

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date June 4, 1945

Mr. Thurston

Subject: \_\_\_\_\_

From Mr. Parry

LEP

The regulations, from the very outset, should cover new construction as well as existing houses.

One way of "showing up" the contrary proposal is to see how good a case can be made, under existing conditions, for the proposition that the regulations should cover new construction only.

1. Since there is an acute shortage of building materials and building labor, which greatly increases building costs, regulations curtailing particularly demand for the construction of new houses would operate to restrain building costs until that acute shortage is relieved.

2. Since the high cost of building arises in considerable part from artificial bottlenecks in the construction industry and from conventional types of construction, to curtail demand for new houses at existing prices would have an influence on those factors that is fundamentally constructive.

3. To divert demand from new houses towards old ones would have less inflationary effect on the price level for houses because, during the coming year or so, many more old houses than new ones will be on the market -- in the ratio of not less than two to one.

4. To put downward pressure on building costs will do much to restrain prices for existing houses because the present "high cost of reconstruction" is a big factor in the high appraisal of existing properties.

5. Since many of the existing houses already have mortgages on them merely get transferred to new buyers, whereas purchase or construction of a new house on credit creates new debt, the latter is definitely more inflationary in the credit sector.