

May 31, 1945

The Regulation of Credit on New Construction

The National Housing Agency has urged that, as long as the sales prices of newly built houses are subject to control of a Government agency by reason of priority assistance, credit for such construction should be exempted from the proposed Executive Order. They suggest that if such an exemption is not included in the Executive Order itself, the statement accompanying the issuance of the Order should give assurance that new construction will not be covered in the regulations.

Exemptions from the control, particularly if they cover a large area, would seriously impair the effectiveness of the action as an anti-inflationary measure and would create troublesome problems of administration. Exemptions always result in charges of discriminatory procedure and encourage evasions and avoidance. Furthermore, an announcement of policy on new construction would tie the hands of the Board and the Economic Stabilization Director and hamper the making of such changes in the regulations as may be required from time to time.

Reasons for controlling new construction are as follows:

1. Controls through permission to build and the issue of priorities are designed primarily to conserve materials and manpower rather than to prevent price advances for new houses. Prices are subject to approval by the NHA in some cases, but a rise in prices can occur through inflation of costs, including higher land costs, and its equivalent can occur through reduction of quality. Furthermore, there are no price or quality controls for houses built for owner occupancy, unless the houses are subsequently resold, and no controls on so-called "hardship" cases.
2. Whatever may be the additions to the supply of housing through new construction in the near future, they will not be adequate of themselves to restrain price advances. This is partly because near-term additions will be small, owing to continued shortages of materials, notably lumber; and partly because in many cases the building and marketing of new houses in this period will make the current demand for housing more active. People who want homes but have not been seeking them, because they know building has been limited, will come into the market when they see building expanding.
3. In view of the strong demand for houses and the limited amount of building that will be possible, higher down payments for new construction would not cut demand sufficiently to interfere with the sale at profitable prices of all the houses that can be constructed with the materials and labor available.

3
4. Exemption of credit for new construction would make the control of credit for old houses more difficult to administer and more onerous. Credit terms would have to be considerably stiffer than otherwise, because they would have to eliminate more people from the market for old houses to make up for the people brought into the market for new homes by the exemption. Higher terms would be harder to enforce and would create greater inequities in individual cases.

4
5. Rising prices for new houses will make it more difficult for the Office of Price Administration to resist pressure against the price ceilings for building materials. The War Labor Board will be under pressure to permit increased wage rates in building trades. Increasing prices of new houses will also make more difficult the job of rent control.

5
6. If there is no restriction on credit for new construction, builders will be encouraged to concentrate on the larger and more expensive homes.

6
7. Regulation of credit to non-veterans for new construction would give veterans a better chance to get new houses and to get them at reasonable prices.

Regulation of Credit for New Construction

If an Executive Order is to be issued covering real estate, the National Housing Agency wants it to exempt new construction. If not that, then they want whatever public statement accompanies the Order to specify that new construction will be exempted under the regulations to be issued. While everybody agrees that the way to offset inflation is by new production, that argument will not stand analysis under existing conditions in the construction field. The matter should be left for the Economic Stabilization Director and the administrative agency charged with the responsibility for carrying out the regulation to decide. Their hands should not be tied in advance. One exemption always invites a train of others.

New construction should be regulated at this time because:

1. There would be no effective way to curb inflated prices of new construction. Such controls as NHA has in permits to build and priorities are designed primarily to conserve materials and manpower, not to curb price advances for new houses. While prices are subject to approval by NHA in some instances, a rise in price can come about by inflated costs, including higher land costs coupled with poor quality materials. There are no price or quality controls for houses built for owner occupancy unless houses are subsequently resold, and there are no controls on so-called hardship cases.
2. Continued shortages of materials, notably lumber, will make impossible enough additions to the housing supply in the near future to prevent inflated prices. If new construction is unchecked, demand that has been dampened down will become active and insistent.
3. Such an exemption would make it far more difficult to administer controls on old houses and would create greater inequities.
4. The OPA would find it increasingly difficult to resist pressures against the price ceilings for building materials if this door is to be opened. Likewise, the War Labor Board would be high-pressured to permit wage-rate increases in the building trades. If, as is almost inevitable, the prices of new houses rise, the job of rent control will be made more difficult.
5. With such an exemption builders will have every reason to concentrate on the larger and more costly homes. That would discriminate in favor of the few and not relieve the problem of the many.
6. Until materials and labor are far more abundant than they will be until the war ends, veterans will be better protected by regulations covering the entire field instead of by letting the new construction sector go virtually uncurbed.

June 1, 1945

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2. Continued shortages of materials, notably lumber, will make impossible enough additions to the housing supply in the near future to prevent inflated prices. ~~If new construction is unchecked, demand that has been dampened down will become active and insistent.~~ *Demand is going to be even stronger than it has been as people are encouraged to seek homes by the general idea of relaxation that is in the air.*
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6. The preference given veterans under the G. I. Bill of Rights — to purchase homes without a down payment — would be much less if the regulations should fail to restrict other purchasers of new houses