

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 13, 1937To Mr. Hersey

Subject: _____

From Miss Egbert

Mr. Eccles would like you to look over the attached letter and report received by the President from the National Housing Committee and give him a brief statement of what you think of the information. He would like to know if it appears to be reasonably accurate and a valuable contribution to the housing situation. If so, he would like a very brief digest of the problems raised and the conclusions which can be drawn from the report both for his own information and to send to the White House, if the information is of such value that it would appear advisable for Mr. Eccles to send such a memorandum to the White House. In any case a reply should be prepared for the President's signature. Mr. Eccles would like to have this by the end of this week or the first of next week.

VE/r

NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON

November 16, 1937.

Hon. Marriner S. Eccles, Chairman,
Board of Governors, Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

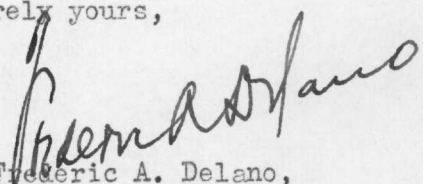
My dear Mr. Eccles:

Doctor Merriam tried to reach you yesterday afternoon by phone, and in accordance with your understanding with him after the conference at the White House on July 13, I am enclosing herewith for your confidential information a copy of the statement on Housing which we transmitted to the White House yesterday.

The views expressed in this statement are, of course, the personal recommendations of Mr. Thomas C. Blaisdell who has conducted the study for us. His progress report is to be reviewed and commented upon by our Advisory Committee in a further report to the President.

We would appreciate your comments and suggestions on this next step.

Sincerely yours,


Frederic A. Delano,
Vice-Chairman.

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NATIONAL RESOURCES COMMITTEE

INTERIOR BUILDING

WASHINGTON

GEM/md/dj

November 15, 1937.

The President,

The White House.

My dear Mr. President:

I am transmitting herewith a memorandum on the subject of Housing, prepared by Dr. Thomas C. Blaisdell, of the Industrial Committee of the National Resources Committee, as submitted to the Advisory Committee. Supporting documents, although still in process of revision, are available for transmission to you if you so desire.

It may be recalled that last summer at a meeting of your "Study Group" on July 15, 1937, you requested Dr. Charles E. Merriam to undertake the initiative (in my absence) in shaping up a report on the subject of Housing. In consultation with Messrs. Eccles, Fahey, Labin and others, Doctor Merriam was advised that the shortest and best course would be to operate through the Industrial Committee of the National Resources Committee (of which he was then acting chairman). That committee had previously started a study on the Housing and Construction Industry. In pursuance of the advice then given to avoid getting up new and entangling committees and to cut through all possible red tape, Doctor Blaisdell was authorized and directed to proceed as rapidly as possible, and on July 16 submitted an outline of action calling for:

I. The preparation of a memorandum on Housing Action, to be submitted to you shortly. This preliminary memorandum, a copy of which is enclosed herewith, was duly transmitted to you on August 16 (copy herewith).

II. Doctor Blaisdell's conclusions and recommendations as submitted to the Advisory Committee are transmitted herewith without opportunity to obtain the critical comment of the Industrial Committee or the Advisory Committee of the National Resources Committee. The basic material from which these conclusions are drawn are still in process of revision. It is the Committee's thought that these materials be prepared for publication after critical review.

III. The basic study of the relationship of the construction industry to economic balance is proceeding in conjunction with the broader study of economic balance. It is still too early to indicate the date at which this material will be available.

Respectfully submitted,

(SIGNED)

Frederic A. Delano,
Chairman, Advisory Committee.

November 13, 1937

CONFIDENTIAL

The Advisory Committee
National Resources Committee
Washington, D. C.

Gentlemen:

The study of Housing and the Construction Industry which is now nearing completion has been entitled, for purposes of submission to your Committee and for criticism by the Industrial Section, "Some Factors in the Development of Housing Policy in the United States."

It should be recalled that the underlying endeavor of this study has been to locate the strategic points of influence in this industry. It was hoped that a basis for policy determination would be reached. It is not surprising, however, that it has been impossible to locate any magic methods by which the industry can be accelerated or slowed down to any great extent.

In order to establish a broad frame of reference for thinking about "the cost of housing," the following rough averages may be used to show the relationships between the various factors which enter into the costs of housing for most of our people:

A. On a primary capital outlay basis for owner-occupied houses:

- | | | |
|------------------------------------|-------------------|--------|
| 1. Land ready to use | 15%-35%) | { 100% |
| 2. Building construction | 65%-85%) | |
| a. Labor costs . . . 30%-45%) | { 100% . 80%-85%) | { 100% |
| b. Materials costs. 70%-55%) | | |
| c. Overhead and profit | | |

High

why have I kept for owner build

B. On a monthly outlay basis for owner-occupied houses:

- | | | |
|--|---------|---|
| 1. Financial charges, interest and amortization
(which corresponds to primary capital outlay
in Section A) | 50%-65% | |
| 2. Taxes | 10%-20% | X |
| 3. Maintenance, replacement, and insurance . . . | 10%-20% | |
| 4. Water, electricity, and heat | 10%-15% | X |
| 5. Transportation to and from work | 0%-10% | |

Furniture
Washing
Recreation

From an analysis of the materials brought together in this report I draw the following conclusions:

1. There are no discernable methods by which this industry will be revived or stabilized within a short period of time.
2. The rent-(selling price)-cost ratio can still be regarded as a strategic relationship in private building.
3. The circular relationship of purchasing power and productive activity, while fundamental, still defies analysis as to motivating force. The dominant influence on private building activity still seems

to lie in anticipations rather than existing situations. Production seems to be in advance of effective demand, hence in part creating that demand. Even though high costs seem to accompany high activity, there is no indication that they induce activity.

4. At the present moment lowering of costs from whatever source can stimulate activity and raise it to a correspondingly higher level. But a single change should not be expected to produce a high rate of activity.

5. The most influential action which can be taken by federal authority lies in further extensions of steps already begun in financial organization and methods. Such action can have two effects:

- a. Lower financial costs. (More efficient operation of financial institutions.)
- b. Lower interest rates. (Closer integration between supplies of funds and the demand for those funds. This integration would result in lower interest rates for prime mortgages and a narrowing of the present gap between interest rates for mortgage credit and the long-time interest rate as reflected in long-time government securities and "AAA" Bonds).

6. The most promising attack on costs is an "all along the line" approach which deals with finance, labor, materials, design, and industrial organization with a background attack by way of city and site planning.

7. Prefabrication carries little promise of practical application in volume in the near future. Even should prefabrication be widely adopted as a construction improvement, savings in cost can probably not account for a reduction in excess of 15 percent in rentals (costs of housing of urban dwellers).

8. Large-scale operations which can produce savings are possible, but supervisory problems are serious in dealing with large-scale operations in the small-house field.

9. Land control is of dominant importance. This means the protection of neighborhoods against blighting influences; the power to consolidate prematurely developed subdivisions; zoning controls; city planning; projects on sufficient acreage to protect individual sites; the public ownership of lands as reserves for expansion.

10. Municipal costs and services as reflected in real property taxes are of outstanding significance though a considered judgement is impossible at this time. The need for a real study of this field is imperative (as recommended in the Urbanism report).

11. The public housing program for low income groups, in spite of four years of experience, must necessarily be slow in development since most local authorities are neither organized nor technically equipped to move ahead rapidly, and the U. S. Housing Authority will need to reorient existing administrative machinery before it can function smoothly under the new law.

12. A strategic point in the whole program both public and private lies in the subsidy policy to be adopted by the U. S. Housing Authority. Subsidy is a powerful weapon which can be used to induce lower costs and efficient operation. Skeptical observation suggests it will continue to be an incentive to inefficiency. The U. S. Housing Authority can use its subsidies formally to insist on and coax low costs by local authorities. It can use its influence informally

to bring about the use of methods by contractors and builders which would slowly change the pattern of construction in many parts of the country. Local housing authorities become in effect large promoters with all of the strength and weaknesses of such builders in the industry. The temptation will be to accept "what is" instead of whittling into the knotty problems of costs.

13. For a large program of public housing, subsidies as high as those permitted for the relatively small program contemplated in the Wagner Housing Act would probably become burdensome. This is particularly true if they are supplemented by a large degree of tax exemption in the municipalities. This points to the necessity of narrowing the differential between present costs and the amount which the lower income groups can afford to pay.

The document submitted today contains the following contributions:

*Foreword, by Thomas C. Blaisdell, Jr.

- I. Social and Economic Considerations, by Lowell J. Channer
- *II. Location Factors in Housing Programs, by Jacob Crane
- *III. The Significance of Site Planning, by Frederick Bigger
- *IV. Building Regulations as Construction Standards, by George H. Thompson.
- V. Financing Home Building, by Ormond Locnis
- VI. Legal Problems in the Housing Field, by Horace Russell
- *VII. Building Materials and the Cost of Housing, by Theodore J. Kreps
- *VIII. Labor and the Cost of Housing, by Mercer Evans
- IX. The Significance of Small House Design, by Pierre Blouke

X. Special Problems of Rental Housing, by Eugene Klaber
*The Interrelation of Factors, by Thomas C. Blaisdell, Jr.

Except for minor editorial changes those chapters marked with an asterisk (*) are in finished form. The others are still in process of revision.

Copies of this document are being submitted to the members of the Industrial Section for comment and correction.

In addition I am submitting specific suggestions as to policy and possible action. These suggestions have been culled from the documents submitted by the participants and supplemented by additional suggestions of my own.

Respectfully,

(SIGNED) THOMAS C. BLAISDELL, JR.

Thomas C. Blaisdell, Jr., Consultant
Industrial Structure Study

CONFIDENTIAL

RECOMMENDATIONS

With a profound realization of the inherent difficulties of carrying out the recommendations suggested below, I have indicated in parentheses following each recommendation the various agencies which seem to be concerned with the particular problems.

Thomas C. Blaisdell, Jr., Consultant
Industrial Structure Study

November 13, 1937

I.

GENERAL RECOMMENDATIONS

GENERAL POLICY

1. Federal assistance for municipal land ownership of land for future housing development. The study of land policy for the use of publicly-owned land. (USHA)
2. Encouragement of government research in the fields of materials and equipment. (National Bureau of Standards)
3. A fundamental study of the impact of real property taxes and other taxes on the volume of housing. This should be a phase of the tax study recommended by the Urbanism Committee. (NRC in cooperation with other government agencies)
4. Unification of tax and special assessment collection machinery by many jurisdictions. (USHA, FHA, FHLBB, and state legislatures)
5. Establishment of consulting service in the federal government to assist local jurisdiction in the field of regional and city planning. (USHA or NRC)

II.

RECOMMENDATIONS REGARDING PRIVATE HOUSING

FINANCE

1. Persons unable to provide an equity of 20 percent on purchase price should not be encouraged to undertake the purchase of a home. When the first cost of the home has been reduced materially say to \$2500-\$4000, then lower percentages might be considered. (FHA, FHLBB, RFC Mortgage Corporation)

2. Reorganization of the mortgage market:

(a) Encourage the further use of the high-ratio, long-term amortized mortgage. (FHA, FHLBB)

(b) Establishment of Federal Mortgage Associations.
(Congress, FHA)

(c) Extension of privilege of guarantee under FHA of mortgages on apartments and multiple dwelling units. (Congress, FHA)

(d) Amendment of National Housing Act to permit lower annual insurance premium to be calculated on the unpaid remainder of the mortgage and make possible lower rates on a 50 percent mortgage than on an 80 percent mortgage. (Congress, FHA)

(e) Amend the Wagner-Steagall Act to permit government loans to limited dividend corporations and bona fide cooperative associations. Alternative action is possible through RFC Mortgage Corporation (guaranteed mortgages can now be written through FHA on such projects). (FHA, RFC Mortgage Corporation, USHA)

(f) Establish a second mortgage market with direct government loans at low rates. (If FHA appraisals are sound the machinery

FINANCE (Continued)

would be available to carry out such a program without difficulty).
This should be considered in conjunction with proposals for the
90 percent guaranteed mortgage. (FHA, FHLBB)

(g) Eliminate in private lending agencies excessive charges,
fees, renewals, insurance bills, etc. (the corollary of (a).)
(FHLBB, FHA)

(h) Simplification and reduction in cost of title examination
and recordation, and foreclosure procedure. (State legislatures,
FHLBB, FHA)

CONSTRUCTION

1. Large scale building companies can be encouraged by local housing authorities but the method of direct attack is not clear. (USHA through local housing authorities)

2. Simplification and standardization of design as now being stimulated by the FHA and the FHLBB program of education of architects and other participants in building process. (FHA, FHLBB, National Bureau of Standards)

3. Modification of building regulations wherever they do not conform to known standards and wherever they represent monopolistic favoritism should be pressed by local authorities. A job for technicians and politicians. (National Bureau of Standards, FHA, FHLBB, USHA)

4. Efficient managerial organization on the job in respect to regular supply of materials and organization of work crews. (Private companies, local housing authorities)

MATERIALS COSTS

1. Large scale purchases will make possible reduction of costs for some materials and equipment. (Private companies)
2. Standardization of sizes, quality. (Trade associations, National Bureau of Standards)
3. Modifications in distributive customs some of which in effect now constitute collusive methods of maintaining margins. (Private companies, government purchasing agents)
4. Modification of municipal regulations which are in effect legal collusion. (Municipal governments)
5. Detail changes in tariff items wherever they can produce lower prices. (Tariff commission, Department of Commerce)
6. Modification of freight rates. (ICC)
7. Use of anti-trust statutes in basing point cases. (FTC, Department of Justice)
8. Organization of municipal, county and federal procurement officers to combine purchases and strengthen bargaining power. Use of authority to make outside contracts when "tie-bids" are presented.

LEGAL RECOMMENDATIONS

1. Adoption of uniform mortgage and foreclosure acts by the states. (FHLBB)
2. Adoption of uniform mechanics lien acts by the states. (FHA, FHLBB)
3. Development of more efficient land title registration by the states. (FHA, FHLBB, State legislatures)
4. State legislation should be developed more adequately to supervise mortgage financing institutions. (FHA, FHLBB, State legislatures)

LABOR COSTS

1. Encouragement of long-time hiring with rate differentials for guaranteed employment. (Department of Labor, trade unions)
2. Development of more adequate apprenticeship training programs. (Departments of Labor and Interior, trade unions)
3. Efficient organization of crews on the site. (private contractors, trade unions)
4. Specific action against racketeering in the few centers in which it exists. (Local legal authorities, Department of Justice)
5. Negotiations with local union officials on detail points of job operations, production standards, wage rate problems on the basis of broad national union policies. Cooperation between contractors and unions should be on the basis of stabilization of annual income and efficient management of crews, not on the basis of raising costs. (Contractors, trade unions)
6. Simplification and standardization of design. (FHA, FHLBB, National Bureau of Standards)

III.

RECOMMENDATIONS REGARDING PUBLIC HOUSING

FINANCE

1. Amend Wagner-Steagall Act to permit loans to limited dividend corporations, and to bona fide cooperative societies.

(Congress, USHA)

2. Use federal subsidy as a device for stimulating lower costs and better organization of industry. (USHA)

3. Study of local tax exemption for publicly constructed dwellings. (USHA, NRC)

OPERATION

1. Study management problems of existing public housing developments. (USHA and local housing authorities)
2. All public projects should be analyzed completely from site acquisition to final management before proceeding with any development. (USHA and local housing authorities)
3. Construction and planning of projects should be under the same supervision. (USHA and local housing authorities)
4. The suggestions for lowering labor and materials costs (in connection with private housing) apply to public housing with still greater force since they will be under public control. (USHA and local housing authorities)

LEGAL

1. Amend Wagner-Steagall Act to modify the requirement for demolitions concomitant with construction of new structures.

(USHA, Congress)

2. Further development of state laws authorizing the establishment of housing authorities. (USHA, State legislatures)

3. More general establishment of powers of local housing authorities to operate outside the municipal limits. (USHA and State legislatures)

4. Clarification by litigation of the grants of power of eminent domain to housing authorities. (USHA, Local housing authorities)

5. Establishment of legal authority to check "wildcat" subdivision and pool property in defunct or blighted areas.

(State legislatures, USHA)

December 2, 1937.

Honorable Frederic A. Delano, Vice Chairman,
National Resources Committee,
North Interior Building,
Washington, D. C.

My dear Mr. Delano:

This is to thank you for your letter of November 16th enclosing a copy of your letter of the preceding day to the President and the confidential report made to the Advisory Committee of the National Resources Committee by Mr. Thomas C. Blaisdell, Jr.

Inasmuch as I have been under extraordinarily heavy pressures here largely in connection with the housing problem, I have had but little opportunity to study and reflect upon the many lines of approach to this problem which are indicated by this material, and I am hesitant now about venturing to give you comments and suggestions covering so wide a range. It is evident, however, that a good part of the program suggested is long range in character, involving a great deal of research and study as well as changes in both governmental and municipal policies. For myself, I am primarily concerned with the urgency of the housing problem and the need for doing those immediate things which so far as possible will give a prompt stimulus to the entire industry. Therefore, I have been particularly interested in an attack on the cost question.

The legislation which the President has now sent forward to Congress was worked out by a committee with which I had the honor of being connected. This legislation and general program reflects my own views with regard to what can be done immediately. It is apparent from this that I do not find myself in accord with those recommendations of Mr. Blaisdell which assume that "persons unable to provide an equity of 20% on purchase price should not be encouraged to undertake the purchase of a home". Nor am I kindly disposed towards a reversion to the second mortgage principles, for I think experience has demonstrated the abuses and difficulties,

Honorable Frederic A. Delano - (2)

December 2, 1937

particularly with regard to the costs to the home-owner, that have resulted under this system.

However, with other recommendations I am entirely sympathetic and some of them, as you will note from a study of the proposed housing program, have been embodied in that program. As you are well aware, this whole problem, both from a short and a long range viewpoint, is so extensive and complicated and so beset by controversy that I would not wish within the space of a letter to undertake to make comments and suggestions such as you request for it would be impossible to cover the field adequately on many points.

You will, I am sure, understand why I have been delayed in responding to your letter, but I wish to express to you my appreciation of your courtesy in submitting this material, which I am transmitting to our staff here for further study and analysis.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b