

June 26, 1945.

Honorable William H. Davis, Director,
Office of Economic Stabilization,
Federal Reserve Building,
Washington 25, D. C.

Dear Mr. Davis:

Enclosed is a copy of a self-explanatory memorandum which I have sent to Judge Vinson today with the request that it be passed along to the President in connection with your proposed program for dealing with the inflation problem as it affects, particularly, homes, farms and stocks. I am also enclosing a separate memorandum to emphasize why the Board feels that if the Executive Order on mortgage credit is to be issued, it should not be accompanied by an announcement exempting new construction. In response to the request I received from the Budget Bureau for my views on the proposed Executive Order, I have also sent copies of both of these memorandums to the Budget Director's office.

I know how greatly concerned you are to meet this problem effectively, and I think you appreciate my feeling and my reasons for pressing as vigorously as possible for what seems to me an adequate tax approach first and foremost.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

Enclosures
ETMbjd

Memorandum from Chairman Eccles to William H. Davis

For the reasons stated below, it is the considered view of the Board of Governors that to exempt new construction from the proposed real-estate credit control, as advocated in the Stabilization Director's memorandum of June 19 to the President, would be a serious and perhaps even fatal mistake.

This control is relatively weak at best, and to weaken it still further through the proposed exemption would come close to nullifying the whole action. Instead of dampening the over-all demand for homes, as the action would be intended to do, it would merely push a large part of that demand into the new-house sector. If home-buyers must make a large down payment on a house bought from anybody but the builder, but not on one bought from him, they will certainly flock in his direction, with the consequence that the difficulty of "holding the price-level line" in the new-house section will be made more difficult than it already is.

In addition, the Board is advised by its staff that, for two principal reasons, the proposed discrimination might actually destroy the administrative feasibility of the control. In the first place, the clean-out moral basis of the regulation, essential to the necessary educational program, would be impaired; in view of the large loophole, we could no longer say that the objective is to dampen demand and that the regulation is a reasonable means to that end. In the second place, the discrimination would give interested parties additional incentives to evasion and avoidance, thus making more difficult administrative and enforcement problems which are bound to be very difficult at best.

A counterargument -- that to include credits for buying new houses would curtail the supply of new houses -- seems to us, in the present circumstances, to be quite unrealistic. For all the new houses that can be built during the next year, considering the natural limitation imposed by shortages of materials and labor, there will be abundant demand, counting both the cash demand and the credit demand. In fact, the staggering size of the demand for new houses is a matter of common knowledge and frequent mention in the press. It is worth noting also that the pressure groups which are advancing the counterargument are at the same time advocating higher prices and also framing their proposal so that it would play into the hands of so-called speculative builders as against people wanting to build houses for their own occupancy.

In view of the position taken by the Board on this issue, it would be most unfortunate for the President, in his negotiations with members of Congress or any statement to the press, to say (as the memorandum advises) "new construction will be exempted, at least at the outset." The most that he should say is something in general terms -- e.g., "Due and careful consideration will be given to the importance of new construction in order that the control shall not be so administered as to restrict new construction."