

March 16, 1936

MEMORANDUM ON BUILDING-COMPANY PROPOSAL

The President on Friday asked for an expression of views on the idea, of which there has lately been some public discussion, that a limited number of large home-building companies might be organized with governmental assistance--one, say, in each Federal Reserve District--to build houses in sufficient volume to effect important economies in land, building-material, and labor costs.

That the price of housing in the United States is unduly high in comparison with other prices entering into the cost of living has long been evident. That building costs during the depression remained unduly high, and out of line with production costs generally, has likewise been evident. On these points there seems to be no difference of opinion among various schools of economic thought that on other questions sometimes differ very widely.

Moreover, the President goes to the crux of the industrial aspect of the housing problem when he contrasts the lack of economical methods of production in home-building with the methods characteristic of other major branches of industrial production. There is no home-building industry in the United States in the same sense as there has been in recent years, for example, in Great Britain, or as there is in

this country an automobile industry, a radio industry, etc.

The failure of the American genius for larger-scale production to assert itself in the housing field was emphasized by the President's Committee on Housing in the reports made to him in the spring of 1934. The essential causes of this failure, however, as the President's committee then pointed out, were to be found largely in the high speculative costs of land and building resulting from unsound and uneconomic methods of financing—from the failure to develop realistic and practical lending practices that would make the economical development of the housing industry possible.

The essence of the problem, then, is to devise economy-producing financial mechanisms that will (a) facilitate the operations to which the present technological state of the industry is geared, (b) meet the income status of families that can pay for houses only in weekly or monthly installments, and (c) provide a mortgage system under which an integrated home-building industry can be developed. The recommendations of the President's committee in 1934 were predicated on this conception of the essential problem.

In other words, the committee approached the problem from the point of view of cause-and-effect, and recommended a complete revamping of the financing practices that have caused home-building in the United States to lag far behind other industries in developing economical

and efficient methods of production.

The idea that it is somehow possible to create a new kind of home-building industry out of hand, and set it up overnight with governmental financial aid, is a novel conception recently advanced by Mr. Allie S. Freed of New York, who is chairman of an organization known as the Committee for Economic Recovery. Mr. Freed has proposed that one or two home-building companies be established in each of 20 cities, each company having a minimum capital of \$1,000,000, 3/4 of which would be subscribed by the Government if adequate private subscriptions were not forthcoming. The idea is apparently original with Mr. Freed and seems to have been inspired by the fact that the British housing boom of recent years has been accompanied by the formation of well-financed companies that build low-priced houses in large numbers. A comparatively small number of these companies account for a large part of the British home-building activity.

What Mr. Freed has apparently failed to discern, however, is that the formation of these companies was a result of the revival of home-building and home-buying. Home-building as an important private enterprise had largely disappeared in Great Britain during the war and post-war periods. In consequence of this, Great Britain, alone of all the important commercial nations, failed to experience a post-war

building boom. When a variety of circumstances combined to produce the long-delayed revival of building activity, private companies were organized because they saw a prospect of profit; and because of this prospect of profit the companies were able to raise their capital by private subscriptions or else by selling shares in the open market.

In other words, the British housing industry has been going through a sort of de-socialization process for the past fifteen years. It is only in more recent years that there has taken place in Great Britain the revival of building that corresponds in its cyclical relationship with the American construction boom of the 1920's. The fact may be nothing to boast of in the light of the nature of our performance, but it is nevertheless a fact, that in building activity we are ten years ahead of Great Britain, not five years behind her. The recent British boom has been the more spectacular, however, first because it has occurred at a time when in our own country the construction industry has been severely depressed, second, because of the huge volume that has finally resulted from the long-arrested demand, and third, because of the highly creditable nature of the British performance.

The building-company idea advanced by Mr. Freed and accepted by some of his associates (the more practical-minded rejected it and declined to join him in his recent report to the President) has no counterpart in British or American industrial experience. A nation-wide

industry, comprised of large and efficient operating units, does not spring suddenly into existence trained and equipped for large-scale purchasing and large-scale production. Nor can it be made to do so by an offer on the part of government to supply the bulk of the working capital for 20 to 40 operating units.

In the field of home-building, as in the field of unemployment, it is a condition and not a theory by which the Administration is confronted. Whatever the defects of the housing industry in the United States, the industry is nevertheless a going concern. It is made up of thousands of small business enterprises--land developers, operative builders, building-material dealers, etc.--spread over an enormous geographic area which itself contains a great number and great variety of urban communities. There is no comparative analogy to all this in the British picture.

We have no practical choice, therefore, but to take our housing industry as we find it. We have to adapt our legislation to the industry as it is in March, 1936--not as it may be 5 or 10 years hence or as the British housing industry was 5, or 10, or 15 years ago. For us to do otherwise would be to throw confusion and uncertainty into an industry that is plainly on the upgrade, and to defeat by a false hope of much lower prices the very activity and employment that it is our essential aim to stimulate.

The evident desire of the President, as indicated on Friday, is that such housing legislation as he may recommend to Congress at the present session shall represent an integrated program to be incorporated in a single bill and to have three principal objectives. These objectives may be summarized as follows:

1. To further stimulate private construction of dwellings for families in the middle-income groups.
2. To encourage the economies that would result from larger home-building operations than operative builders are at present equipped to undertake.
3. To encourage and assist the movement for slum-clearance and for the rehousing of families in the lower-income groups.

Fortunately these are also the precise objectives of the principal measures he is now being asked to consider by his housing advisors.