

**FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.**

OFFICE OF THE
FINANCIAL ADVISER

December 17, 1937

To: Mr. Eccles (Personal and Confidential)

From: J. M. Daiger

Subject: "Prevailing Wage" Clause

This memorandum is to confirm and supplement the long-distance telephone conversation that I had with you last evening.

At the request, first of Senator Wagner as chairman of the Senate Banking and Currency Committee, and then at the request of Senator Bulkley as chairman of the subcommittee to which the pending housing bill has been referred, I have been attending the executive sessions which have been held on Tuesday, Wednesday, and Thursday of this week.

Except for one unexpected development, which I regard as extremely serious, I should say that the program as outlined by the President in his message is making satisfactory progress on the Senate side. As I told you, the House committee voted yesterday to report out its bill, the form of which Mr. Ferguson and I regard as satisfactory in all important particulars.

The unexpected development in the Senate committee is the advocacy by Senator Bulkley of an amendment to require that any mortgage insurance contract issued pursuant to Title II of the National

Housing Act shall contain the prevailing-wage clause. This is the clause ordinarily provided in legislation dealing with public construction or publicly-financed construction.

From two points of view, this is directly contrary to what is contemplated in the President's special message on housing. In the first place, it would immediately tend to "freeze" the existing union scales and thus put the President at an extreme disadvantage in any conferences that he might wish to hold with representatives of industry, labor, and finance with a view to bringing about a reduction in housing costs. In the second place, it would immediately increase housing costs, for the practical effect of establishing the so-called prevailing wage would be to raise the average wage.

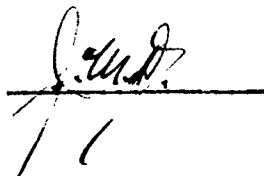
For another thing, the very process of determining and adopting a prevailing wage in each of the thousands of localities where men are engaged, or expect to be engaged, in the construction of housing, would impede and delay the continuance or resumption of construction activities until such time as the Department of Labor was able to hold public hearings and come to a decision as to the prevailing wage in all of the crafts and trades engaged in the building of houses. In other words, there does not now exist any official determination of what the prevailing wages are in the building trades.

What is even more to the point, the Federal Housing Administration could not function if it were required to include the prevailing-wage clause in its mortgage-insurance contracts. These contracts are not made with the operative builders, or with the

building contractors and subcontractors, but with the private lending institutions that make the mortgage loans. Manifestly, these private lending institutions would not make loans under the FHA set-up if the validity of the mortgage-insurance contract depended on the payment of the prevailing wage by builders, contractors, and subcontractors.

As far as the FHA is concerned, Congress might as well vote to repeal the National Housing Act as to make its continued operation depend upon a condition that the FHA has no means whatsoever of enforcing. As far as the stimulation of private construction and private financing is concerned, Congress would do far better to leave the National Housing Act and the present limited mechanisms of the FHA unchanged.

A conspicuous feature of the testimony given to the Senate committee by William Green, President of the American Federation of Labor, in support of the pending bill, was that he did not ask the committee to amend the bill to include the prevailing wage. Senator Wagner, Dr. Lubin, and myself particularly noted this fact at the time and discussed its significance. I have discussed the matter further with Senator Wagner and Dr. Lubin since Senator Bulkley made his position known yesterday, and both of them agree with me that every reasonable means ought to be used to persuade Senator Bulkley not to press a prevailing-wage amendment in committee, and not to introduce it on the floor.



A handwritten signature, likely "C. Anderson", is written over a horizontal line. Below the line, there are some scribbles and the number "11".