

October 23, 1943

Mr. John B. Blandford, Jr.,
Administrator,
National Housing Agency,
Washington, D. C.

Dear Jack:

This response to your letter of September 11 has been so long delayed because I had to leave the city before I could give consideration to your comments, and, since my return, other matters have required my attention.

Since you apparently misunderstood the spirit and purpose of my letter of September 2 and the memoranda that accompanied it, I shall re-state my position.

At the time Title VI was added to the National Housing Act there was some justification for believing that it was desirable to meet the housing emergency under a modification of the regular mechanism of private building -- although even then not all of the evidence pointed to the procedure adopted. This justification existed as long as we were confronted with unemployment of economic resources, while housing so provided was indistinguishable, both in physical desirability and in cost, from other sound housing in the community, and while it was fairly certain that such housing could be absorbed by the post-emergency market. For at least the past year these conditions have not prevailed. We have been confronted with the imperative need to concentrate all possible resources in war uses. Maximum housing standards have been promulgated in the interest of conservation of materials and labor, and compliance with these has removed the last pretense that Title VI housing is the same as peacetime housing, in either quality or cost. As the migration of population has increased and the customary modes of life of more and more families have been changed, the certainty of the stability of population in many areas has steadily declined. It is for these reasons that I insist that the building of permanent housing, whether publicly- or privately-financed, ought to have been discontinued some time ago, and should certainly be stopped now.

The original authorization under Title VI was for \$100 million; the present authorization is \$1,600 million. Surely, in the circumstances, there should have been a reappraisal of the program before now, especially

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since, by the time the Title VI authorization is exhausted, the amount of insured mortgage debt outstanding on this admittedly risky stuff will be over one-third as much as is outstanding under the regular FHA program.

I shall not undertake to discuss your letter in detail at this time, although I must say that as a reply to the issues that I have raised, it does not stand up under close analysis. Here I shall merely point out a few of the more obvious inadequacies.

Your contention, for example, that I am concerned only with the postwar implications of the housing program is not accurate. As I have said above, my first concern is with the proper utilization now of scarce economic resources. If permanent housing were the only possible kind of shelter that could be provided for war workers, it would have to be built, but you have proved in your own program that a given amount of resources will provide more housing if it is used in temporary, publicly-financed structures than if it is diverted to permanent buildings, whether publicly- or privately-financed. Regard for these real and present economic facts, therefore, dictates that the war housing program should be completed with temporary housing.

To say that I am not solely concerned with the future is not to say that consideration of future problems is unimportant. Housing is an exceedingly durable product, so that decisions to build permanent housing for the present have effects far into the future. It is for this reason that the postwar effects of the program should not be ignored. You take me to task, for example, for assuming that war production centers will lose population when the war boom is over, although at the same time you admit that you have no better idea than I have of how population will be distributed. To dissipate our precious resources on permanent housing where there is any doubt at all about its future usefulness is, in my opinion, unjustifiable. Whether an area loses population or not, Title VI housing, especially that built in the last year or eighteen months, is going to have unfortunate effects.

In any area that retains a substantial part of its wartime increase in population, peacetime building is apt to be of so much better quality for the price that owners of Title VI houses will lose what equity they have. If, on the other hand, a war production area loses population so that, after public war housing has been removed, there is a surplus of accommodations, that community can hardly rely on house building to provide employment. This is not to say that I endorse the restrictionist view that present needs must go unfilled so that we may keep a backlog of work to be done at some time in the future. The point is that the present program is nurturing a boom in the construction of inferior

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housing and thereby intensifying the factors making for postwar depression, since this cut-down housing will stand for many years where decent and substantial housing might otherwise be built.

Your concern for the continuance of the building industry in readiness for the postwar housing boom suggests two observations. First, if carried to its conclusion, it argues that the automobile, electrical equipment, and other industries, which will have important parts to play in the postwar economy, ought never to have been converted to war production -- a conclusion which you will admit is ridiculous. Second, implicit in your position is the idea that private war housing is being produced by the groups which produced our peacetime housing. What the general situation is may be open to question, but in my own experience Title VI housing is being built, not by the typical builder who, in 1939, put up fewer than ten houses, but by large concerns which work on tens, hundreds, and, in a few cases, thousands of units in a single project. It is unrealistic to insist that the present program is necessary to prevent the housing industry as we have known it from languishing. Much more to the point is the fact that, by encouraging the building of Title VI housing now, you are killing postwar markets which might otherwise exist.

You object to my observations on the war housing program on the grounds that I am ignorant of the day-to-day problems involved in formulating and implementing a housing program. I freely grant that I do not have the specific background in the administration of housing that you have, and it was, indeed, because of the National Housing Agency's background of fact and experience that I wished to present the issues I raised for your consideration. I cannot concede, however, that only those charged with its administration are capable of forming judgments and making sound recommendations about the housing program. As you well know, I was intimately connected with the setting up of the insured mortgage system in the first place, and I think I have as full an appreciation as the next man of the principles which must be observed if our mortgage credit and housing programs are to remain sound. Furthermore, I have wide and numerous contacts with what is going on in the world as well as fairly intimate contacts with the situation in Utah.

When you insist, therefore, that I am wrong in saying that, at least in some instances, Title VI housing has been financed on the basis of excessive appraisals and has afforded irresponsible builders speculative profits, has rented for more than it is worth, and has been located in areas which have a doubtful future, I must object. Information which I obtained on my recent trip to the Salt Lake City area has strengthened my conviction that cases embodying these conditions, which I have already cited to you in conversation, are not exceptional. I have no reason to believe that area to be unique.

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I have given more attention in this letter to the past program than I feel it deserves because that was the emphasis of your letter. All of my questions and suggestions have been directed to the program to be followed from now on, which is my real interest and the only aspect of the problem which will be affected significantly by any changes in policy which may be made now.

We have been at some pains to weigh all information available to us so as to obtain the proper perspective on the problem. To the extent, therefore, that we differ, we have looked at different facts or have not appraised our common store of facts in the same way. Needless to say, I should be more than happy to have indicated specifically what facts we have overlooked or what facts we have stressed too much.

I hope that we can get together some time soon for further discussion of the problems connected with the war housing program -- problems which are of great concern to us both.

Very truly yours,

M. S. Eccles,
Chairman.

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This digest from Mr. Wood was copied as a memorandum
(without Fed.Res. heading) and given to Mr. Blandford
by Chairman Eccles at luncheon on December 13, 1943

December 11, 1943

Chairman Eccles

Mr. Blandford's letter

Ramsay Wood

of October 29, 1943.

In his letter of October 29, 1943, Mr. Blandford maintains that the present war housing program is as close to what we have said is desirable as the policy laid down and the funds made available by Congress will permit. This is true to the extent that Congress has limited the conditions under which public housing may be built and has been less willing to appropriate funds for public housing than to extend the authorization for mortgage insurance under Title VI of the National Housing Act.

An important consideration, however, is the fact that Mr. Blandford is operating under policies advocated by his predecessors and adopted by Congress as early as 1940 and 1941, and, as far as the public record shows, he has made no attempt to have the policy changed to meet the greatly altered situation which now exists. In particular, neither he nor Mr. Ferguson has ever pointed out the shortcomings of Title VI as an instrument of war housing policy.

The case for a change in policy is strong and might be made on the following grounds:

1. The prospects for postwar usefulness of additional permanent housing are steadily declining.
2. Permanent, privately-financed housing requires more materials, labor, and time than does temporary, publicly-financed housing.
3. Title VI insurance is unsound for these reasons:
 - a. Since the builder runs no risk under it, there is nothing to deter him from building houses for which there will be no market after the war.
 - b. Since the lending institution is fully protected, it has no incentive to check unwise building.
 - c. Since increases in construction costs are being recognized as valid for valuation purposes, prices of Title VI houses are being boosted above those for comparable houses built in peacetime. When normal building is resumed, these prices will probably be deflated, resulting in loss of equity to the war-time buyer.
 - d. Since Title VI housing is overpriced compared with comparable housing built under normal conditions, it costs the present occupant more, whether he buys or rents, than it should.

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- e. Occupants of Title VI houses are being encouraged to buy them although the prospects for postwar employment where they now are may be slight. They are thus undertaking obligations for the future which they have no assurance of being able to fulfill.
- f. By the time the present Title VI authorization of 1.6 billion dollars has been exhausted, almost one-third of all FHA mortgage insurance in effect will be under this admittedly risky title.

4. There is a widespread hope that enough residential building will be undertaken after the war to help maintain income and employment. Many war production areas, which will require such employment-maintaining measures, are being overloaded with permanent war housing which may act as a deterrent to further building.

While Mr. Blandford and Mr. Ferguson have administrative powers which could be used to bring about the altered housing program which would be desirable, Congressional approval is necessary, not only to protect them against unwarranted charges of arbitrary action and prejudice against private enterprise, but also to insure that the funds necessary will be made available.

Some of the steps which they might take are: they might bring the definition of prospects of postwar usefulness closer to the FHA definition of a "sound economic risk"; they might establish a date on which building costs were as high as will be recognized for valuation purposes under Title VI; they might change the interpretation of the builder's equity so that it must include some cash invested by the builder as an evidence of his belief in the economic soundness of the housing; and they might further ask the builder to demonstrate his faith in the postwar prospects of the housing by requiring that all new private war housing be rented for the duration of the war and six months thereafter. Measures such as these would probably make unnecessary changes in the text of the Lanham Act, since, if they were required to risk their own funds, few builders would undertake privately-financed housing.

If Mr. Blandford were to present to Congress the issues raised by the present program, request approval for a program which emphasizes publicly-financed temporary war housing, and indicate the administrative changes he is ready to make, there is at least a fair chance that Congress would approve the desired program and make available the funds needed to carry it out. Since recent developments suggest that additional funds will become increasingly difficult to obtain, it seems hardly likely that even if the proposed change in policy were rejected, less money for public housing would be forthcoming than is now to be expected under the present policy.

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