elimination entirely of regulation W. This was not exactly our opinion a few months ago.

Every good wish to you, and many thanks.

Sincerely yours,

E. M. MORRIS.

ASSOCIATES INVESTMENT CO.,
South Bend, Ind., April 11, 1947.

Dr. CARL E. PARRY.

In Charge of Consumer Credit Regulation,
Board of Governors,
Federal Reserve System, Washington 25, D. C.

DEAR DOCTOR: According to news releases I rather gather that it is going to be the attitude of the Federal Reserve Board that unless regulation W will become permanent by legislation, it is their wish that the regulation be abandoned. I dislike to see this situation prevail inasmuch as I have heard no one say recently that they felt the regulation should be abandoned.

I believe there is some feeling now that it could be liberalized, such as, perhaps, on new cars an extension could be made to 24 months and on used cars 18 months, the down payment to remain one-third. However I think there is some feeling that the down payment on new cars could easily be made 25 percent.

I know you are looking for expressions of sentiment, and I believe this is not far from the viewpoint of most operators in our line of business. As I told you previously, 6 months or longer ago the feeling was more pronounced along more liberal lines.

Sincerely yours,

E. M. MORRIS.

DEPARTMENT STORE ECONOMIST,
New York 17, N. Y., October 31, 1946.

Mr. MARRINER S. ECCLES.

Chairman, Federal Reserve Board, Washington, D. C.

DEAR MR. ECCLES: I imagine you are being swamped with resolutions and pleas for the discontinuance of regulation W. To be sure the Retail Credit Institute is for killing it. But I want you to know that there are two sides to it and two sets of thinking. This publication happens to represent the thinking of department stores throughout America, going regularly to every executive in every department store and departmentized specialty shop in America doing a volume of \$100,000 or more annually.

Not all, but the majority—I think over 60 percent—are for the retention of regulation W. While the board of directors of the National Retail Dry Goods Association voted the other day 16 to 6 for rescinding the regulation, even their vote was somewhat smaller in connection with the regulation of installment accounts than it had been where charge accounts were concerned. The stores who wanted the regulation continued—I repeat over 60 percent—even though in a modified fashion, said that the regulation assisted the smaller stores in meeting the competition of the larger ones on credit terms: a big-league attitude. Those stores favoring abolition, simply “want the Government out of business.”

I am enclosing copy of an editorial, written by John Guernsey, which appeared in our last issue, October 1, and created considerable discussion. Guernsey, as you may know, was at one time head of the Controllers' Congress of NRDGA, and keeps thoroughly abreast of conditions today. I am also enclosing a copy of an editorial I have written for our December 1 issue (November issue is on the press).

I thought you might be interested. You undoubtedly always hear more from the cons than the pros. I think it would be very bad for business to completely wipe out regulation W at this time.

Cordially,

D. ALLYN GARBER,
Editor and Vice President.

THE FIRST NATIONAL BANK.
Denver, Colo., November 15, 1946.

MARRINER S. ECCLES, ESQ.,

Chairman, Federal Reserve Board, Washington, D. C.

DEAR MARRINER: Since the removal of price controls, particularly on used automobiles, we have been concerned lest the various automobile dealers and finance companies to whom we lend might, in the face of scarcity and unsound competition, unduly increase the dollar amount of their loans to purchasers buying used cars at inflationary prices.

I thought, in view of the pressures the Board must be under to remove controls, that you would be interested to know that we and many of our customers with whom we have discussed the matter, hope very much that the Board may decide not to relax regulation W at this time.

With personal regard, I am,

Sincerely yours,

JOHN EVANS.

RESOLUTION

Whereas under authority of section 5 (b) of the act of October 6, 1917, as amended, and Executive Order No. 8843, dated August 9, 1941, and effective May 6, 1942, regulation W has been in force and effect for more than 4 years, and

Whereas credit regulation W has resulted in considerable benefits to the general public and merchants; now therefore be it

Resolved by the Board of Trade of the City of Frankfort, Ky. (1) That it go on record as wholeheartedly endorsing the provisions of credit regulation W.

(2) That the members of Congress from this State be urged to use their best efforts to insure that credit regulation W is continued in full force and effect as a permanent law or regulation.

(3) That a copy of this resolution be sent to Hon. Alben W. Barkley, United States Senator from Kentucky, Senate Office Building, Washington, D. C., to Hon. John Sherman Cooper; to Hon. Virgil Chapman, Congressmen from Kentucky, House Office Building, Washington, D. C.; and to the Board of Governors of the Federal Reserve System, St. Louis, Mo.

CALIFORNIA BANKERS ASSOCIATION,
San Francisco 4, Calif., April 28, 1947.

Re Regulation W.

To The Member Bank Addressed:

Although current reports emanating from Washington indicate that regulation W will be continued as long as it is effective in relieving inflationary pressure,

experience with other controls shows that the regulation may be terminated suddenly and without advance notice.

In anticipation of such a development, the consumer credit committee recommends that each member bank engaged in consumer credit give immediate and serious thought to the problems that may arise in connection with both sales credit and cash lending under highly competitive conditions.

Prior to regulation W there was very little uniformity with respect to interest rates and maturities in consumer credit. This was due in part to competition by the different types of lenders for the available business. Since competition has been increased by the recent entry of several thousand banks into this field, it is reasonable to assume that whenever the regulation is lifted competitive lending agencies will again use "terms" as a medium of business solicitation.

The committee feels that each bank should prepare for the day when competition in the consumer credit field will again be free and unrestricted. No specific formula for rates and maturities can be offered which would be suitable for each community but experience gained under regulation W and a careful analysis of collateral values of consumer goods and local and national economic trends will serve as a guide in establishing the individual bank's policy. One of the most serious mistakes that could be made would be to meet the terms of other lending agencies without regard for sound loaning principles and operating costs.

Your committee will be happy to serve in an advisory capacity on any consumer credit problems you may have. Please address your inquiry to the committee in care of the association office.

D. Z. ALBRIGHT,
Chairman, Committee on Consumer Credit.

[From the Cleveland Press, November 7, 1946]

GUND SEES LESS DANGER OF VIOLENT INFLATION

(By Robert Seltzer)

There is less danger of more violent inflation, with the victorious Republican Party pledging to reduce expenditures and try to balance the budget, George Gund, president of the Cleveland Trust Co. and ardent foe of inflation, said today.

Gund, in an interview, asserted: "Congress will work hard for a tax reduction. It is difficult to obtain immediately, and we should not be too optimistic about it in the very near future.

"Department-store sales remain high, but after the first of the year there probably will be a marked decline in the demand for soft goods, with cancellations in some lines.

"Labor will be more responsive. The play period, to a degree, has terminated. Labor realizes a lesson that, had it come earlier, would have been much more salutary. We will have more production and teamwork, better relationship of capital and labor."

Gund, built like a fullback, a vigorous man with bushy brows and a shock of dark hair little touched by gray, said the reduction of expenditures and balancing of the national budget "will be a slow process because the job confronting the Republicans is so huge."

"The stock market," said Gund, "doesn't discount the same thing twice. It discounted belatedly the Republican victory. It realized that election of a Republican Congress doesn't mean a fairy wand will be waved miraculously. Congress will need insight and co-operation and understanding in its approach to its problems—and I think it will have them.

"The Republican victory will have a minor deflationary effect. We still have a great shortage of goods. It is subject to cancelation in some lines to a certain degree, but still there is a definite shortage and quite a bit of money available. Savings at the Cleveland Trust still are increasing, but not on the basis they formerly did."

Gund said the absence of margins makes for a "thin" stock market, and "in that sense, a dangerous one."

"The 100 percent cash market may have been necessary," he said. "It may have prevented larger losses. People were buying indiscriminately, and many lost—margins or not. Yet one mustn't lose sight of the fact that it's possible to borrow on stocks outside of the New York Stock Exchange."

Referring to regulation W, which restricts the time on installment buying and specifies percentage of down payments, Gund asserted: "If we didn't have regu-

lation W there would be a wild scramble to extend terms, and a bad competitive condition.

"Timing isn't right to rescind or repeal it. Regulation W has prevented some unwise extension of credit. It should remain in effect until we more nearly balance production and demand. Eventually W can be extended as production increases."

Gund said a prime source of credit inflation now is the nearly \$10,000,000,000 of financial, commercial, and agricultural loans, much of which is being used to finance inventories which have grown to large proportions. He said this was "dangerous at the moment," and asserted its most spectacular side was the recent cotton debacle.

ATLANTA, GA., May 26, 1947.

MARRINER S. ECCLES,
Chairman, Federal Reserve Board, Washington, D. C.

This company operates 28 retail furniture stores, selling on installment, in seven southern States. This is its twentieth year. It is our opinion that regulation W should be only modified at this time and controls not entirely lifted until all types of merchandise are plentiful and at a level comparative to present dollar purchasing power. We believe that eliminating all controls at this time would cause temporary flurry for several months and make artificial demand. We therefore urge that controls at this time be only modified, but not eliminated entirely.

NATIONAL MANUFACTURE AND STORES CORPORATION,
LAWRENCE M. FOX, *President.*

DENVER INDUSTRIAL BANK,
Denver 2, Colo., June 25, 1947.

Hon. EDWIN C. JOHNSON,
United States Senate, Washington, D. C.

MY DEAR SENATOR: Concerning the proposals by the Banking and Currency Committee on the continuation of controls governing installment sales, described as regulation W of the Federal Reserve Bank, I have some recommendations to make which warrant consideration.

In the event the controls are taken off, many small under-capitalized businesses must immediately fold up because they will be unable to compete in the money market. The Government would be called upon to establish lending agencies or to broaden the authority of the Reconstruction Finance Corporation to permit loans to this class of business.

Under regulation W, installment sales can be readily financed for the reason that the borrower or the consumer has considerable equity in the purchased item.

It is my prediction that, if regulation W, or a similar control, is not in effect, you may expect a mortality of at least one-third of all small consumer, durable goods sellers having a capital of \$5,000 or less.

I am of the firm opinion that this is a matter for consideration by the Small Business Men's Committee, as well as the Finance Committee.

While it is true that I do not voice the sentiment of the majority of the industrial bankers, as evidenced by a vote taken at a meeting of the American Industrial Bankers' Association recently held in Denver, I put forth this statement: When the small businesses compete in the money market, they must fold up.

The American Retail Federation is urging the discontinuation of regulation W. This organization advances the views of the large mail order houses who support its Washington office and who have secured membership from a lot of small dealers who do not understand the real import.

In a discussion with Roscoe Rau, executive vice-president of the National Retail Furniture Association during a meeting of the American Banking Association in St. Louis, he said that his membership was hopelessly divided on the question of the continuance of regulation W, and that this division was not large firms against small firms, but many of the larger dealers felt that it would be only a matter of time until installment lending would go back to 50 to 60 months payments.

If any change is to be made in the regulation, I would not change the down payment, but would extend the payments on automobiles up to 24 months, and on furniture, to 18 months.

I make the following additional statement on automobile sales: Prior to regulation W, the rule of the industry was 30 percent down and not more than 24 months. There was no similar established practice in the retail furniture business, but the public has been educated to pay down 20 percent and the balance in 12 months. This is not a discriminatory regulation as the American Retail Federation would have you believe, but only a requirement of sound business practice on the part of the Government.

Yours very truly,

H. C. DENNY, *Vice President.*

COMMERCIAL INVESTMENT TRUST, INC.,

New York 16, N. Y., May 6, 1947.

HON. CHARLES W. TOBEY,
Senate Office Building, Washington, D. C.

DEAR SENATOR TOBEY: As a person vitally interested in the question of terminating regulation W of the Federal Reserve Board, I am writing to ask your views on the matter. As chairman of the Banking and Currency Committee, you may be sure that your public position, if one has been taken, would be of exceptional interest to me.

With many others engaged in manufacturing, retailing and the granting of credit, my associates and I view regulation W with sincere opposition. Opinions which we read from spokesmen for the Federal Reserve Board and the administration are erroneous and run counter to the vast body of opinion of leading economists which minimizes the importance of consumer instalment credit on our general economy. This statement can be thoroughly documented through leading authorities if you are interested. It is enough to say that consumer instalment credit obligations incurred in any period usually amount to not more than 2 percent of the total national income for the period. There are other important persuasive and significant economic facts supporting this conclusion.

Thank you for considering my views in this matter, and please be assured that I would welcome any expression of your position on the matter as an indication of the attitude of a leader of your party on this matter of national controversy.

Sincerely,

WILLIAM L. WILSON.

NEW YORK, N. Y., *July 2, 1947.*

HON. CHARLES W. TOBEY,
*Chairman, Senate Committee on Banking and Currency,
United States Senate.*

The Eastern Electrical Wholesalers Association on behalf of our 175 independent electrical wholesaler members along the eastern seaboard respectfully urges that you favorably consider the discontinuance of regulation W on the ground that it restricts purchase by our citizens who are desirous of buying out of income and are opposed to the dissemination of their savings. These electrical appliances are no longer in short supply and are constantly becoming available for the greater living comfort of our citizens. We feel the purchase of same should be permitted in the manner most convenient without legislative restriction.

EASTERN ELECTRICAL WHOLESALERS ASSOCIATION.

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