



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 23, 1938.

Dear Governor:

Enclosed is a batch of material I got together rather hastily this afternoon. I called Eastman and told him of your strong feeling of the desirability of securing some actual expenditures by the railroads and your concern lest the Committee confine itself to bailing out and longer-term recommendations. I mentioned specifically the desirability of securing additional maintenance and equipment expenditures through the purchase of non-cumulative preferred stock, and Eastman replied "We've kept that in mind and we're working on it". I sent him a brief statement on these proposals. I'll call LaFollette tomorrow about the other matter.

I hope you are getting a good rest and are not worrying too much over things in general. I'm afraid you'll have enough to worry about when you come back.

My preliminary figure of net federal contributions to community expenditures was minus \$78 million in February and it will probably be negative in March and April also. I'm working on a more extended and documented statement of the causes of the recession and the lessons to be learned therefrom.

Cordially,

P. S. The figure for building permits for February on page 2 of the memorandum on housing will not be officially released until Saturday, March 26th.

March 23, 1938.

HOUSING

It is difficult to get a clear picture of what is currently happening in housing construction. The F. W. Dodge figures of residential construction contracts awarded are available for January, February, and the first half of March. The comparison is as follows:

Residential Contracts Awarded (37 States) (in millions of dollars)

	<u>1937</u>	<u>1938</u>
January	78	36
February	63	40
March 1-15	42	36

The coverage of this series on small buildings is not considered good and it omits the Pacific Coast completely, where building is reputedly making more favorable comparisons with last year than in the rest of the country. However, the figures indicate a progressively less unfavorable comparison with 1937. The March 1938 figures were aided by the inclusion of several large-scale housing developments.

The record of home mortgages selected for appraisal is as follows:

<u>By Weeks</u>	<u>1938</u>		<u>1937</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
Jan. 8	1,256	\$ 5,483,184	1,967	\$ 8,565,650
" 15	1,504	6,531,200	2,286	9,556,860
" 22	1,711	7,299,975	2,167	9,447,127
" 29	1,888	8,150,840	2,272	10,091,713
Feb. 5	1,982	8,571,895	2,306	9,721,165
" 12	1,988	8,787,105	2,701	11,068,008
" 19	2,219	10,025,800	2,765	11,764,089
" 26	2,775	13,100,250	2,835	11,747,954
Mar. 5	3,899	17,613,402	3,244	13,683,500
" 12	4,470	20,386,711	3,405	14,176,560
" 19	4,697	21,293,061	4,085	16,879,710

Rental Housing Projects- Commitments Issued

	<u>No.</u>	<u>Amt.</u>
1938 - through February 28th	18	\$10,460,100
Corresponding Period 1937	3	2,515,000
1938 - through March 19th	24	13,999,300
Corresponding Period 1937	4	4,165,000

In interpreting these figures it should be borne in mind (a) that they include mortgages on existing homes as well as on new homes. In recent weeks about 35 per cent covered existing homes. (b) That it is quite possible a larger percentage of total building this year is being financed on F. H. A. mortgages than last year. There are various indications that this is the case, so that comparisons with last year's figures are unreliable as indications of the trend of total building, (c) that through administrative action mortgages on large-scale subdivisions must be submitted this year in advance of the initiation of the project, rather than after construction is well advanced. This affects the seasonal movement of the series in the two years. (d) That the rapid increase up to March 12th may reflect in part projects delayed until after the passage of the new Act.

The figures for building permits issued for identical cities, excluding New York, are as follows:

	<u>1937</u>	<u>1938</u>	
January	36,289,000	24,000,000	-33.7%
February	41,982,000	30,774,000	-26.7%

Figures for New York are excluded because of the distortion occasioned by the rush to file building permits in January before a new building code went into effect. The revised figures for building permits suggest that the F. H. A. figures for mortgages selected for appraisal are not reliable as a measure of the volume of building in comparison with 1937.

The course of the National Industrial Conference Board Index of New Rents since its high point in October is as follows:

<u>1937</u>	October	89.2	<u>1938</u>	January	88.2
	November	89.1		February	87.8
	December	88.7			

Although the trend is downward, the decline as yet has been very modest. The rent-cost relationship is unquestionably more favorable than in the early summer of 1937.

Dr. Fisher, of F. H. A., believes that the volume of residential building for the first half of 1938 will equal the volume in the first half of 1937. Mr. Holden, of the F. W. Dodge Corporation, believes that the volume of residential building in 1938 will be 10 per cent above 1937. However, in view of (a) the substantial lag in January and February, (b) the sharply unfavorable comparisons for industrial cities like Detroit, (c) the gradual worsening of the general economic situation, I question very much whether these forecasts will be borne out.

In any case, even if residential building should equal the volume in 1937, this would amount only to \$1½ billion. Against this stimulating force must be offset the many currently deflationary forces. The decline in inventories alone this year will probably be considerably in excess of \$1 billion and the process of reducing inventories reduces the monetary circulation just as new building expenditures increase it. In other words, \$1½ billion of new residential construction this year, assuming we should get that much, would not be sufficient in itself to turn the tide.

The most feasible way of securing a vitally necessary addition to residential building is to grant an outright cash subsidy of 10 per cent of the appraised cost less ten per cent of homes costing \$6,000 or less, and new apartments appraised at \$1,000 a room or less. This subsidy would be available to either an individual home builder or speculative builder. It would apply to all eligible homes the contracts for which were awarded subsequent to the date of the introduction of legislation up to December 31, 1938.

On \$2 billion of new building the cost to the Government would be only \$200 million. This amount should be more than saved in reduced W. P. A. expenditures resulting from the increased private employment of people in building and allied industries.

The proposal would be simple, speedy, effective, popular, socially and economically beneficial, and would entail little, if any, net cost to the Government. It was arrived at after considering and discarding on various grounds a multitude of more complex and less effective proposals relating to the stimulation of housing. It is not inconsistent with either F. H. A. or U. S. H. A., which are permanent. It is a temporary device for getting housing and economic recovery under way.