

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

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To Chairman Eccles

Subject: The Veterans' Emergency

From Ramsay Wood

Housing Program

The "Veterans' Emergency Housing Program," recently announced by Mr. Wilson Wyatt, calls for starting 1,200,000 housing units of low and moderate cost in 1946 and 1,500,000 in 1947. *In 1946 200,000 of these will be in re-used temporary structures*

## Summary

Under the Veterans' Emergency Housing Program it is expected that twice as many houses will be started in 1946 as had been estimated earlier (that is, 1,000,000 new units, compared with 450,000 - 500,000). This large increase is made possible by the decision to limit non-residential construction, allocate materials, particularly to units costing \$6,000 or less, and stimulate greatly the production of materials and prefabricated houses.

Output of materials and prefabricated housing would be increased by the use of Federal financial aids to producers, including subsidies, purchase contracts, loans, and rapid tax amortization of the cost of new capacity. No details have yet been given about the administration of this part of the program, beyond the fact that producers and not industries would be dealt with.

To curb inflation it is proposed that the prices of old and new houses and of building lots be controlled.

Easier credit terms, allocation of materials, and possibly Federal aid in site preparation are advocated to get low-priced and rental housing built.

## Comments

The program of financial aids will be effective only if it is carefully administered so as to encourage the most efficient production of the items which are really needed, and is so set up that producers have an incentive to do without Federal aids as quickly as possible. The program is not yet stated in enough detail to permit a judgment about whether these conditions will be met.

It seems essential to the success of the program that prices of residential real estate be controlled. Perhaps those houses that were built with priorities assistance subject to maximum prices could be placed under price control immediately.

The part of the program which seems to be weak is that part which touches directly on the building of houses. The easing of mortgage credit terms advocated seems undesirable, especially since special financing facilities are already available to veterans. The easier terms proposed would add to inflationary pressures and probably weaken the allocation program. It is suggested that veterans be encouraged to form building groups with which the Government could deal directly.

The program is an exceedingly ambitious one, and if the goals are to be achieved, a great many difficult problems must be dealt with. It is the most encouraging program, however, which has yet appeared, and, if more attention is devoted to the actual erection of houses, it can probably be successful in the main.

#### The program in general

To reach the goal, Mr. Wyatt says it will be necessary to:

1. Reinstitute Government control of building.
2. Allocate materials to residential building.
3. Stimulate the production of conventional building materials.
4. Encourage the development and use of new building materials.
5. Encourage the production of prefabricated houses.
6. Recruit a large number of workers for residential building.
7. Make available attractive financing terms.
8. Expand the program for housing families of low income.
9. Prevent inflation.
10. Enlist the active participation of communities in the program.

Mr. Wyatt asks for the passage of the Wagner-Ellender-Taft Bill (S.1592) to make available attractive financing terms and housing for families of low income. He advocates extension of the authority for

price control and the allocation of materials, and the enactment of legislation which will permit the regulation of prices of houses -- both new and existing -- and of building lots. All of these points, except price control on building lots, have been advocated before by others in Government.

The part of Mr. Wyatt's program which is essentially new is aimed at increasing the supply of building materials and components. He recognizes three separate problems: increasing the output of conventional building materials to the capacity of existing plants; converting unused war plants to the production of building materials; and building new capacity.

It is contemplated that several methods of meeting these problems will be used: premium payments (subsidies); Government purchase contracts; rapid amortization of new plant for tax purposes; and Government credit, both short- and long- term. In addition, "Wage-price adjustments or price increases where they are necessary and not inflationary" would be granted.

It is contemplated, apparently, that all of these methods of Federal aid would be used in such combinations as are appropriate in particular cases. The object would be to obtain the maximum production of each needed item with the minimum increase in cost to consumers and the smallest possible concessions from the Government. All Government purchase contracts, for example, (and possibly also premium-payment contracts) would be subject to renegotiation.

#### Appraisal of the program in general

This program is a great improvement over the one which has been in effect most recently, because it contemplates tackling the housing problem from the supply as well as the demand side. It recognizes that, while, in the face of an unprecedented demand, resources will be scarce in any event, a sound Government policy can both increase the supply of resources available and direct the available supplies into the most desirable uses. Recognition of this fact makes it possible for Mr. Wyatt to set the goal for 1946 at 1,200,000 units started. While the Government was content to let residential building bid against all other uses of resources, and to rely on exhortation to reduce demand, 450,000 or 500,000 units was the maximum that could be expected for 1946.

Nevertheless, the program is a large one, even in terms of prewar performance, and especially so in terms of the recent past. Wages have traditionally been low in the manufacture of many building materials, and even with subsidy and wage-adjustment programs, it may take some time to attract labor to these lines. Even if the output of

materials is increased substantially and alternative uses are curtailed, both good fortune and good management will be needed to reach the goal. Lumber, for example, has been tight for some time, and what is available is largely green. Heavy reliance is apparently placed on substituting new materials for old, and this itself will be difficult to do without some degree of direct Government intervention. Builders, labor, consumers, and building code officials will all want assurances that the new materials will be satisfactory from their particular points of view.

Despite these serious difficulties, the program seems worthwhile; even if 1,200,000 units are not started in 1946, it seems likely that a good deal more than 500,000 will be.

#### Magnitude of the program

The projected program is large, as can be seen from the table.

Number of Units Started in Nonfarm Areas  
(annual rates)

	Actual			Projected	
	1941	1945 3rd q.	1945 4th q.	1946	1947
Total	715,000	261,900	360,600	1,200,000	1,500,000
Reused tempor- aries	-	-	-	200,000	0
Total new units	715,000	261,900	360,600	1,000,000	1,500,000
Conventional	a/	a/	a/	700,000	900,000
Permanent pre- fabricated	a/	a/	a/	250,000	600,000
Trailers	a/	a/	a/	50,000	-

a/ Data not available.

The reuse of existing temporary war housing (which will require relatively little labor and materials) is the simplest part of the program, since it depends mainly on Congressional appropriations and the availability of sites.

Conventional houses are to be started during 1946 at a rate almost twice as great as was achieved during the fourth quarter of 1945 and only slightly lower than was achieved in 1941. This does not seem to be an impossibly high goal, given a well-conducted Federal policy. The rate of materials and labor consumption projected is lower, compared

with 1941, than the table suggests because smaller houses will be built, but this, in turn, may imply more building in large developments and a need for more entrepreneurial ability relative to 1941.

The program calls for 250,000 prefabricated units in 1946. The present capacity of existing prefabricators to manufacture houses and parts is said to be about 200,000 units per year, and it seems reasonable to assume that conversion of war plants will yield the capacity to produce an additional 50,000 units before the end of the year. The capacity of prefabricators to manufacture has always been in excess of their capacity to distribute and erect their houses; participation by the Government in distribution will therefore be important.

#### Specific aspects of the program

It is not clear how the program will operate in all its details, but some comments can be made on those parts which are clear, and some possible implications of other parts may be pointed out.

Control of real estate prices. The price control provisions of the Patman Bill (H.R. 4761) are endorsed, and it is also advocated that the prices of building lots be controlled. Such controls are essential to the success of any housing program at this juncture, though it may be doubted that the control of existing houses proposed by Mr. Patman (which is not included in the bill reported from committee) is sufficiently tight to be very effective.

A large proportion of the houses built during the war with priorities assistance were subject to price ceilings. When L-41 was abandoned, these ceilings were also removed. The question might be raised whether the ceilings should not be reimposed without waiting for another sale.

Materials supplies. It is proposed that the supply of materials and components be increased to the extent necessary without increasing prices to the consumer. Various kinds of Federal financial aid are proposed, all of which were used during the war in one way or another to obtain increased production.

As Mr. Wyatt points out, there is little danger that, by increasing production of building materials and components to capacity, and adding to capacity, there will be an over-extension of production facilities in these lines. If building is to go on at the rate required in a sound and stable economy we shall need more building materials than before the war.

There is always a danger, however, that incentive aids from Government will give more encouragement to inefficient producers than to efficient and will help to perpetuate obsolete techniques and materials rather than to stimulate adoption of the more efficient. Mr. Wyatt's program emphasizes the need for introducing new techniques and materials, but whether this part of the program is successful or not depends on the way it is administered and the ability of the administrators to withstand pressure from producers of conventional materials, and particularly from inefficient producers.

There has been no clear and specific statement made yet about how the program of Government aids will be administered, but the intention seems to be to extend aid to producers and not to industries. This seems to be the sound approach. When Government aid is extended to a producer it should be extended on such terms that the producer is measurably better off operating than idle and better off producing more than producing less. Government assistance should also, where possible, be so designed that above some output, the producer can do better without Government aid than with it.

Getting building done. There is little evidence in Mr. Wyatt's statement that serious thought has been given to how builders are to be induced to build the kind of housing the program is established to obtain. It seems to be assumed that market incentives are now strong enough, and of the right character, to induce builders -- given adequate materials, labor, and land, at controlled prices -- to build low-priced houses of good quality and to build a large number of houses to rent.

The Government intervention contemplated at the building stage takes the form of easier financing terms, priority certificates, and possibly aid in land assembly and preparation. Easier financing terms are to be offered by continuation of Title VI of the National Housing Act and passage of the Wagner-Ellender-Taft bill (S.1592). In this connection Mr. Wyatt also advocates that mortgage loans should be "based on necessary current costs." At the same time he says we must "stop inflation in the prices of homes through price control on housing and sites. While production is the long-range solution for inflation, we should protect the veteran against excessive prices if he buys a house now." Too easy credit terms could easily defeat this aim and lead to the need to raise progressively the maximum cost of the houses aided by allocation of materials.

Priority certificates are to be issued mainly for houses to sell for not more than \$6,000 or to rent for not more than \$50, although some priorities are apparently to go for houses costing as much as \$10,000. It is not clear what form Federal aid for site preparation will take, but this aid might be mainly to municipalities for the extension of utilities.

Since Mr. Wyatt's program is directed specifically, and almost exclusively, to providing housing for veterans, it ought to be possible to devise a program at the building stage more closely calculated to produce the kind of housing wanted than the one suggested.

For example, under the "GI Bill of Rights," veterans may obtain residential mortgage loans up to \$2,000 at 4 per cent interest, guaranteed by the Government, in addition to any other mortgage loans. There seems little need, therefore, for 90 or 95 per cent loans to builders even if these were made at 4 per cent, to obtain housing for veterans.

Veterans should, perhaps, be encouraged to band together into local associations to provide themselves with housing, for either owner-occupancy or rental. In this way they could make the most effective use of their financial resources, use their collective buying strength to keep down costs, and exercise a greater degree of choice over the housing they obtain than they will have if the initiative is left to speculative builders. Administration of the housing program would probably also be much easier if the Government could deal with such groups. The veterans would have an incentive to see that standards were maintained, that price ceilings were observed, and that materials were not diverted to illicit uses. The Government could also make more effective use of purchase contracts for prefabricated houses and new materials if there were such groups with which it could enter into intimate and continuing relations. It could provide more advice and expert assistance and assume more of the risks of the introduction of new materials and techniques than might be justifiable in dealing with builders concerned primarily with quick or sure profits.

If such groups were formed on any large scale, builders would have to change from speculative activity to contract building. This would be an unwelcome change for many, but if the program were vigorously pursued, they would probably accept the change.

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