

To: Mr. Eccles

From: J. M. Daiger

10/28/37

MEASURES TO INCREASE INDUSTRIAL ACTIVITY AND EMPLOYMENT

Shortly after the proclamation to convene this special session of Congress was issued, a considerable part of our business community was thrown into a state of alarm, which for a few days bordered on panic, by a securities slump in Wall Street.

No sensible explanation of this episode has yet been found. Men who a year ago had been raising a great hue and cry about the dangers of a runaway business boom and inflation--and who were accordingly bulling the market in a frenzy of buying--suddenly faced about in a bearish mood and engaged in an equally irrational frenzy of selling. Whereupon they raised a great hue and cry about the dangers of depression and deflation.

Now it is not the function of government to wet-nurse the stock market or to adjust the affairs of the country to the erratic workings of the Wall Street mind. You and I know, as all our people know, that the real worth of the business enterprises of the country, including those whose stocks and bonds are traded on the exchanges, does not suddenly change for better or worse in the extreme manner in which the prices of securities fluctuate in speculative trading.

We are necessarily concerned, however, with the effects of these extreme movements on the minds and actions of many of the men who direct our business enterprises, whether great or small; and we cannot be unmindful that the effects of this recent securities slump in Wall Street was injurious to the national welfare.

One unfortunate and harmful result of the slump was some falling off of industrial production and some laying off of industrial workers. Another result, equally unfortunate and potentially harmful, was the rousing of apprehensions over the course of business during the coming year. The expansion of industrial activity and employment that had been going steadily forward these past four years, bringing with it a widening circle of prosperity, was for the time being halted by this sudden slump in the security markets, and a noticeable recession occurred from the levels attained by most of our industries earlier in the present year.

We have an immediate responsibility, therefore, to turn this situation about toward the goal of full employment of labor and toward a much larger use of our enormous productive facilities and our abundant supply of money and credit.

For 1937 is not another 1929. We are not culminating a long period of reckless capital expansion and credit inflation. Nor is 1937 another 1933. We are not culminating an unparalleled depression and deflation and the undermining of our whole money and

credit structure. We have not had, these past four years, the excesses and abuses of business and finance that remained for us to remedy in 1933; we have not had an inflation of the capital and credit of our industrial, commercial, and financial enterprises; we have not drained our banks of the funds with which the business of the country is carried on.

On the contrary, our productive capacity and efficiency were never greater than they are now; our business men and farmers were never more solvent; our banking and financial structure was never more secure; the money and credit to finance industry and commerce and agriculture were never so abundant and so cheap. This is a vastly different condition from that which our people had to liquidate at the cost of widespread hardship and privation after 1929.

I am sure that I speak your thought as well as mine, then, when I say that we shall avoid deflation as we have avoided inflation. We shall continue to regard inflation and deflation as twin evils; and we shall prevent either of them from again exacting its inevitable toll of human misery and national disaster. It is a balanced and prudent and uninterrupted use of our human and material resources that we are aiming at—a balanced distribution of the products of our factories and farms, a balanced economy that can come only through a widely diffused prosperity.

With the resources at our command for improving the conditions and standards of American life, we have no reason, as we look back over the great extent of business recovery and employment since March 1933, to lose sight of this objective or to fear that it cannot be realized. We have no occasion to lose our sense of values, our sense of proportion, because of the inability of Wall Street to make up its mind whether boom and inflation or depression and deflation is what it fears. We know that in either case its fear is groundless.

If we did fail, in our present abundant circumstances, to continue the year-to-year gains that we have made these past four years, we should be not unlike the blind horse that starved knee-deep in corn. We should be like the man who, having after great effort built a fine house, chose to let his family live in the kitchen. For there is no lack of things to be done, nor of money and materials to do them with, nor of people to do them.

But I do not wish to depreciate or minimize the genuineness of the uncertainty, the indecision, of those men in the field of either big business or small who were made apprehensive by the recent untoward episode in Wall Street. Nor would you and I wish to leave them in any doubt as to our sympathetic and understanding view of their momentary perplexity. They had a bad fright and a shattering experience through five years of depression that began with a stock-market crash in 1929. They have not forgotten it; neither have we.

You and I have as much cause as they to consider where the opportunity lies for a larger volume of production and employment in 1938 than in 1937. You and I have as much cause as they, and an even greater responsibility, to consider by what means that opportunity may be availed of. We have cause, moreover, to consider in what way government, in common with business and labor, can guide the course of enterprise into channels of production and employment that will assure the greatest economic and social benefit from a larger measure of prosperity than we have attained during the present year.

I have found in my conversations with members of the Congress, with the heads of various departments and agencies of the government, with numerous business men and bankers, and with the representatives of many important groups of workers, a unanimity of opinion that we have now a virtually unlimited opportunity to better the housing conditions of our people, and in doing so to give business, finance, and labor a long-sustained prosperity such as no other single field of endeavor offers. I invite your earnest attention, therefore, and the earnest attention of industry and labor as well, to this prospect of far-reaching economic and social improvement.

In the economic recovery of the past four years, the housing industry has alone, of all our major industries, lagged far behind. Notwithstanding the large percentage gains in housing

construction in 1935, in 1936, and again in 1937, the actual number of dwelling units built has been small when measured either by the current need for new houses or by the number built in pre-depression years. With all our productive genius, and with all our commercial ingenuity, our American business enterprise has nevertheless somehow failed to put modern housing accommodations within reach of the great mass of our people, or even to provide an adequate supply of housing.

The arrears of housing construction accumulated during the depression years, and the great lag of housing construction during these past four years of recovery, have by now resulted in an actual lowering of our housing standards. Many thousands of our people have been compelled to occupy quarters long since obsolete and decadent; and a large number of our communities, both large and small, have been brought to the verge of an acute housing shortage and the consequent prospect of a rent crisis. If this condition were permitted to go on, it would shortly become insupportable to thousands of our families and lead to social unrest that could only be injurious to industry and trade in the communities affected.

We cannot permit the condition to go on.

Fortunately, we have in recent years learned a great deal about the building of houses and the financing of housing that we did not know before. This has been due in part to improvement in

housing materials and housing equipment developed within the industry, partly to improvement in design and construction developed within the industry and by the various governmental agencies concerned with housing, and partly to improved methods of financing developed largely by the governmental agencies and widely adopted by private lending institutions. We have also learned much by observation and study of the experience of other countries in the field of housing--notably that of Great Britain, where the building of houses for families of moderate means has become an enormous industry and the mainstay of that country's economic recovery and sustained prosperity.

Our own need for new housing will require in the next four years the construction of at least some 3,000,000 dwellings. At a moderate estimate, this will involve an expenditure for labor, for raw materials and manufactured products, and for transportation of those raw materials and manufactured products, of some \$12,000,000,000. This is all in addition to the provision for governmental assistance to public housing made at the last session of the Congress. The provision for public housing is but a fractional part of the total housing need of these next four years, and is for a part of the population whose income is much too small to provide adequate shelter without public assistance.

Here, then, in our minimum housing requirements alone, is a vast opportunity for increased industrial production and employment, not for the next year or the next four years only, but long beyond that until our standards of human habitation are finally made commensurate with the other standards we have set in our economic and social life.

But if we are to supply the housing that we need we shall have to be guided by the maxim that the surest way to gain our ends is to moderate our desires. Industry and labor, the people who build houses, the people who occupy them, the people who finance them—all these must moderate their desires to gain their ends. We cannot afford, we cannot permit, another building boom like that of the 1920's, on an ascending scale of costs and wages, of prices and rents, that leads in the end only to ruinous debt, to bankruptcy and foreclosure, to financial loss and social hardship, to stagnation for the housing industry and prolonged unemployment for the building trades. Too many of our people know from bitter experience what that kind of building boom means.

Already, in this present year, we have had a warning of the danger of going too far too fast. Not in the housing industry only, but in some other industries as well, we have seen the tendency of increased wages and prices to slacken production and diminish employment. The increased cost was more than the consumer could bear or was willing to pay.

I would not be understood as attempting to blame any particular industry or any particular laboring group for checking the demand for its products in this manner, for obviously no industry or laboring group would deliberately set out to defeat its own interests. But the budget of the great mass of our families is not elastic, and for most of them the point is quickly reached where increased costs react against someone's business and someone's employment. The manufacturer and his workers alike have then a similar problem of adjusting their prices to the consumer's ability to pay.

Our main task in the housing industry is to produce dwellings within the reach of families of moderate income. It is among these families that the greatest potential demand for modern accommodations exists, and it is they who offer the housing industry and the building-trades workers the greatest opportunity for long-continued production and employment. But it is a "price" market. To the extent that its needs are met, all industry and trade will benefit; for the expenditures for labor, materials, equipment, transportation, and services are widely diffused, and the housing market itself embraces virtually every community in the country.

Government, I believe, can do much to encourage and stimulate the private construction and private financing of moderately-priced housing. True, it is already doing a great deal--through

the Federal Home Loan Bank System, the Federal Housing Administration, and the Federal Reserve System. But there is more than it can do in the light of the experience gained by these agencies in recent years.

For example, we have thus far mainly concerned ourselves with the instrumentalities of home-ownership. We have in our legislation of recent years surrounded home-ownership with special safeguards, simplified the methods of home-buying, and lowered the costs of home-mortgage financing. We have not yet, however, given the problems of rental housing the attention that they warrant.

I think that many of us, in our natural concern for the problems of the home owner, have not fully realized that the majority of our urban families—families in communities of 2,500 population and upward—rent the houses they live in. In our larger cities, the proportion of rented dwellings runs from 60 per cent to nearly 80 per cent of the total. A very substantial part of the need and the potential market for new housing, therefore, is to be found among those families who, either through choice or through necessity, are not prospective buyers of houses at all.

We have through a division of the Federal Housing Administration made some interesting and successful experiments in the planning and financing of large-scale rental projects. These are privately financed, privately built, privately owned, and rented

to families of moderate income. Among the measures that I shall present for your consideration is an extension of this program, designed especially, however, to facilitate the construction and financing of smaller rental projects adapted to the needs of our smaller communities. Among these measures also will be one designed to facilitate the construction and financing of groups of individual houses to be rented, and of similar groups of houses to be leased with an option to purchase.

I shall also ask you to consider means to assure the building of a much larger number of small, moderately-priced houses that will bring home-ownership within the means of our salaried workers and industrial workers. The latter are particularly in need, in many of our outlying communities, of better housing within easy access of the plants in which they are employed. I think that many large employers of labor are alive to this need and desirous of finding a way to meet it, if they can do so without creating a "company town" and becoming landlords to their employees.

For families that prefer to buy a new home of their own, rather than to pay rent on an old one, the most difficult problem is usually that of the initial payment. Many such families, of course, have a steady income, a reputation for meeting their obligations promptly, and the means of meeting monthly payments in lieu of rent. In Great Britain this problem has been largely met by

means of a mortgage for 90 or 95 per cent of the purchase price. I shall ask you to consider the extension of the mortgage-insurance system, under the National Housing Act, to cover mortgages up to 90 per cent on moderately-priced houses, and thereby make the purchase of homes possible to far more families than are able to meet the present requirement of an initial payment of 20 per cent.

Another measure that I shall ask you to consider is designed to make more adequate provision for the private financing of housing projects of substantial size and to make the safeguards of our mortgage-insurance system available to individual investors. The mortgage loans required for large housing projects are for the most part too large for the ordinary lending institution to make. Nevertheless the protection of the insured mortgage, whether on large projects or on individual houses, could be retained by the issuance of housing bonds or debentures against the security of these mortgages, and the sources of funds greatly widened by the sale of the bonds or debentures to institutions and to individual investors as well.

These are some of the things that government can do, in advance of the next building season, to bring about during the coming year a much larger volume of housing construction, a much larger volume of employment in the building trades, and in consequence a great increase in business and employment generally. The opportunity

that our great housing market offers to many branches of industry and trade will by the adoption of these measures be the more inviting and the more easily realized.

It is my purpose, if the housing measures that I shall recommend to the Congress are adopted, to call into a series of conferences representatives of all the principal elements in the housing industry—the building trades workers, the building material manufacturers, the building material dealers, the operative builders, the construction companies, the housing architects. I shall ask their cooperation and their mutual assurances looking toward harmonious and continuous operation and employment both in their own interest and in the interest of the people for whom new housing is to be provided.

I shall also call into conference the heads of industrial and commercial enterprises whose employees are feeling the pinch of the housing shortage, and I shall ask their cooperation and support in a concerted effort to get the construction of relatively low-priced houses under way for their employees without resort to either governmental subsidy or company housing. I shall ask, too, the cooperation and support of the lending institutions in order that the housing program may be financed by private means and in a manner that commends itself as fair to the borrower and sound to the lender.

The enterprise is a big one, and the economic and social gains that it offers are tangible and permanent. It is an enterprise, moreover, in which industry, labor, finance, consumer, and government have every reason of long-continued mutual interest to gain their ends by moderating their desires.