

September 2, 1943.

Mr. John B. Blandford, Jr., Administrator,
Room 202,
National Housing Agency,
1600 I Street,
Washington, D. C.

Dear Mr. Blandford:

You may recall that in the course of our recent discussion in Judge Vinson's office of possible methods of discouraging real estate speculation, I referred to certain aspects of the war housing program. My concern in that connection centers on the importance of avoiding permanent construction to meet housing needs that are clearly of an emergency character. This seems to me to present a problem of very considerable significance not only in the field of credit control, but in the broader field of general economic stabilization.

Attached are several memoranda that were prepared in response to the request of Judge Vinson and Mr. Cohen, following an informal discussion of the subject. The memoranda represent merely working summaries prepared for the purpose of tentatively stating the problem and bringing together some of the background material. I am making them available to you for whatever purpose they may serve.

Very truly yours,

M. S. Eccles,
Chairman.

Enclosure
WRS:bdf

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NATIONAL HOUSING AGENCY

WASHINGTON, D. C.

OFFICE OF THE ADMINISTRATOR

September 11, 1943

Dear Marriner:

Let me thank you for your letter of September 2, enclosing memoranda, along with certain appendices, prepared by Mr. W. R. Stark and Mr. Ramsay Wood, relating to the war housing program. Since Mr. Stark's memorandum is merely a summary of some of the high spots contained in Mr. Wood's more detailed study, my comments will be limited to the latter.

Despite the commendable thoughtfulness of Mr. Wood's memorandum, it seems to me to illustrate rather strikingly the dangers and difficulties which arise when an academic study of a program is made rather remotely from the operating experience of the agency carrying forward the program under scrutiny. While I appreciate the value of independent and impartial appraisals, nonetheless the practical knowledge and judgment which come only from doing a big job in the face of difficulties should not be sacrificed on the altar of disinterestedness. It may well be that a study of this kind would perhaps be more realistic and more fruitful if, at least in the basic fact-finding stages, it had maintained a closer working contact with the National Housing Agency. Particularly, with reference to our interesting discussions recently in connection with the proposal to centralize credit controls, Mr. Wood's study underscores my skepticism of attempts to conduct "policy" appraisals and issue "policy" directives where there is too tenuous a link between policy and operating responsibility. In short, the main comment I have to offer concerning Mr. Wood's suggestions about war housing is that, if put into effect, they would not work.

More specifically, Mr. Wood sets forth five major objectives for wartime housing policy. These are (1) to provide at least tolerable housing for everyone, particularly war workers, (2) to get the most utilization of existing housing and the best possible adaptation and distribution of new housing, (3) to avoid burdening communities and individuals with permanent housing and excessive real estate indebtedness where housing needs are temporary and emergency facilities more appropriate, (4) to distribute the costs of war housing as equitably as possible, and (5) to avoid increases in the price of real estate to artificial levels that will not be sustained after the war.

The first two objectives are directed squarely to the fulfillment of wartime housing needs. These objectives, in the opinion of Mr. Wood, are being adequately achieved, which in itself is quite a big order and not to be sneezed at.

The last three objectives are directed squarely to postwar considerations. Mr. Wood feels that these objectives are being sacrificed or



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compromised because of the relative proportion of the war housing program which consists of privately financed permanent construction. He believes that the volume of war housing under Title VI of the National Housing Act is a barrier to postwar adjustment, because (in his judgment): it anchors the war worker-purchaser to one locality; it will involve the Government in postwar losses not now contemplated or provided for, due to the current reduction in the physical standards of the housing; it will saddle localities with the cost of utility improvements which will not be needed after the war; it makes the worker who buys bear too much of the risk of postwar loss; it uses more critical materials and costs more than publicly financed temporary construction; and it pushes up the price of real estate to artificial levels that will not be sustained after the war.

To avoid these evils as he sees them, Mr. Wood's suggestions are that the war housing program should involve proportionately far more publicly financed temporary war housing and far less privately financed permanent war housing, and that, insofar as possible, all privately financed war housing should be held exclusively for rent and not for sale.

[Our fundamental objection to these recommendations is that they are based upon criteria framed exclusively in terms of the postwar period. They take no account of the effect which efforts to satisfy these criteria now certainly would have upon the overwhelmingly important wartime considerations which in fact comprise Mr. Wood's first two objectives for a war housing program - namely, to produce sufficient war housing on time, in the right places, and with the minimum amount of new construction.]

For [in fulfilling the primary responsibility of getting enough war housing built on time, the National Housing Agency has been faced with a production problem - a production problem immensely complicated in view of competing claims for labor, money and materials, in view of the workload capacity of all the available tools, instruments and institutions, both public and private, and in view of various practical problems based upon the official and unofficial public consents necessary to carry any program forward.] The particular admixture of private and public construction making up the program of the National Housing Agency, as well as the various regulations and modifications and amendments adopted from time to time relating to the use and disposition of war housing, are the product of intensive and continuing experience on the job. [The National Housing Agency and its predecessors have learned through experience the plant capacity of local housing authorities and the Federal Public Housing Authority to produce war housing; learned through experience the precise point at which further war housing regulations reduce private initiative to produce more than they increase the effective use of what is produced; learned through experience the degree of tolerance manifested by the Congress and by the general public toward various modes of production. We have not just speculated about housing for sale and housing for rent; we have been forced, by trial and error, to correlate our regulations with the amount of housing started under them.] It would be quite feasible to set forth in factual detail just how our experience has logically evolved the present war housing policy as the

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necessary foundation for getting war housing built. [But since Mr. Wood's critique of this war housing policy by-passes entirely the problem of getting war housing produced, and devotes itself entirely to postwar considerations, it would seem superfluous to elaborate these factual details.]

It is a mere truism to state that, if we did not face the imperatives of getting war production now, we might better order many things so as to avoid all postwar problems at the same time. But neither in housing nor in any other part of the war effort can we do more than strike a realistic balance between war needs and postwar vision; and we cannot even do this effectively unless we are ever-mindful of both parts of the problem, and place them in their proper perspective.

[Even with respect to exclusively postwar criteria, it would seem that Mr. Wood's conclusions that less privately financed permanent war housing should be built, and that it should all be held for rental, do not rest upon contact with the facts about the war housing program - although the contact could easily have been made and the facts to a large degree are not unavailable.]

For example, [Mr. Wood's assumption that privately financed permanent war housing will in large measure not be in demand after the war, is not accompanied by any factual examination into the laborious process by which the National Housing Agency seeks to determine where postwar use is likely (which is our only basis for programming privately financed permanent construction), nor is it accompanied by any appraisal of the likely accuracy of our judgment in this matter.] Likewise, [the assumption that local communities after the war will be burdened with utility installations made for the purpose of serving privately financed war housing which will fall into disuse, is not accompanied by any factual examination into the extent to which existing utilities are being used, nor is it accompanied by any factual appraisal of the respective impact of publicly financed temporary construction and privately financed permanent construction upon the need for additional utilities - without which a recommendation to shift from one type of construction to the other is meaningless in terms of conserving utility outlays.] [The statement that Title VI housing is "economically unsound" and will involve the Government in ultimate losses because standards of construction have been reduced, does not seem to flow from a meticulous appraisal of the underwriting procedures of the FHA in connection with Title VI housing.] [Nor does the conclusion that Title VI housing is "economically unsound" because the Government may suffer substantial loss take on any particular significance, even if we were to concede the loss, since it is not based upon a comparative study of the certain losses which the Government will sustain and in fact intends to sustain in connection with publicly financed temporary units. Most of the war program is "uneconomical."] [The statement that a certain amount of home ownership on the part of in-migrant war workers will prove a barrier to postwar readjustment because it will induce some workers to stay where they are rather than to move around, is entirely a questionable assumption until we know more

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than anyone now pretends to know about the postwar pattern of industry or the extent to which plants built during the war (most of which are of permanent construction) will be converted to postwar use.] [And the solution to be found in reducing the relative volume of privately financed war housing does not take account of the postwar problems which might arise if the industry were allowed to languish and to lose its immediate readiness for the postwar housing job which we all foresee.] [The statement that privately financed permanent housing uses about one-third more critical materials and costs about \$2,000 per unit more than temporary public construction is true; but it sheds no light upon the relative desirability of the two types of housing, even in strictly economic and financial terms, until it is equated with the projected period of their likely use.] Finally, [even insofar as we grant that rental housing is preferable to ownership in the case of certain types of war workers, the statement that less than one-half of the privately financed permanent war housing was for rental, as of May 1943, is out of perspective unless we place it in the context of the whole war housing program. When we include the use of existing structures, conversions, and new construction (both public and private), the preponderant portion of the supply of shelter for war workers is on a rental basis. In fact, [the amount of housing being sold is perhaps as low as it can reasonably be brought, if we are to show any deference to the maintenance of the housing industry as we have known it and as the Congress and the public probably want to see it maintained.]]

[It is interesting to note, on page 2 of Mr. Wood's memorandum, the statement that "because of poor administration, the system (of operations under Title VI) is not as tight as was contemplated". This statement is immediately supported by five enumerated conclusions, accompanied by the warning that these "five points are difficult to prove without intensive investigation of particular cases". [Under the circumstances, it might have been preferable to have sought the factual assistance of the National Housing Agency before arriving at these conclusions, or at least before assuming that they were tenable although no proof could be offered in support of them.]]

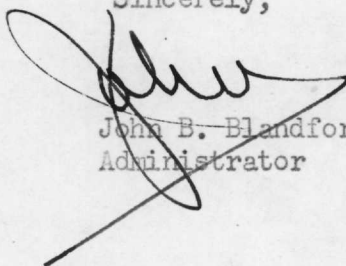
Despite the tenor of the foregoing, let me assure you that the National Housing Agency has been very mindful of its duty to regulate the private production of war housing in the best interests of the war program and, insofar as possible, of the postwar economy. Restrictions have been imposed and are being enforced with regard to building costs, materials use, sales price, rental charges, and occupancy standards. The effectiveness of these regulations is manifested by the substantial stabilization of financial trends in connection with war housing, and by reasonable success in producing a sufficient quantity, where it is needed, and on time. With regard to problems of postwar adjustment, we believe that so far as housing is concerned these problems will be largely of a fiscal or financial nature, and that the comprehensive statutory tools now within the various parts of the National Housing Agency, or which may be made available by the Congress if and when we know what is needed, will be adequate if used vigilantly, courageously and intelligently. We are not apathetic to these problems now, but I do not believe that we should endanger war

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production or distort the war housing program in order to achieve a hypothetical solution of forecasted difficulties, certainly not without a more searching and thorough factual analysis of the whole problem than has as yet emerged.

You may be entirely confident of the complete desire of the National Housing Agency to work cooperatively with other agencies of the Government in dealing with the inseparably inter-related problems both of our war economy and our postwar economy. We do believe, with respect to housing, home financing and housing credit, that the National Housing Agency is the primary source of the bulk of the practical experience thus far gathered. We believe that this experience should be the starting point for any theoretical expositions, and [we welcome the unquestionably large theoretical contributions which those outside the National Housing Agency may make to the solution of our problems provided always that their theories are grounded in fact, and in the realities relating to production under war conditions.]

Sincerely,



John B. Blandford, Jr.
Administrator

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

Received in
Chairman's Office

SEP 19 1943

NOTED TO CHAIRMAN

FEDERAL RESERVE SYSTEM