

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 4, 1945

To Chairman Eccles

Subject: Control of the prices of

From Ramsay Wood

houses

This is a short memorandum on the need for control of the prices of houses. A longer one will follow tomorrow morning.

The prospect for inflation in the prices of houses and in the cost of building houses is very great today. Prices and costs have already advanced considerably since the beginning of the war, and the present shortage of housing is acute. There is no prospect that enough houses can be built next year (the building season is practically over for this year) to satisfy the demand for houses, and the removal of the War Production Board's Limitation Order L-41 means that the market is practically free.

In the absence of L-41 or a control like it, probably the best control the Government could have is the power to set the prices of houses, and Mr. Bowles has said he will ask Congress to give him that power. His measure would be difficult to administer and would produce violent antagonism from builders and real estate dealers, but no other measure has been suggested which would be effective and easier to administer. If legislation to control the prices of houses cannot be obtained, perhaps the next best measure would be one which required that sellers must show buyers an appraisal certified by F.H.A. to be "reasonable long-time value" and that lenders must file such an appraisal certificate with each mortgage note for the use of the examiners.

Such measures imply, of course, that the controls which the Government now has should be retained and strengthened. The most important of these continuing controls are rent regulation and the control of the prices of building materials, both administered by the Office of Price Administration.

A great difficulty in the present situation is that one of the strongest controls, L-41, has been removed, and no other measure which has been suggested to take its place is easy to administer or promises to meet the difficulties completely. There is, therefore, a danger that the Government, unable to devise action which is both easy and effective, will do nothing, which is probably the worst thing it could do.

RW