

TO Board Members (individually)

FROM Chairman Eccles

REMARKS:

Aug. 31, 1943.

The attached report on war housing was prepared for Mr. Vinson and Mr. Cohen as the result of a conference I had with them, at which time I undertook to point out to them many of the bad features in the war housing program, particularly that part of it dealing with the units which were of a permanent nature and privately financed.

If you have the time to read this report, I am sure you will find it interesting as well as enlightening.

M.S.E.

CHAIRMAN'S OFFICE

3. The major part of the units provided by new construction by June 1944 will have been publicly-financed, and most of it will be temporary in nature.

	Units completed through June 30, 1943	Contemplated in fiscal 1944	Program through June 30, 1944
Total new construction	1,318,000	250,000	1,568,000
Public	663,000	160,000	823,000
Permanent	186,000	—	186,000
Temporary	477,000	160,000	637,000
Private (permanent)	655,000	90,000	745,000

4. It is increasingly important that we avoid permanent construction where emergency facilities are appropriate and postwar housing needs and values are uncertain.

5. It will be noted that all of the public construction yet to be done is to be of a temporary character and will be rented, while all of the private construction is to be permanent and all of it may be sold after only two months of required renting.

6. Under Title VI of the National Housing Act, Congress has authorized the Federal Housing Administration to insure up to \$1,200 million of mortgages on privately-financed war housing. Under this Title, a builder may obtain a mortgage for an amount which FHA judges to represent his costs of construction; when he sells the house, he may add 11 per cent to the original amount of the mortgage to arrive at the selling price. This assures the builder a profit of 10 per cent.

Although Congress intended to encourage the renting of Title VI housing, more than half of the private war housing which is now occupied has been bought, or is in process of being bought, by its occupants.

Thus individuals are taking ownership of a large amount of permanent housing facilities built for emergency purposes, in areas of temporarily increased population and industrial activity.

7. Since temporary, publicly-financed emergency housing can be built more cheaply than private, permanent housing (in terms of both money and critical materials) and is exclusively rented, there is a strong presumption that the contemplated private building should be eliminated as rapidly as possible from the war housing program, and that more stringent requirements should be laid down to insure that builders hold for rent such units as have been built.

The main principles involved in the situation are (1) that emergency facilities ought to be used to meet emergency needs; and

(2) that individuals ought not to be encouraged to invest now in the purchase of emergency housing in temporarily congested areas--because the postwar value of such houses is questionable, because postwar employment prospects are uncertain, and because home ownership, especially if loss may be involved in sale, is a bar to the mobility of population which will be required in the period of postwar adjustment.

It is suggested that these matters be taken up with the Administrator of the National Housing Agency and that he be requested to report and to make appropriate recommendations for action.

WBS:mgm

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 13, 1945

To Mr. Stark

Subject: Memo on War Housing Program

From Ramsay Wood

The attached memorandum on the War Housing Program is that referred to in your memorandum of August 10 to Mr. Cohen.

Some question has arisen about the meaning of point number 6 on page 2 of that memorandum, which I shall attempt to clarify here:

1. Title VI of the National Housing Act permits the insurance of a mortgage, for up to 90 per cent of the appraised value, to the builder of a 1- to 4-family house in an area in which the President finds that there is or threatens to be a shortage of housing which would impede the war program. The builder must be acceptable to the FHA as a sound and responsible concern.

2. The appraised value is that determined by the Federal Housing Administration, using the procedures and criteria established for its regular insurance under Title II.

3. By regulation, the Federal Housing Administration has determined that the 10 per cent equity required of the builder may be his profit.

4. This means that the builder may obtain an insured mortgage which covers all of his material and labor costs plus the appraised value of the lot so long as these costs are not more than 90 per cent of the value of the house as appraised by FHA.

5. The builder may sell the house to a buyer who pays him the difference between the purchase price and the maximum allowable mortgage. If the price is higher than the appraised value, this difference will, of course, be more than 10 per cent, and, if lower, less.

6. Under Title VI the buyer may rent under an arrangement whereby part of the rent is applied to build up the required equity within 30 months.

7. The War Production Board and the National Housing Agency, under priority, allocation, and quota regulations, determine prices and rents which may be charged. Payments under leases with option to buy may not be more than the maximum permissible rent

Those are the requirements of law and regulation. In some areas, because of poor administration, the system is not as tight as was contemplated:

8. Appraisals (hence mortgage amounts) are based on drawings and specifications, and so may be too high, either through the ineptness of the appraiser or as an inducement to building. If they are too low, builders will not build.

9. In addition to the profits which may be realized as the result of inaccurate appraisals, the builder stands to make a speculative profit in the sale, as lots of land which was bought as acreage.

10. To the extent that permissible rents are set too high, the purchaser under the lease-option arrangement is paying more than he ought to be paying for housing.

11. There are reports that some of the builders operating under Title VI are not sound, responsible concerns.

12. A provision in Title VI as originally passed requiring that only mortgages which were economically sound be insured was subsequently replaced with a requirement that the risk merely be acceptable in view of the emergency. This change has permitted the building of Title VI houses in many areas which have no postwar future.

The last five points are difficult to prove without intensive investigation of particular cases. There is little doubt that, at least in some places, Title VI housing is being insured for more than it is worth, buyers are paying more than it is worth, builders are making sizeable profits (insured by the Government), and there will be ghost towns or sections of towns after the war is over.

RW:agb

THE WAR HOUSING PROGRAM

The major objectives for a wartime housing policy differ from those that were pertinent in peacetime. They include:

1. At least tolerable housing for everyone, particularly war workers.
2. The most efficient utilization of existing housing and the best possible adaptation and distribution of new housing.
3. Avoidance of burdening communities and individuals with permanent housing and excessive real estate indebtedness where housing needs are temporary and emergency facilities more appropriate.
4. The distribution of the costs of war housing as equitably as possible.
5. The avoidance of increases in the price of real estate to artificial levels that will not be sustained after the war.

Development and shortcomings of the present housing program

Since the National Housing Agency was created on February 28, 1942, we have come much closer to meeting the first two objectives. A functioning relationship has been established between the determination of housing needs and their fulfillment. The National Housing Agency works with the War Manpower Commission and the armed services in deciding where, when, and in what amounts and kinds housing is needed for workers in war production; it works with the War Production Board in the allocation of materials for construction; it is the liaison organization with Congress in obtaining the authorization for the required programs; and it deals with the building industry in the execution of these programs.

In meeting the other three objectives we have not been as successful, in part because techniques were established for providing war housing before it was realized how fundamentally housing policy would have to change if the wartime and postwar economies are to function smoothly. The controls which have been imposed on housing are now functioning better than at any time in the past toward the meeting of these objectives, but they might still be improved.

1. The large proportion of privately-financed housing which is being sold instead of rented is a cause for concern. In Title VI of the National Housing Act Congress went to some pains to provide

favorable financing terms to builders in the hope that private capital would provide rental housing for war workers. The record, as is brought out in Appendix D, is not good enough to justify continuance of a substantial volume of building under this Title unless more vigorous steps are taken to see that such housing is indeed rented. Not only should the recent relaxation of the regulation governing sale of new privately-built units be rescinded, but the regulation should prohibit their sale except where hardship is apparent.

2. Rent controls are working well as far as the stabilization of rents is concerned. A great deal of pressure has been exerted on the OPA for some time by real estate groups for the relaxation of these controls, and especially of that which requires one-third of the purchase price to be paid in cash when a rented house is bought. The plea, in general, is that, since other prices have not been completely stabilized, real estate ought to be allowed some inflation both in rents and in real estate prices. To this pressure OPA has so far been practically deaf. However, the Smith Committee of the House, investigating administrative agencies, has recently issued a report which practically endorses the appeals of the real estate people. If this results in either legislative or administrative relaxation of the present controls, it is likely that rents and real estate prices will rise, and the stability of tenant occupancy will be disturbed as rented quarters are bought from under tenants at increasing prices. Such an event would not only disturb the cost of housing, but would add to the manpower problem in defense areas as people now employed look around for new accommodations or even leave the locality. Such steps as can should be taken to insure that the present regulations stand, except as machinery should be set up to care for true hardship cases.

Postwar implications of the housing program

Several serious problems are raised for the future by the war housing program, the most important of which for the present purpose are:

1. Will there be a need after the war for the Federally-financed housing which has been built?
2. Will the privately-financed housing which has been built be needed and wanted after the war?
3. If some of either the publicly- or privately-financed housing is not needed or wanted after the war and is either torn down or abandoned, will local communities be left to bear the continuing costs (e.g., debt charges) on public facilities which have been provided?

The most recent amendment of the Lanham Act, under which practically all of the public war housing from now on will be built, provides that all public war housing be removed within two years after the termination of the present emergency, except such as, in the judgment of the NHA Administrator, is needed during the demobilization period. Public low-cost housing under construction early in the war housing program and converted to house war workers will not be affected, and the Administrator ought to recommend the retention of some of the other projects which meet peacetime standards.

So long as the demolition of the Government's war housing is not pressed so fast as to create forced housing shortages, this policy is good. As Mr. Blandford has testified, "We certainly are not building houses that represent real community assets, in this temporary type of housing. ..." The Federal Government should not be placed in the position of maintaining blocks of substandard housing.

The policy now in effect concerning privately-financed war housing is not so enlightened. Title VI of the National Housing Act was written primarily as an inducement to builders to build badly needed housing, largely in areas for which they saw no future. The fact that more and more of the private housing built has come to be insured under this Title, and the dire predictions in trade papers when authorizations were about to run out that, unless they were increased, private building would stop completely, suggest the economic unsoundness of Title VI housing. It is not necessarily true that all such housing is substandard in peacetime terms. That built early in the program did not suffer from materials shortages, from the limiting effect of the housing standards promulgated by WPB, nor from the subsequent inflation of building costs. There is little doubt, however, that the later housing has suffered from all these factors, although some builders have no doubt been more skilful in coping with such factors than others. Even the better of the later structures are apt to suffer in peacetime competition since equipment and fixtures have been stripped to bare essentials, and might have to be replaced, at some cost, to be attractive to postwar occupants.

Occasion for concern also arises from the failure of Title VI to induce the anticipated volume of rental housing. The requirements of WPB and NHA assure only that new units will, preponderantly, be rented at first. They do not, however, assure that they will continue to be rented.

The postwar implications of this are serious. Demobilization of the war economy is certain to require migration of population on a scale almost as great as has been needed for mobilization. Many areas which have expanded to manufacture war goods will decline again, and areas which have lost population will regain it. Workers who have been forced or induced by circumstances to assume the obligations of ownership will be reluctant to move if to do so means loss of capital invested in a house, and such loss is likely to occur, not only because of exodus of population from war centers with a consequent depression of real estate prices, but also because, with the freeing of economic resources for peaceful uses, better houses will be available in the price-class of the present war housing.

To saddle war workers with this expense is obviously unjust, as well as offering unnecessary obstacles to postwar readjustment. A way out might be found in the law itself, if the Government were willing to assume the cost of such housing as another cost of war. That is, a procedure might be set up for negotiation between FHA and the owner-occupant for amicable default on the mortgage, in which case, FHA would be liable to the financing institution for the outstanding principal. Were such a course followed (which was certainly not contemplated by Congress) the insurance fund would not be adequate to meet the cost, and the policy would result in a charge on the Treasury. Congressional approval would, therefore, be necessary.^{1/}

Not all of the housing involved will be a dead loss. Some of it has been built where it will be needed, and is soundly constructed, and some which is not so can be made sound and thus contribute, at relatively little cost, to the housing supply.

Many objections can be raised to such a policy, such as that it might encourage other "raids" on the Treasury, that it reverses a policy already established to the advantage of some, and that it might encourage dependence on Government bounty by some of our people. Due weight must, of course, be given to these objections before action is taken.

Another variant on the above approach might be for the Government to offer to buy such housing as is judged to be an encumbrance on the economy either in the open market or for the amount of the mortgage. If such a policy is adopted for other parts of the economy as a demobilization measure, this might have practical advantages.

^{1/} It is likely that the insurance fund will not be adequate in any case. The policy suggested here, however, would increase its inadequacy.

As far as the remaining housing program is concerned, it seems advisable to place more and more emphasis on temporary or demountable housing financed by the Government, and to discourage still further the sale of such Title VI housing as is now rented or is to be built.

To a large extent, the cost of facilities (water, gas, and electric lines, streets, schools, and the like) for public projects is being met by the Federal Government where they are needed, and this is true too of some of the facilities for private projects. Some such costs have, however, been borne by the locality. Where this is true, and a marked decline in population takes place, these costs will be an unwarranted burden. There should be little difficulty, however, in working out arrangements for the Federal Government to share such costs. One thing of which we ought to be sure, however, is that we make as few mistakes as possible in approving private housing in outlying areas which will require such facilities, and which may be deserted at the end of the war. The present policy of encouraging building (both public and private) where such facilities already exist ought to be continued and intensified.

APPENDIX A - DEVELOPMENTS PERTINENT TO THE PRESENT HOUSING PROGRAM

FHA insurance of war housing

The first major step which was taken for the provision of war housing was the amending of the National Housing Act on March 28, 1941 by the addition of Title VI which enabled the Federal Housing Administration to insure mortgages on houses built in "Defense Housing Areas" on terms sufficiently attractive to induce private capital to supply the need.

In passing Title VI, Congress recognized that builders are reluctant to build houses to rent. It therefore afforded terms which were more favorable than those previously offered for rental housing and also than those accorded owner-occupied properties. The mortgage might be for an amount up to 90 per cent of the appraised value of the property (with certain maxima prescribed), and it has been ruled that the 10 per cent equity required may be the builder's profit. It is thus possible for a builder to obtain an insured mortgage on a property in which he has invested no money.

At the same time, however, it was provided that the occupant might assume the mortgage and thus become the owner at any time within thirty months upon acquiring the builder's 10 per cent equity. This could be done either through a lump sum payment or in monthly installments.

Subsequent amendment of Title VI has made it still more attractive as an inducement to the building of housing for rent -- by increasing the maximum amount of the mortgage, reducing the insurance premium on mortgages on rented houses, and increasing the possible maturity of the mortgage from 20 to 25 years.

In spite of these inducements to building for rent, a survey of defense-housing units occupied on January 31, 1942 showed that only 22 per cent were rented, and 78 per cent had been sold, either for cash or on terms. A similar survey of units occupied on May 31, 1943 showed that only 46 per cent were rented or occupied on lease with option to buy.

Priorities and materials controls

When the Office of Production Management applied the priorities mechanism to housing in October 1941, it incorporated in the priority application of the builder a loosely-worded agreement that units built with the aid of preference ratings would, where possible, be rented to defense workers.

As the need for control over the use of materials became greater, and as the National Housing Agency perfected its programming policy, this requirement has been tightened. In December 1942 it was required that all housing built for war workers (which is virtually all new housing) must be rented for at least four months before it may be sold to the occupant, and this requirement was applied to each successive tenant. At the same time, NHA and WPB have assumed the right to determine rents and selling prices.

In July 1943 the policy on renting was modified to provide that a builder might sell one-third of the units in any development, provided he did so within 15 days of completion of the building, and the rest might be sold after two months occupancy by the buyer.

Rent control

The Office of Price Administration, through its rent control program, has reduced the cost of housing in those areas where marked increases in rents had taken place, and has kept rents generally at this reduced level. By an amendment to its rent regulation, the OPA, on October 19, 1942 required that where rent regulations are in effect, sales of residential property which require for completion the involuntary dispossession of a tenant may not be made unless one-third of the purchase price is paid down and the tenant is given three months in which to move. This requirement has had the effect of reducing markedly the sale of rented properties, and as a result, has kept down real estate prices, as well as safeguarding the position of tenants.

A strong and continuous attack on these regulations has been under way for some time and may now be about to succeed. The Smith Committee has issued a report agreeing with OPA's critics which may lead to relaxation of the controls at either the legislative or the administrative level.

APPENDIX B - THE PRESENT WAR HOUSING PROGRAM

The policy now governing the provision of housing has been stated recently by Mr. John B. Blandford, Jr., Administrator of the National Housing Agency:

"Because of the great wartime demands upon the available supplies of critical materials, the National Housing Agency authorizes new housing only where it is urgently required for war production. This policy means that we have scheduled construction only to house essential in-migrant war workers and then only to the extent that those workers cannot be adequately housed in existing dwellings or through conversions of existing structures."

Concerning the division of construction between public agencies and private builders, Mr. Blandford goes on to say that under the NHA's programming policies, privately-financed construction is scheduled wherever a postwar demand for the housing is reasonably likely and wherever private builders can meet wartime requirements.

In addition to the authorization of new housing accommodations, the NHA has sponsored the conversion of existing buildings (both residential and nonresidential) to add to the housing supply.

Additions to the housing supply in any given locality are programmed for a given period after consideration of: (1) estimates by the War Manpower Commission of in-migration during the period; (2) the family-status composition of the in-migrants; and (3) existing unutilized or under-utilized housing in the area. If the supply of housing is inadequate to serve the in-migration foreseen, attempts are made to convert existing buildings to house workers. If the housing supply is still inadequate, new construction is scheduled.

The attached table compares the program which was scheduled for completion by June 30, 1943 and that which is proposed for the fiscal year 1944. Mr. Blandford has made clear that, because, of the many uncertainties involved in the migration forecasts on which it rests, this program can be only tentative. Comparison does indicate, however, the changes which NHA contemplates.

It is hoped that relatively more of the housing needed will be found in structures already standing -- 65 per cent in 1944 against 50 per cent in the earlier period -- through boarding war workers with private families, doubling them up in rooming houses, and the like. Of the additional units needed, one-fourth are to be provided by the cheap method (in both money and materials) of conversion, compared with about one-eighth earlier.

New construction will be predominantly publicly-financed, and all of this will be temporary or demountable in character. Provision for single persons is to increase relatively, largely in anticipation of the increased drafting of married men. Something over one-third of all new units will, however, be provided by private capital, and be of permanent rather than temporary character.

The cost of this program for the fiscal year 1944 has been estimated by NHA as \$400 million. Before its recent adjournment, Congress authorized \$300 million, but appropriated only \$100 million. Unless, therefore, further action is taken by Congress to supplement the funds now available for public war housing, the program -- which is a minimum -- will not be carried out.

COMPARISON OF WAR HOUSING PROGRAM
SCHEDULED THROUGH JUNE 30, 1943
AND THAT SCHEDULED FOR FISCAL YEAR 1944

	Through fiscal 1943			Fiscal 1944		
	Number	% of additional units	% of new construction	Number	% of additional units	% of new construction
Total housing to be provided	3,047,647			940,000		
Existing structures	1,525,000			610,000		
Additional units	1,522,647	100.0		330,000	100.0	
Conversions	204,947	13.5		80,000	24.2	
Private	175,000	11.5		40,000	12.1	
Public	29,947	2.0		40,000	12.1	
New construction	1,317,700	86.5	100.0	250,000	75.8	100.0
Private (permanent family units)	655,000	43.0	49.7	90,000	27.3	36.0
Public	662,700	43.5	50.3	160,000	48.5	64.0
Family units	482,912	31.7	36.6	90,000	27.3	36.0
Temporary	300,559	19.7	22.8	90,000	27.3	36.0
Permanent	182,353	12.0	13.8	--	--	--
Single-person units	145,916	9.6	11.1	70,000	21.2	28.0
Temporary	142,450	9.4	10.8	70,000	21.2	28.0
Permanent	3,466	.2	.3	--	--	--
Trailers	33,872	2.2	2.6	--	--	--

APPENDIX C - COMPARATIVE COST OF PRIVATE AND PUBLIC UNITS

On July 31, 1943, the National Housing Agency announced the results of a study of the consumption of critical metals in the privately-financed housing now being built and in the various types of publicly-financed housing. Consumption (in pounds per unit) is:

Private	2,749
Public	
Permanent family units	2,717
Temporary family units	1,989
Temporary dormitories	582

All of the public housing scheduled to be built in fiscal 1944 (except conversions) is temporary -- either family units or dormitories.

NHA, in explanation of the relatively high consumption of critical metals in privately-financed units, says: "As privately-financed war housing is ... intended for long-term use, substitutions for metal items cannot be made on the same scale as in temporary structures intended only for wartime use..."

The average consumption of critical metals per unit in prewar private building was 8,930 pounds.

In general, as the attached comparison shows, the money cost of building these public units which are scheduled for construction in fiscal 1944 is lower than that for the private units. The average contract cost of Federally-financed temporary family units contracted for between April 1 and June 30, 1943 is \$2,667, and of dormitory units, \$1,035. The average amount of mortgage for which FHA-insurance has been applied in the same three months is, for small structures, \$3,763, and for large-scale rental projects, \$4,455. If account is taken of the fact that the mortgage generally covers 90 per cent of the cost, these figures become \$4,181 and \$4,950 respectively.

Average contract cost per unit for public housing contracted for, April 1 - June 30, 1943		Average amount of mortgage per unit submitted for insurance to FHA, April 1 - June 30, 1943 -- Private War housing	
Family dwellings	\$2,729	All units	\$3,920
Temporary	2,667	1- to 4-family	
Permanent	4,599	houses	3,763
Dormitories	1,035	Large-scale rental	
		projects	4,455

APPENDIX D - OPERATIONS UNDER TITLE VI OF THE NATIONAL HOUSING ACT

Insuring operations

Under Title VI of the National Housing Act, the Federal Housing Administration is authorized to insure mortgages on privately-financed war housing up to \$1,200 million. By June 30, 1943, as the attached table shows, applications for insurance had been received on \$1,320 million of mortgages, commitments to insure had been issued for \$1,088 million, and \$1,021 million of the authorization to insure had been obligated, either in actual insurance, or in definite commitments to insure. Unless the authorization to insure is increased by Congress in the meantime, FHA's power to receive further applications will cease in a few months, when the total of mortgages insured and outstanding commitments reaches \$1,200 million.

Disposition of housing built under Title VI

No comprehensive data on the occupancy of housing built under Title VI are available. Information from the Federal Housing Administration indicates, however, that the disposition of housing built under Title VI has not differed materially from that built under priority and other materials-control regulations.

Reports on the initial disposition of housing units completed from builders operating under priority certificates and NHA quotas indicate, as the table shows, that the proportion of units whose initial occupancy was obtained by purchase has declined from 64 per cent as of September 30, 1942 to 54 per cent as of May 31, 1943.

A shortcoming of the data which tends to understate the extent to which occupants are assuming ownership of privately-built war housing is to be noted: information on initial occupancy only is obtained. Since, during the past eighteen months, some restriction has been in effect on the promptness with which privately-financed housing might be sold, it is natural that in this period the proportion of sales in initial disposition should decline. Once the initial renting requirement has been met, however, sales may take place which do not appear in the data on initial occupancy.

The regulations have permitted arrangements in which rent payments are applied in whole or in part toward the down-payment to be counted as rental arrangements, and the fragmentary figures shown for leases with the option to buy suggest that this has been increasing.

Indeed, if these arrangements are counted as semi-binding purchase agreements, the proportion of sales in initial occupancy has been rising, or at least, not declining markedly.

If account is taken of the fact that units which are initially rented may later be sold or placed on a lease-option or sales contract basis, it seems likely that the proportion of all war housing units sold is rising, possibly at a fairly rapid rate.

Among the purchasers there may be, of course, some individuals or business concerns who buy the units to rent. There is no indication, either in statistics available or in comments in trade journals to indicate that this is happening to any material degree. War housing units purchased are purchased overwhelmingly for owner-occupancy.

Table D - 1

STATUS OF OPERATIONS UNDER TITLE VI
OF THE NATIONAL HOUSING ACT
JUNE 30, 1943
(In millions of dollars)

	Sec. 603 (1- to 4-family houses for sale or rent)	Sec. 608 Rental Projects	Total Title VI
Applications received	\$1,209	\$111	\$1,320
Commitments issued	1,025	63	1,088
Mortgages insured	519	41	560
Commitments outstanding	439	22	461
Authorization obligated	958	63	1,021

Table D - 2

NATURE OF INITIAL OCCUPANCY OF PRIVATELY-FINANCED WAR HOUSING

As of:

	Sept. 30, 1942		March 31, 1943		May 31, 1943	
	Number	%	Number	%	Number	%
Occupied	122,299	100.0	195,357	100.0	221,441	100.0
Sold	80,328	65.7	109,763	56.2	118,382	53.5
Rented ^{1/}	41,971	34.3	85,594	43.8	103,059	46.5
Lease-option	6,288	5.1	12,064	6.2	<u>2/</u>	

^{1/} Includes those rented under lease-option arrangement.^{2/} Data not available.

APPENDIX E - SOME DIFFICULTIES INVOLVED IN EFFECTING
THE CHANGE IN POLICY RECOMMENDED

Deterrents to a change in policy for the war housing program along the lines suggested in this memorandum are to be found at two levels:

1. In obtaining the necessary agreement among policy-makers on the desirability of the proposed policy.
2. In formulating legally binding and administratively workable techniques to implement the policy.

The sources from which these difficulties stem and possible ways of overcoming them are discussed below.

Agreement on policy

Two groups are certain to disagree that the policy here suggested is the desirable one -- the Congressional committees concerned with approving legislation for public housing, and the private builders and real estate operators, speaking through their organizations.

The Lanham Act, under which most public housing still to be built is authorized contains the express provision that funds appropriated under it are to be used only to provide housing "in those areas where it cannot otherwise be provided by private enterprise when needed." This provision reflects a widespread antipathy in Congress to the "public housing boys" as they are frequently called, an antipathy which can be traced in part to the unfortunate legislative history of the United States Housing Authority and in greater part to the close contacts which customarily prevail between local real estate operators and legislators.

To the naturally close relation between real estate operators and political organizations, with the resultant blending of attitudes, there is added suspicion of the designs of "new dealism" on the "free enterprise system." Any encroachment of Government on the economic preserves of private enterprise are to be denounced as unsound and subversive of the foundations of our civilization.

The end result of all this, as far as the present war housing program is concerned, is that those advocating publicly-financed war housing were required to prove that private builders could not build and dispose of the required housing in the traditional manner before Congress would make available funds for public war housing.

It has also been assumed that no builder would put up housing, and no individual would buy it, in areas in which there would not be a continuing demand -- an expression of faith in the shrewd ability of self-interest to prevent the waste of economic resources.

It must be added that the policy of encouraging private capital to build war housing was not laid down without the support of the Federal Housing Administration which endorsed and sponsored the addition of Title VI to the National Housing Act in the belief that war housing ought to be provided with private funds and the equally strong belief that the postwar prospects for such housing were such that unusually generous terms must be offered to achieve this end.

It is not too surprising that the only opposition originally to the policy of building permanent housing for sale to occupants in areas of uncertain future should have come from those who were suspect as "public housing boys." It is a little more surprising that, as time went on and the program worked itself out, no opposition was raised by those who might be regarded as more disinterested.

If it is a fact that individual ownership of war housing will be a hindrance to postwar adjustment and will distribute unjustly the costs of war housing as between the Federal Government and localities and as among individuals, it should be possible to convince the Federal Housing Administration and those legislators who are particularly concerned about the conversion of the economy to peace. It is unlikely that the private builders and real estate dealers can be convinced, no matter how decisive the facts which can be adduced.

The Federal Housing Administration seems to be the logical agency through which to try to convince Congress of the desirability of a change in policy toward both private construction and individual ownership of defense housing. FHA is generally well regarded by Congress; it has a stake in avoiding loss on its operations, not only in the good opinion of Congress, but also in that of financing institutions and builders who have yet to test its ability to weather a real estate depression.

The National Association of Real Estate Boards, which has consistently advocated and lobbied for increased use of Title VI for war housing, and the sale of such housing to the occupants, has recently

reported that "Much of the trimmed-down housing being built in war centers under FHA's Title VI will be substandard when peace comes. FHA is exploring plans for dealing with the situation. ..." It suggests Government foreclosure on that housing which has been sold and liberal refinancing for that which has not, so that the builder-owner might bring it up to standard. "Otherwise, the Government might have to take back virtually every Title VI house that had not been sold outright before the cessation of hostilities and do its own reconditioning."

If this report adequately reflects the present attitude of FHA, it might be possible to convince the Commissioner, Mr. Ferguson, of the desirability of not adding to the problems which have already been incurred -- i.e., to complete the balance of the program with public funds. FHA could more successfully appeal to Congress for the assumption of the remaining construction program by the Federal Government than could any other body concerned with housing.

Administrative techniques

As to the housing already provided, the present restrictions on the sale of private war housing are conditions agreed to in consideration of the Government's making available critical materials which are controlled under various war powers. It is likely that these conditions would be interpreted by the courts as part of a contract and could not, therefore, be made more onerous by unilateral action by the Government. While relaxation of requirements may be (and have been) made retroactive, it is doubtful that more stringent conditions could be applied to housing started under more favorable terms.

It is the policy of both the National Housing Agency and the War Production Board to observe this principle.

This being the case, it is probable that little can be done by regulation to compel builders to hold for rent those houses started on condition that they might be sold. The sale of war housing might be slowed down or stopped, for example by having FHA raise its standards of eligibility for the purchaser so as practically to make war workers unacceptable. Such a device, while it might be legal, would probably so jeopardize FHA's reputation as to be politically undesirable.

Other techniques which might be used, although again, with political dangers, are: (1) publicizing of the feeling of the Government that war housing is not a "good buy;" and (2) the extension of OPA's requirement of a down-payment of one-third of the purchase price to be paid in cash to all sales of residential real estate.

A tightening of the regulations now, however, say by requiring that all units built hereafter must be kept available for rent for the duration of the emergency and six months thereafter, would serve two purposes: (1) it would prevent the sale of such units as may be built from now on; and (2) it would probably stop private building except that which seemed to be a fairly good economic risk to the builder.

RW:WRS:agb