

Form F. R. 511

TO _____

FROM _____

REMARKS:

As there were two copies of this letter I sent Ramsey Wood only one copy and kept this one here for you as a reminder that you are going to have him talk to you about it next week.

CHAIRMAN'S OFFICE

10/30/43
Carbon Copy
to Wood
L. W. S. 2

NATIONAL HOUSING AGENCY

WASHINGTON, D. C.

OFFICE OF THE ADMINISTRATOR

October 29, 1943

Dear Marriner:

Let me acknowledge your letter of October 23, in response to my letter of September 11. My letter was not a criticism of views which you presented to me as your own conclusions on the basis of careful consideration, but rather a criticism of a long memorandum about the war housing program prepared by a Mr. Ramsay Wood (whom I do not know), which you transmitted to me with a brief note on September 2. I had thought, naturally, that you wanted to receive and weigh our comments on Mr. Wood's conclusions about the war housing program before you accepted his conclusions in toto. Only later did I learn that Mr. Wood's memo was circulated before we had had a chance to comment upon what it said about us.

Your letter of the 23rd recognizes the need for war housing and says that permanent housing should be built to meet that need if there were no other way. However, you feel that temporary, publicly financed structures can meet the need with the use of less materials, and that therefore only publicly financed temporary housing should be built.

This overlooks the central practical point raised in my letter of September 11, to the effect that we can build only as much war housing with public funds as the Congress will allow. The President asked for \$400,000,000 for temporary, publicly financed war housing in May, 1943. We are now almost into November, 1943, and have thus far been able to secure only \$100,000,000 of this request in appropriations. On the other hand, a request last summer for \$400,000,000 additional authorization under Title VI was enacted by the Congress rather promptly. It is terrible to think of what would have happened to war production if we had not used the tools we had for war housing instead of waiting for those we could not get.

Moreover, the Lanham Act - which provides most of the funds for public war housing - is sprinkled with absolute directives to the effect that public funds shall be used to provide housing only where it cannot otherwise be provided by private enterprise (See Section 1 and 4).

Under these circumstances, the general statement that we should do only public housing because it is cheaper in materials is analogous to making a general statement that it would be cheaper during the war to resort solely to public enterprise for the production of various other war goods - without considering what is attainable in terms of public attitudes and Congressional policy. If anyone could suggest a practical formula for building a larger part of the whole needed war housing program with public funds than we are now doing, it would be very helpful.



Mr. Eccles,

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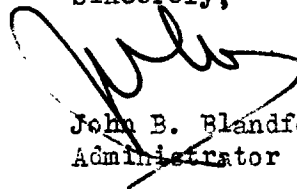
We do believe that our method of programming limits the construction of permanent Title VI housing to those areas where it is reasonably certain to be needed after the war. In the aggregate, the amount of permanent housing being built during the war represents less than a normal projection of the rate of construction before the war in the areas where the housing is being built, quite independently of war in-migration. We believe also that this housing is of good standard and is better than a large part of the housing in these communities and better than what most of the war workers' families have been accustomed to. Of course, still better housing will be built after the war.

But in any event, since we are in agreement that the provision of the needed housing for war workers should take primacy over postwar considerations - although both are important - it would seem premature to concentrate upon discussion of the postwar aspects of war-time housing unless someone is prepared to suggest how war housing needs might be met through methods other than those now employed.

I am heartily in favor of your suggestion that we should try to consider the same set of facts. The central fact in my mind is that we have not been able to discover any method of getting Congressional authorization for the kind of war housing program you have in mind, as distinguished from the kind of program that we are doing and which, even according to Mr. Wood's memorandum, is meeting the needs of the war quite well.

Correspondence is, at best, an inadequate method of discussing this problem, and I share your hope that we may get together soon to discuss the whole problem.

Sincerely,



John B. Blandford, Jr.
Administrator

Honorable M. S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 12, 1943

To Chairman Eccles

Subject: Mr. Blandford's letter of

From Ramsay Wood

October 29, 1943.

In his letter of October 29, 1943, Mr. Blandford abandons most of the theses of his letter of September 11 and concentrates on the fact that Congress has been much less willing to appropriate funds for public war housing--whether permanent or temporary--than to authorize further mortgage insurance under Title VI of the National Housing Act. This fact, of course, was recognized in my memorandum of August 13, 1943; Appendix E was devoted to a brief examination of that problem. It was suggested there that if the Federal Housing Administration would appeal to Congress for the completion of the program with public funds, Congress could probably be persuaded to agree. So far as can be determined from the public record, Mr. Blandford has not asked Congress for a change in policy.

In the absence of such an affirmative position, the House has recently reduced the appropriation for temporary public housing from the \$200 million requested to \$50 million, and unless a successful protest is made in the Senate, the remainder of the war housing program will be even more predominantly privately-financed than was previously planned for.

When he assumed office in March 1942 there were many statutory sources of funds and authority under which the defense housing program was proceeding. He selected two on which to lean most heavily in his administration--the Lanham Act for public housing, and Title VI of the National Housing Act for private housing. Throughout the existence of the National Housing Agency, the need for speed in the provision of housing and the need to conserve critical materials and manpower have been paramount, yet Mr. Blandford has not made any appreciable attempt to have Congress change the policy, set forth in the Lanham Act, which insists that public housing shall be provided only where private capital positively refuses to build.

Indeed, at the periodic hearings which have been held on extension of the two acts, Mr. Blandford has emphasized two things: (1) that his program is formulated within the framework of the Congressional policy that private builders have first claim on available materials and manpower; and (2) that critical materials and manpower must be conserved. He has never pointed out, however, that the materials allotted by WPB for housing would go further if they were devoted solely to the building of temporary structures and conversion of existing structures, or, on these facts, asked for a change in policy.

The basis for a request that the policy of Congress be changed is, however, broader than this. It takes in all of the issues that have been raised in your letters and conversations and in the memoranda which Mr. Stark and I prepared.

If, as he implies toward the end of his letter of October 29, Mr. Blandford agrees with our analyses, and if Mr. Ferguson can be persuaded to that view, there is at least a reasonable chance that a revised policy can be obtained from Congress if the appeal is taken on the issues.

The present approach to Congress will certainly not obtain the appropriations needed, and may not even obtain the legislative authorizations. The attitude of the House Committee on Appropriations has been set forth in its report on the First Supplemental National Defense Appropriation Bill, 1944, filed on November 4, 1943:

"The Committee is disturbed over the possibility of public housing being overbuilt. With construction of war industry facilities approaching a peak and a more intensive utilization of existing manpower showing a tendency to decrease the necessity for immigration, the request for \$200,000,000 has been reduced to \$50,000,000, which with the unprogramed \$10,000,000 would give a total of \$60,000,000 for new programing to meet immediate situations now in sight or to arise. The Committee would prefer to consider the needs more often and be certain of them than to grant the entire amount for the remainder of the fiscal year at this time." (p. 31)

Even if Mr. Blandford and Mr. Ferguson were to appear before the appropriate committees and present a consistent picture of the increasing inadequacy and dangers inherent in further building of private war housing, it is by no means certain that Congress would come around. But there has always been enough doubt expressed at hearings about the present policy by some committee members to indicate that the case is not hopeless. Militating against success, however, is the admitted fact (or hope) that the end of the war housing program is in sight, and the apparent dominance of the "economy" group in Congress.

Added to these factors is the impression, which Mr. Blandford and Mr. Ferguson have not discouraged, that it is desirable as a matter of social policy to give preference to private building. Unless the

Administrator and the Commissioner are convinced that this is no longer true, and are willing explicitly to argue for abandonment of this attitude, not only will the present Congressional policy, represented by the Lanham Act, not be changed, but the actual composition of the remaining war housing program will have to be altered to take account of the reduced appropriations which now seem likely. Private building will have to be allowed to do some of the housing which is now programmed for public funds, with the consequence that Title VI authorizations will have to be increased and the conditions on which new or converted private housing is made available to war workers may have to be relaxed further. The alternative is that needed war housing will not be built.

Factors apart from Congress must also be taken into account. The real estate and builders' groups are probably stronger now than they ever have been before as a pressure group on a national scale, and much of their present strength has been achieved since the beginning of the defense housing program. These groups would no doubt have acquired strength had the war housing policy been different, but the fact that that policy recognized private capital as the main source of war housing gave them rights to fight for. Regardless of the reason for their strength, they are in a position to bring a great deal of pressure to bear at various points against change in the present policy. If a change in policy is desirable in the best interests of the Nation, however, every effort should be made to bring about that change, regardless of pressure groups.

Another possible source of pressure against change is the fact that the present policy has been advocated and defended so long by both Mr. Blandford and Mr. Ferguson. However, neither has defended the policy in absolute terms, and each can, with perfect consistency and reasonableness, advocate change. Mr. Blandford has testified that if conditions were to change, he would come to Congress and report the fact. Mr. Ferguson has testified that he is eager to close Title VI business as quickly as possible.

In the group of excerpts from Congressional hearings attached I have tried to present accurately Mr. Blandford's idea of how he must draw up his war housing program to keep it within the framework set by the Lanham Act and at the same time get housing built when needed with the greatest savings possible in materials and money. The excerpt from Mr. Herbert U. Nelson's testimony is introduced in part to show on what conditions private housing is built, and in part to show that not all Congressional opinion favors private building regardless of circumstances.

RW

Attachment

EXCERPTS FROM CONGRESSIONAL HEARINGS

Mr. Blandford's attitude toward Congress and Congressional policy

In introducing himself to the Lanham Committee of the House shortly after he took office, Mr. Blandford stated the policy he would follow toward Congress:

"Since this is our first appearance before this committee, I venture the suggestion that the committee would be receptive to a bit of personal comment on behalf of Mr. Emmerich and myself. We have been told frequently that we have a tough job, and that the housing problem is a rather complicated one. We agree that it is a tough job, but we hope that it need not stay complicated--that gradually we may simplify it. There is, I think, need for simplicity in approaching this problem, and a larger degree of directness in handling it. We are making progress in these directions with the administrative departments. The picture is becoming clearer, and the teamwork substantially better.

"In addition, Mr. Emmerich and I consider it exceedingly important that we establish a simple, straightforward relationship with this committee, as well as with other committees. We want the committee to feel that we are presenting our best recommendations and judgment, rather than any cock-sure conclusions. It is our intention to present the facts, all of the facts that we have, good or bad. If we make any mistakes, we shall be the first to admit them. If we do not know something, we shall say so. Above all we hope that the committee initially will accept on faith, and ultimately will learn by experience, that we keep our word and that there will be no indirection when we carry out the program finally approved. It is our intention to follow the word of the law and the intent of the law." (Hearings before the Committee on Public Buildings and Grounds, House of Representatives, 77th Congress, 2nd Session, on HR 7312. June 9, 1942, p. 3.)

Mr. Blandford then indicated his acceptance of Congressional policy:

". . . I have in mind that this program squares with what we understand to be the intent of Congress. The Lanham Act requires that the President, in approving projects for public construction, shall determine that private enterprise cannot meet the need. That is the law.

* * * * *

"As indicated yesterday, Congressman, in my opening remarks, I hope that regardless of any differences of opinion as to the wisdom of what is being done, you will believe that we are going to carry out what we are obligated to carry out and that we keep our word." (Ibid, June 10, 1942, p. 37.)

The objectives of the war housing program

On the objectives of the war housing program, Mr. Blandford said:

"One of the byproducts of this effort to house war workers is the attempt, and I suppose it is agreed that it is toward a good end, to keep private enterprise building. We have been able to help keep small industries going, because the small contractor is small industry. On the public side, as well, there will undoubtedly be some good byproducts in the form of much-needed housing which will carry over into the post-war period. And we shall learn something about new methods of construction and new materials. But all these things are strictly byproducts. They are incidental; they are not our objective. We have not the time, as we see it, nor the materials, to do a comprehensive housing job today. Our job is providing shelter for war workers, and we shall look to the other jobs after victory is won." (Ibid, June 9, 1942, p. 10.)

Concerning the adequacy of the Congressional policy on war housing, Mr. Blandford said:

"The congressional side, of course, covers the activities of another committee on title 6, toward the end of the utilization of private capital with respect to war housing. But as to public construction, while there have been a variety of laws in the past, we feel today that we ought to rely solely on the Lanham Act, which is quite adequate to meet all of our needs in the nature of publicly constructed war housing."

"The CHAIRMAN. I understand by that statement, Mr. Blandford, that the emphasis is placed here upon the necessity for additional funds under the act and that no reason is seen for a modification of the terms of the act."

"Mr. BLANDFORD. That is our thought, Mr. Chairman. . . ." (Ibid, June 9, 1942, p. 10.)

The role of private building in the war housing program

The question of the importance to be given to private building in the war housing program was raised frequently in this hearing. Mr. Blandford introduced the subject:

"This (the question of family units) brings us down to the area of permanent housing, which involves the use of existing structures, and finally a minimum volume of new permanent housing. This is the area in which private capital is interested and becomes a substantial help. Of course, to justify permanent housing at this time, we must know not only that the community can absorb such housing after the war, but also that the materials are available. In the past, where both of these conditions have existed, the policy has been to let private capital reach down as far as it could in the income range, leaving the remainder of the lower rental construction for public funds. This is still our policy. We have to review its application periodically in the light of the material situation, which obviously impacts equally on both private and public construction." (Ibid, June 9, 1942, p. 14.)

Mr. Hebert of Louisiana brought the subject up again:

". . . Now, supposing there is only a certain amount of material available in a certain community and the local capital in that community says it can absorb all of that needed family unit material, what then is the attitude of the Public Housing Agency on that?"

* * * * *

"Mr. BLANDFORD. As much material as is available will be furnished to private capital so that it can build as much of the permanent housing as possible for the income groups it can serve. But insofar as there is need for permanent housing, for income groups, whom private enterprise cannot serve, that need requires public construction." (Ibid, June 9, 1942, p. 17.)

Mr. Hebert again asked for assurance:

"Mr. HEBERT. Your 200,000 units is an amazingly low figure to spread all over the country, but I want the record to show and to be clear that where you contemplate public building and private capital comes into you and says, 'We can absorb the public building proposed by you under all the specifications and all the requirements', in that case the private man will get the call?"

"Mr. BLANDFORD. That is right." (Ibid, June 10, 1942, p. 38.)

Mr. Blandford later had occasion to restate his conception of the program:

"Now, I would like to add this comment, sir: We are programming on this conservative, temporary basis not because, were the materials and the time available, we should not like to see higher standards and more provision for family units. We are doing it because of the fact we are under time pressure, and because we have to deal with a shortage of material that has developed rather acutely. We feel that ours is a realistic program, in fact the only way within our framework of materials and within our framework of pressure of time to provide enough housing for war workers. On the other hand the proposed program has to be construed as supplementing what has gone before, and to that extent producing a more well-rounded program." (Ibid, June 10, 1942, p. 57.)

Mr. E. S. Draper, Assistant Commissioner of the Federal Housing Administration, brought out some of the factors affecting the desirability of private building:

"Mr. MCGREGOR. You think even if private capital is ready and available to build houses the Government should still have a part in it?"

"Mr. DRAPER. There you have a breaking point where private enterprise cannot build those houses, because the wage of the worker is not sufficient to take care of the necessary rent or total carrying charges on the house. Also it is a well-known fact that with increased costs private enterprise cannot build as low as it could several years

ago, and particularly under title VI where there has to be a margin for the builder to take care of his depreciation and amortization. If the house is built for sale it means on a \$4,000 house you have to add \$12 to \$15 a month due to the payments toward equity accumulation on a 30-month basis which means that you cannot go much below \$37.50 per month except in the South where costs and requirements are lower. There are workers in Washington and elsewhere who cannot afford to pay that much for a house. Then, of course, the War Production Board, in their considered judgment, has as one of the conditions by which they grant priorities, stated that the shelter rental must represent a ratio of not more than 20 to 25 percent of the worker's income, that is, that the rent must not be more than that, so the houses must come within that category. There is another question in my mind. And that is with the necessity for using substitutes-- materials that need replacement in a few years, as in the case of wooden gutters only lasting 4 or 5 years before they need replacement-- I doubt the wisdom of going too far in that direction when you consider that houses built by private enterprise are supposed to have permanent usefulness."

"Mr. WRIGHT. A good many of the workers in some of the industries, particularly those that have expanded because of war work, do not feel that their positions are permanent. Now, the ones who do not feel that their positions are permanent, naturally, are not going to be interested in buying houses that are built by private construction, and by the same reasoning your private builder, if he feels that there is not any market for his houses, no permanent workers to buy them, is not anxious to build for rent. Is not that a factor also in making it necessary for the Government to go into some of the areas and build houses?"

"Mr. DRAPER. I think that is a very definite factor, Congressman Wright, because from the standpoint of the Government-- even though the builder, inasmuch as he gets 90 percent of the cost insured, were willing to go into a proposition feeling that he was gambling very little of his own funds--I question whether the Government would be justified in undertaking the job of insuring the lending institution unless it could see a reasonable chance of that house being used throughout the period of amortization of the mortgage. If it is evident there is no such chance it would appear to be a case for Government construction."

"Mr. MCGREGOR. Is it not true that if we give private capital the same assurance that they are going to get their money back that the Federal Government has, we will have plenty of available capital?"

"Mr. DRAPER. That in effect is true, but in cases where the need is clearly temporary the Federal Government doesn't have such assurance nor can it give such assurance to private capital on any reasonable basis." (Ibid, June 10, 1942, pp. 35-36.)

Mr. Herbert U. Nelson, Executive Secretary of the National Association of Real Estate Boards, testified in support of Mr. Blandford's program. He was questioned by Mr. Manasco of Alabama:

"Mr. MANASCO. Mr. Nelson, you have been speaking in reference to the locations of these war plants and the housing in those localities. In our hearings we have had a lot of builders and real estate men come before the subcommittee stating they would be glad to build all the houses that were needed, and I never have believed they would not want to build houses and build them for a period longer than the duration of the war. You don't think they would do that, do you?"

"Mr. NELSON. Well, private enterprise certainly has to operate on the basis of recapturing its investment plus some return, and obviously--"

"Mr. MANASCO. They could not do that in a 2- or 5-year period?"

"Mr. NELSON. It can't be done."

"Mr. MANASCO. Well, most all of the fellows say they would have to have commitments from the F. H. A. to insure those houses before they built them. If that were true, wouldn't the taxpayers be carrying the bag just the same as if they were built by the Government?"

"Mr. NELSON. Well, the F. H. A. is probably buying a good many houses right now."

"Mr. MANASCO. And that is not a good practice, to insure mortgages for a large number of rental houses around war industries, is it?"

"Mr. NELSON. Well, if there is a reasonable possibility of their being used for 10 or 15 or 20 years, it probably is a fair risk. We figured, that is the men who have tried to figure out a plan of using rather temporary housing, we figured we would have to rent these out in addition at least 7 years to the emergency."

"Mr. MANASCO. In reality, these houses are built around these shipyards and some of our gun plants and shell-loading plants. And if they were built by private builders and the loans were insured to the limit by the F. H. A., when those plants closed down the taxpayers would be the ones to lose, whether or not built under F. H. A. or by the Federal Public Buildings Administration?"

"Mr. NELSON. It is a part of the war risk."

"Mr. MANASCO. And the private builder stands no chance of loss under those circumstances, but he does stand a chance of making a little profit in 2 or 3 years; isn't that true?"

"Mr. NELSON. Yes; and such commitments by F. H. A. are probably comparable to other war contracts."

"Mr. MANASCO. So in the long run the taxpayers would be the ones that lost under those circumstances, if those houses were built by the Government?"

"Mr. NELSON. Well, it should be temporary housing."

"Mr. MANASCO. That is what I say, temporary housing."

"Mr. NELSON. Wherever those conditions obtain; yes, sir."

"Mr. MANASCO. That impression has been left in a lot of places, trying to make the people think that the Government is trying to go in and build homes in competition with private capital. As a matter of fact, private capital would never build homes around these war plants. They probably would not be returning any profit on their investment for years."

"Mr. NELSON. Right." (Hearings before the Committee on Public Buildings and Grounds, House of Representatives, 77th Congress, 2nd Session, on H.R. 7312, June 11, 1942, pp. 99-100.)

The present war housing needs

On June 10, 1943, Mr. Blandford, testifying to the need for an additional \$400 million under the Lanham Act, discussed the nature of the housing needed in the fiscal year 1944:

". . . we have tried to provide permanent houses to the extent that the community clearly could absorb them. Presently, those are being provided entirely by private financing.

"Historically, in the early days of the war effort, before these communities became so completely congested, they were both privately and publicly provided. Today we are getting to a position in most of the war communities where an important part of the housing is not housing that will be needed after the war; and it is this housing which is not needed post-war, which is located in spots where it shouldn't be except for the temporary need to conserve materials and transportation which is subject to all the fluctuations of the war effort such as the cancelation of contracts and their transfer, that we are proposing to build with this \$400,000,000. It is therefore suggested that it all be temporary, because there isn't a clear permanent need for this housing and because it will save considerable critical materials, 60 or 70 percent." (Hearing before a subcommittee of the Committee on Education and Labor, United States Senate, 78th Congress, 1st Session on S. 1109. June 10, 1943, p. 17.)

Mr. Emmerich, Commissioner of the Federal Public Housing Authority which does the construction under the Lanham Act, stated the case against free-standing houses:

"We have now developed standardized types which are based on lowest initial cost, because it is such a problematical question what price the Government could get for these portables later, and our feeling has been that the main drive should be on eliminating first cost and materials and labor in construction.

"There is also the element of speed. The standardized types we have now designed for the temporary shelter program, which this largely contemplates, are very simple, and they are not designed as portable houses because that would introduce probably, for an example, a free-standing type of house; an individual house. The moment you go to the individual house with space between, you lengthen your water lines and your sewer lines, and when you are building in the quantity of 200,000 or 300,000, every foot that you lengthen is a tremendous poundage of steel in an actual budget of steel. So we have had to compress these units to save utilities, and that portability which would have been desirable from the standpoint of post-war use has not yet been found feasible under this temporary shelter program." (Ibid, page 18.)

Mr. Blandford enlarged on the materials consideration:

"I think the key point is speed, but also critical materials. We have to go down, every quarter, with our requests for carbon steel and copper, and lay it on the table with the Maritime Commission ships, octane gas, and rubber programs, Army and Navy, and there just isn't enough to go around. And while we have fared rather well, and increasingly well, we are extremely conscious that any diversion to our program is taken away from some other program." (Ibid, p. 18.)

Effect of the present Congressional attitude on the war housing program

In the Summary Justification of Request for the appropriation of the additional \$200,000,000 which has been authorized under the Lanham Act, Mr. Blandford said:

". . . the National Housing Agency has continued to apply vigorously its established programming principles, to the effect that war housing shall be provided only for the indispensable minimum of in-migrant war workers; that maximum use shall be made of existing facilities before any construction is resorted to; that consideration shall be given to the feasibility of converting existing structures before new construction is resorted to; that full opportunities shall be afforded private enterprise before public construction is resorted to; and that public construction shall consist practically entirely of temporary units." (Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, 78th Congress, 1st Session, on the First Supplemental National Defense Appropriation Bill for 1944, September 30, 1943, p. 25.)

Describing his attempts to stay within the limits of the authorization, in spite of the fact that the prospects are that more housing will be needed than was anticipated when the estimates on which the authorization was based were made, Mr. Blandford said:

"(2) The fiscal 1944 program as now estimated allots a relatively larger portion of the construction of new family units to private enterprise, and a relatively smaller portion of such units to

public financing. Thus, while the program presented last summer estimated that this type of production would be divided equally between publicly financed construction and privately financed construction, the reformulated program now contemplates 136,795 family units of privately financed new construction and 112,553 family units of publicly financed new construction." (Ibid, p. 26.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 11, 1943

To Chairman Eccles

Subject: Mr. Blandford's letter

From Ramsay Wood

of October 29, 1943.

In his letter of October 29, 1943, Mr. Blandford maintains that the present war housing program is as close to what we have said is desirable as the policy laid down and the funds made available by Congress will permit. This is true to the extent that Congress has limited the conditions under which public housing may be built and has been less willing to appropriate funds for public housing than to extend the authorization for mortgage insurance under Title VI of the National Housing Act.

An important consideration, however, is the fact that Mr. Blandford is operating under policies advocated by his predecessors and adopted by Congress as early as 1940 and 1941, and, as far as the public record shows, he has made no attempt to have the policy changed to meet the greatly altered situation which now exists. In particular, neither he nor Mr. Ferguson has ever pointed out the shortcomings of Title VI as an instrument of war housing policy.

The case for a change in policy is strong and might be made on the following grounds:

1. The prospects for postwar usefulness of additional permanent housing are steadily declining.
2. Permanent, privately-financed housing requires more materials, labor, and time than does temporary, publicly-financed housing.
3. Title VI insurance is unsound for these reasons:
 - a. Since the builder runs no risk under it, there is nothing to deter him from building houses for which there will be no market after the war.
 - b. Since the lending institution is fully protected, it has no incentive to check unwise building.
 - c. Since increases in construction costs are being recognized as valid for valuation purposes, prices of Title VI houses are being boosted above those for comparable houses built in peacetime. When normal building is resumed, these prices will probably be deflated, resulting in loss of equity to the war-time buyer.
 - d. Since Title VI housing is overpriced compared with comparable housing built under normal conditions, it costs the present occupant more, whether he buys or rents, than it should.

- e. Occupants of Title VI houses are being encouraged to buy them although the prospects for postwar employment where they now are may be slight. They are thus undertaking obligations for the future which they have no assurance of being able to fulfill.
 - f. By the time the present Title VI authorization of 1.6 billion dollars has been exhausted, almost one-third of all FHA mortgage insurance in effect will be under this admittedly risky title.
4. There is a widespread hope that enough residential building will be undertaken after the war to help maintain income and employment. Many war production areas, which will require such employment-maintaining measures, are being overloaded with permanent war housing which may act as a deterrent to further building.

While Mr. Blandford and Mr. Ferguson have administrative powers which could be used to bring about the altered housing program which would be desirable, Congressional approval is necessary, not only to protect them against unwarranted charges of arbitrary action and prejudice against private enterprise, but also to insure that the funds necessary will be made available.

Some of the steps which they might take are: they might bring the definition of prospects of postwar usefulness closer to the FHA definition of a "sound economic risk"; they might establish a date on which building costs were as high as will be recognized for valuation purposes under Title VI; they might change the interpretation of the builder's equity so that it must include some cash invested by the builder as an evidence of his belief in the economic soundness of the housing; and they might further ask the builder to demonstrate his faith in the postwar prospects of the housing by requiring that all new private war housing be rented for the duration of the war and six months thereafter. Measures such as these would probably make unnecessary changes in the text of the Lanham Act, since, if they were required to risk their own funds, few builders would undertake privately-financed housing.

If Mr. Blandford were to present to Congress the issues raised by the present program, request approval for a program which emphasizes publicly-financed temporary war housing, and indicate the administrative changes he is ready to make, there is at least a fair chance that Congress would approve the desired program and make available the funds needed to carry it out. Since recent developments suggest that additional funds will become increasingly difficult to obtain, it seems hardly likely that even if the proposed change in policy were rejected, less money for public housing would be forthcoming than is now to be expected under the present policy.

RW

The original of this memorandum (prepared by Mr. Wood) was given to Mr. Blandford by the Chairman at luncheon on December 13.

December 11, 1943.

M E M O R A N D U M

In his letter of October 29, 1943, Mr. Blandford maintains that the present war housing program is as close to what we have said is desirable as the policy laid down and the funds made available by Congress will permit. This is true to the extent that Congress has limited the conditions under which public housing may be built and has been less willing to appropriate funds for public housing than to extend the authorization for mortgage insurance under Title VI of the National Housing Act.

An important consideration, however, is the fact that Mr. Blandford is operating under policies advocated by his predecessors and adopted by Congress as early as 1940 and 1941, and, as far as the public record shows, he has made no attempt to have the policy changed to meet the greatly altered situation which now exists. In particular, neither he nor Mr. Ferguson has ever pointed out the shortcomings of Title VI as an instrument of war housing policy.

The case for a change in policy is strong and might be made on the following grounds:

1. The prospects for postwar usefulness of additional permanent housing are steadily declining.
2. Permanent, privately-financed housing requires more materials, labor, and time than does temporary, publicly-financed housing.
3. Title VI insurance is unsound for these reasons:
 - a. Since the builder runs no risk under it, there is nothing to deter him from building houses for which there will be no market after the war.
 - b. Since the lending institution is fully protected, it has no incentive to check unwise building.
 - c. Since increases in construction costs are being recognized as valid for valuation purposes, prices of Title VI houses are being boosted above those for comparable houses built in peacetime. When normal building is resumed, these prices will probably be deflated, resulting in loss of equity to the war-time buyer.
 - d. Since Title VI housing is overpriced compared with comparable housing built under normal conditions, it costs the present occupant more, whether he buys or rents, than it should.

- e. Occupants of Title VI houses are being encouraged to buy them although the prospects for postwar employment where they now are may be slight. They are thus undertaking obligations for the future which they have no assurance of being able to fulfill.
 - f. By the time the present Title VI authorization of 1.6 billion dollars has been exhausted, almost one-third of all FHA mortgage insurance in effect will be under this admittedly risky title.
4. There is a widespread hope that enough residential building will be undertaken after the war to help maintain income and employment. Many war production areas, which will require such employment-maintaining measures, are being overloaded with permanent war housing which may act as a deterrent to further building.

While Mr. Blandford and Mr. Ferguson have administrative powers which could be used to bring about the altered housing program which would be desirable, Congressional approval is necessary, not only to protect them against unwarranted charges of arbitrary action and prejudice against private enterprise, but also to insure that the funds necessary will be made available.

Some of the steps which they might take are: they might bring the definition of prospects of postwar usefulness closer to the FHA definition of a "sound economic risk"; they might establish a date on which building costs were as high as will be recognized for valuation purposes under Title VI; they might change the interpretation of the builder's equity so that it must include some cash invested by the builder as an evidence of his belief in the economic soundness of the housing; and they might further ask the builder to demonstrate his faith in the postwar prospects of the housing by requiring that all new private war housing be rented for the duration of the war and six months thereafter. Measures such as these would probably make unnecessary changes in the text of the Lanham Act, since, if they were required to risk their own funds, few builders would undertake privately-financed housing.

If Mr. Blandford were to present to Congress the issues raised by the present program, request approval for a program which emphasizes publicly-financed temporary war housing, and indicate the administrative changes he is ready to make, there is at least a fair chance that Congress would approve the desired program and make available the funds needed to carry it out. Since recent developments suggest that additional funds will become increasingly difficult to obtain, it seems hardly likely that even if the proposed change in policy were rejected, less money for public housing would be forthcoming than is now to be expected under the present policy.