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and the New Deal**

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1937 November 27

**Message to the Special Session of Congress-
Housing**

November 27, 1937

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STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

In my message to the Congress upon the convening of the Extraordinary Session on November 15, I said that I would address you further in regard to proposals to encourage the private construction and financing of housing on a large scale. The proposals which I am presenting for your consideration now are an important part of the program for increasing general business activity and employment during the coming year.

From the point of view of widespread and sustained economic recovery, housing constitutes the largest and most promising single field for private enterprise.

Housing construction has not kept pace with either the needs or growth of our population. From 1930 to 1937, inclusive, the average annual number of new dwelling units constructed in the United States was 180,000 as contrasted with an annual average of 800,000 in the seven years prior to 1930. In addition, much of our existing housing has seriously deteriorated, or has been demolished.

It is estimated that an average of 800,000 to 800,000 dwelling units ought to be built annually over the next five years to overcome the accumulated shortage and to meet the normal growth in number of families. In other words, we could build over the next five years 3 or 4 million housing units, which at a moderate estimate of \$4,000 per unit would mean spending from 12 to 16 billion dollars, without creating a surplus of housing accommodations, and consequently without impairing the value of existing housing that is fit for decent human occupancy.

The long-continued lag in building is a drag on all industry and trade. This presents an urgent problem which is the common concern of industry, labor, and government. All business needs the infusion of orders and the diffusion of purchasing power that come when building is thriving. Great numbers of people look directly or indirectly to the construction industry for employment. This industry, to a greater extent than any other, can put idle funds to work and thus speed up the circulation of the nation's money supply. This, in turn, would increase national income, reduce unemployment and as a result contribute towards a balancing of the budget.

Since 1933 we have had a great recovery movement in which housing construction has played only a minor part. That it should play a major part has been clearly recognized by this Administration from the outset. But, though much has been done to encourage construction activity, the results have not yet been satisfactory. Instead of a seasonal rise in housing construction through the past spring and summer, there was an early downturn. This was one of the principal reasons why general business failed to forge ahead during the latter part of the year.

We must recognize clearly that housing will not be built if costs are too high in relation to the consumer's income. The fact that housing costs arose sharply -- far too sharply -- between September of 1936 and March of 1937 was primarily responsible for the downturn in housing and thus in recovery generally this year.

Revival of housing construction must be based on reduction of the costs of building and the payment for buildings rather than on a resumption of the rising costs that stopped progress in this essential field last spring and summer. Housing must be produced at prices, rates and rents that the mass of our people can afford to pay.

The government has made provision, through assistance to municipal housing, for many of the most needy. But private enterprise and private capital must bear the burden of providing the great bulk of new housing. The measures I now suggest are to encourage private building to meet the needs of families of moderate means. These proposals cannot be effective, however, unless all elements concerned in the construction industry -- builders, contractors, manufacturers of materials and equipment, labor, and finance -- cooperate in producing housing that is within reach of the incomes of the vast majority of our citizens.

If the building industry is to play the vital part that it ought to have in our economic system, it must do it in the characteristic American way. It must develop, as other great industries have developed, the American genius for efficient and economical large-scale production. The lower unit costs resulting from large-scale production will make for greater annual returns for the entire building industry, including all workers engaged in that industry, and for a higher standard of living for the country as a whole.

The problem of reducing costs to a point where larger volume, longer employment, and higher annual earnings are possible is one that must be solved in major part by the building industry itself. The government, however, can take the initiative by bringing about a reduction of financing costs, by making it easier for families of moderate means to buy or rent new houses, and by providing mechanisms to make it practicable for private enterprise to engage in large-scale housing operations for the mass market.

In order, therefore, that government may give the fullest encouragement to a broad revival of building, I recommend that the Congress adopt at this time measures to facilitate the financing of every type of housing construction, whether for sale or for rent, and ranging from the small house to entire residential communities and large low rent apartment buildings. In addition to measures to stimulate new construction, I recommend that provision be made for an extensive program of repairs and modernization.

As a practicable means of encouraging and facilitating a more effective operation of private enterprise and private capital in the housing field, I am suggesting enlargement of the framework of the National Housing Act in the light of actual experience. This legislation, enacted by the Congress in 1934, provided a new financial mechanism applicable to all types of lending institutions that make loans for housing purposes. Enabling legislation giving effect to this new mechanism was subsequently enacted by all the states. Within the limits of the types of housing to which it applies, it has proved to be both popular and practical.

Under the National Housing Act the Congress established the Federal Housing Administration, which insures mortgages on certain types of housing, but itself makes no loans. The agency is designed to become self-sustaining through the operation of a mortgage insurance fund, into which premiums are paid by borrowers who obtain loans under the provisions of the act from private lending institutions. An ultimate guaranty of loans that may default is given by the Federal Government, but this guaranty becomes operative only in the event that recoveries from the sale of defaulted properties, together with all the monies in the insurance fund, should be insufficient to pay the insured claims. Hence, even if any cost should result to the government because of this guaranty, it would be negligible when measured by the volume of construction and employment induced by the fact that the guaranty is there should it ever have to be availed of.

The benefits of financing under the National Housing Act apply to two main classes of transactions -- namely, those in which a single house becomes security for a loan and those in which a limited-dividend company obtains a loan in order to develop a rental housing project. The amendments which I am suggesting are of three kinds: (1) to effect further reductions in financing costs; (2) to extend the insurance of mortgages to types of housing operations not now adequately provided for in the act; (3) to make the funds of institutional and individual investors more easily available for the financing of large-scale operations.

Because it takes the average buyer of a house or investor in housing a long time to pay for the property, the cost of financing is in the long run one of the largest items in housing costs. In the case of rental housing it is a determining factor, first in whether construction shall be undertaken at all, and second in arriving at the scale of rentals to be charged.

Institutions making loans to be insured by the Federal Housing Administration are now permitted by regulation to make an interest charge up to 5 per cent and a service charge of 1/2 of 1 per cent, or a total of 5 1/2 per cent per annum. It is proposed to reduce this to 5 per cent net by amending the administrative regulations.

As a means of further reducing the cost to the borrower, however, I would ask the Congress to authorize the Federal Housing Administrator to fix the mortgage insurance premium as low as 1/2 of 1 per cent on the diminishing balance of an insured mortgage instead of on the original face amount as now required by the act. Further, as a means of giving special encouragement to the construction of small, moderately-priced houses, I would ask the Congress to authorize the Federal Housing Administrator to fix the mortgage insurance premium as low as 1/4 of 1 per cent on the diminishing balance of an insured mortgage in cases where the estimated value of the property to be built does not exceed \$6,000 and where the mortgage is insured prior to July 1, 1939.

Another change that I would ask the Congress to make in the existing legislation is to raise the insurable limit from 80 per cent of the appraised value of the property, as at present, to 90 per cent in the case of loans to owner-occupants where the appraised value of the property does not exceed \$5,000. This proposal is of great importance. It recognizes the fact that most persons who desire to own homes of their own cannot make a first payment as large as 20 per cent of the purchase price. This is particularly true after the severe depression of recent years, in which the savings of millions of prudent and thrifty families were depleted.

The fact is not generally recognized that the majority of our urban families are not home-owners. In the larger cities, the proportion of rented dwellings runs from 60 to nearly 80 per cent of the total. Accordingly, I am suggesting for your consideration measures designed especially to facilitate the construction and financing, under the economies of a blanket mortgage, of groups of houses for rent, or for rent with an option to purchase. Such operations would afford economies in construction as well as in financing, and would therefore, I believe, lead to the formation of substantial companies to avail themselves of the opportunities in this particular field. These same measures are also designed to encourage the construction of apartment buildings to be operated on a moderate scale of rentals, with the mortgage in any case not to exceed \$1,000 per room. This is a type of apartment property particularly adapted to the requirements of our smaller cities.

In the construction of large-scale rental properties, a small but creditable beginning has already been made under the existing provisions of the National Housing Act applicable to limited-dividend companies. Those provisions, however, need to be clarified and simplified in order to encourage a more extensive development of large rental projects in the larger communities where they are needed.

Among the most important of the measures to which I would invite your consideration are those designed to facilitate the financing of these large projects. Here there is a great gap in our financial mechanisms. The large projects thus far constructed under the provisions of the National Housing Act have been closely regulated as to rents, charges, capital structure, rate of return, etc., and the excesses and abuses which widely characterized the financing of apartment properties in the 1920's have thereby been avoided. The very size of the loans in the case of these large projects, however, makes it difficult to finance them by means of a single mortgage.

I would therefore urge the Congress to liberalize the provisions of the act under which the chartering of National Mortgage Associations is authorized, and, among other things, to give these associations explicit authority to make loans on large-scale properties that are subject to special regulation by the Federal Housing Administrator. The effect of the change here proposed would be to enable these properties to be financed by National Mortgage Associations through the sale of housing bonds or debentures duly secured by the insured mortgages on the properties.

In order that one or more such associations may be promptly organized, I shall ask the Reconstruction Finance Corporation to make available, out of the funds already allocated to the RFC Mortgage Company, \$50,000,000 for capital purposes. Under the amendments proposed, this would provide the basis for \$1,000,000,000 of private funds obtainable through the sale of National Mortgage Association debentures.

Another of the suggested amendments that I regard as of special importance would make the limitation of \$2,000,000,000 on the amount of mortgages insurable under the National Housing Act apply to the amount of insurance to be outstanding at any time and would remove the limitation of July 1, 1939, now applicable to the ultimate guaranty of the Federal Government. These changes would measurably encourage private financing under the act without increasing the amount of the contingent guaranty provided in the existing legislation. In connection with these changes, I would suggest that the Congress eventually limit the insurance of mortgages to housing on which the application for mortgage insurance is approved prior to the beginning of construction.

Finally, I am suggesting that insurance be provided for repair and modernization loans in a manner similar to that which was formerly provided under Title I of the National Housing Act. This former provision expired by limitation on April 1 of the present year.

Considered in relation to existing provisions of the National Housing Act, the Federal Reserve Act, the Federal Home Loan Bank Act, and extensive enabling legislation that has been enacted by the several states, the adoption of these measures would for the first time provide all the financial mechanisms essential to a widespread and sustained revival of housing construction. The terms of financing would be the most favorable ever made generally available in this country for housing purposes--half, or less than half, the cost of loans of comparable proportions under the system of first, second, and third mortgage financing that was widely prevalent in the 1920's. Large and continuous activity and employment in housing construction, which is not feasible under our present limited methods of financing, would be put decisively on a practicable basis.

The success of such a program as this, however, cannot be assured by governmental action alone. It will depend mainly on the willingness of industry and labor to cooperate in producing housing at costs that are within the reach of the mass of our people. The goal at which both industry and labor should aim is sustained large-scale production at lower costs to the consumer. This will mean a larger annual wage for labor because of the larger amount of employment than is possible at high hourly rates with long periods of unemployment. It will mean a larger annual income for industry because of the larger volume of production than is possible at high unit prices with greatly restricted output.

Because this was not the goal of industry and labor during the past construction year, the result soon proved injurious not only to the building industry and its workers, but to business and employment generally. The sharp rise of wage rates and prices in this industry, just before the last building season, reduced by 100,000 to 150,000 the number of new dwelling units that competent authorities had estimated were in prospect for 1937.

It is now clear that we cannot have a strong revival of housing construction on the terms that were exacted by industry and labor last spring. The rise in hourly wage rates and in material prices was too rapid and too great for the consumer to bear. A similar rise in costs likewise checked production and buying in other industries as well. In emphasizing these facts, I am not seeking to apportion blame, for manifestly no industrial or labor groups would deliberately adopt a policy that would react to their own disadvantage. I am simply pointing out what did occur and what the consequences were.

In the budget of the great mass of our families, the point is quickly reached where increased costs mean reduced consumption. Reduced consumption, in turn, means a decline in someone's business and someone's employment. The essential problem of the construction industry and its workers, then, is to find a reasonable way, through continuity of production and employment, to adjust the costs of housing to the consumer's means.

To help attain this end, it is my intention to initiate a series of conferences with representatives of industry, labor, and finance, with a view to giving housing construction a fresh start

in the coming building year and averting a recurrence of the conditions that brought about the reverses of the present year. If these groups will cooperate in this effort, as I believe they will, the result cannot but work to the advantage of our whole national economy.

Comparatively simple changes in, and additions to existing laws will make this start possible.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

November 27, 1937.

SECOND DRAFT

#1105

TO THE CONGRESS:

With the realization that important measures of legislation are pending before this Congress and that other matters require early consideration, I issued a call for an extraordinary session of the Congress with the thought that the work of the regular session, beginning ^{next} ~~in~~ January, would be expedited.

Since the adjournment of the last session there has been a marked recession in industrial production and in purchasing, following a fairly steady advance for more than four years. This decline, though it has not reached serious proportions, has the effect of decreasing the national income -- and that is a matter for our definite concern.

During the adjournment of the Congress I have sought to avail myself of ^{the} wisdom and advice of industrial and financial leaders, managers of small businesses ⁱⁿ many lines, ^{and} of representatives of agriculture and of labor. Much advice and many suggestions have been given to me and to other members of the Executive Branch of the Government. Many of these recommendations are consistent with each other; many are at complete variance. A long experience leads me to place great value on the obtaining of suggestions from every possible

source. It leads me also to believe that single answers or simple slogans will not solve complex problems which baffle the wit of the statesmanship today. To overemphasize one deterrent symptom out of many, to offer a single panacea, is to play with the lives of men and women, the great majority of whom seek, and are dependent on, a society of good-will - a cordial and more confident cooperation between every kind of citizen and his government.

A

Nevertheless, there is sufficient wisdom in the discussions that I have sought not only to check the present recession but to lay the ground work of more permanent assurance. It rests not only with the Government of the United States to say how far this recession shall go. It rests equally with the people. It need not proceed further if all of us use the knowledge gained in recent years. (B.)

Obviously the most important thing at the present juncture is to increase employment, increasing therewith the use of capital. The objectives of the nation in this respect cover of necessity a wide field -- so many subjects that it is impossible in this Message to cover them all. A little later I will address you further in regard to certain new proposals such as ~~the means of~~ the encouragement of private capital to enter the field of new housing on a large scale -- a field

A

To overemphasize one symptom out of many -- to over-
emphasize ^{any one} panacea that for the moment appeals to ^{any one} group
~~able to make itself articulate but shortsighted in its con-~~
~~ception of its own interest~~ -- is to play with the lives of
all the men and women of America. The well-being of those
who have much, as well as those who have less, depends, as
never before in our history, upon a society of good-will
where the good-will rests on the solid foundation that all
have enough. ^{And} the only ^{means} ~~method of attaining a society of~~
~~good-will~~ in the conditions of today is a cordial and
confident cooperation between government and every kind
of citizen and between every kind of citizen and his government.

B

As early as last Spring I called attention to the rapid rise in prices in many lines. That rise threatened the onward march of recovery and in particular cast shadows upon the anticipated revival of building. And over a month ago in my ~~Pier-side address to the Nation~~, you will remember that I ~~xxi~~ quoted one of the country's leading economists to this effect ~~that~~ The continuance of business recovery in the United States depends far more upon business policies, ~~business~~ ~~public policies~~ than it does upon anything that may be done, or not done, in Washington. "

I have not, therefore, been ^{an} aware of the uncertainties in the economic picture, ~~and the need of constant vigilance.~~

But there is no reason with the exercise of ordinary prudence, why we should anticipate any general or prolonged economic paralysis. Despite ^{some} ~~some~~ readjustments which ~~must~~ ^{are} ~~be~~ ^{invited} ~~to prevent their spread~~, underlying conditions are not unfavorable. The banking system is not ~~xxx~~ over-extended. Interest rates are relatively low. ^{former} ~~Great~~ surpluses of houses and capital equipment do not exist. Inventories are not dangerously large. Liquidation of over-extended ^{ed} speculative ^{fundamental} position does not overhang the markets. The situation ~~is not like~~ ^{is not like} compared with the ^{for} different conditions ~~confronted with that~~ of 1929.

which during the past four years has failed almost completely to keep pace with the marked improvement in other industries. On other subjects, such as taxation, committees of the Congress are ~~already engaged~~ in studies aimed at the elimination of ^{any} injustices in our tax laws, and especially features which are burdensome to the enterprise of the small business man of the nation.

It is probably true that because of difficulties in financing and in distribution greater than those experienced by the largest corporations, the ^{small} business of ~~small~~ or even of average size, deserves an equalization of opportunity through the Federal tax laws. In this way we may find partial assistance in our search for a more effective method of ^{checking the growing} ~~raising money~~ ~~holistic practices which exist today~~ in spite of anti-trust statutes. A further search for additional methods is called for at this time.

The matter of the Federal budget also will shortly be ready for submission to the Congress -- a budget which I ^{expect} ~~can~~ be brought within a ^{definite} ~~complete (or actual)~~ balance. D

4 Still other matters are receiving renewed examination -- the problem of the railroads and the problem of other public utilities. Both of these are difficult ~~of solution~~, principally because of thoroughly unsound financing extending over many ^{past} years.

concentration of resources central which persons today

Today, therefore, I emphasize to you that the Administration is committed to a wide social program, much of which is in actual effect, all of which is pointed toward higher living standards and a more just distribution of the gains of civilization.

But ~~the~~ the validation of this series of commitments depends upon wider distribution of an immensely enlarged national income. Such enlargement presupposes reasonable profits. Deflation and inflation are equal enemies of the balanced economy that seeks a progressive increase in national income.

H. E. It may be ~~xxx~~ contended, therefore, that the necessity of going even beyond the production of 1929 requires stimulation of private profit-making activity.

Agriculture

One of the principle desires of the Congress on reconvening will, I am confident, be the enactment of a new and permanent National Farm Act. Intention to pass such an Act was declared by the Congress in Joint Resolution last summer. Great

as the need was then, that need is greater still today *and even crops will begin to be planted within three months.*

In the weeks that have intervened, farmers have faced ^{the need} once more acute surpluses and falling prices. Cotton farmers are harvesting the largest cotton crop in all our history -- five million bales more than the markets of this country and the world have been accustomed to take. Corn farmers and potato farmers are harvesting crops that threaten to crush the farmers

who have produced this plenty. Other producing groups wonder how soon they, too, will be the victims of surplus uncontrolled.

Further measures are needed to prevent farm surplus from inviting fresh price collapse, but they must also safeguard farmers against the hazards of crop failure. We need a good ALL WEATHER farm plan -- a plan that uses the surpluses of one year to make up for the shortages of the next.

Out of the experience of the last five years we have learned that action against economic disaster can be successfully taken by farmers with the aid of the Government.

We have regard for the Constitution. The Congress will continue to discharge its constitutional duty to promote the general welfare. I believe that the Courts themselves are coming to have increasing regard for the true nature of the Constitution as a broad charter of democratic government which can function under the conditions of today.

Although vital portions of the Agricultural Adjustment Act were set aside nearly two years ago by the Supreme Court, Acts of Congress to improve labor relations and assure workers' security have been upheld since then. In these later decisions the powers of the Federal Government to regulate commerce between the States and to tax and to spend for the general welfare have been clearly recognized. I hope and believe that the Supreme

Court will not again deny to farmers the protection which it now accords to others. The Congress can constitutionally write a new Farm Act that will be well within the broad meaning and purpose of the Constitution.

We have regard for the United States Treasury. I have already expressed my view that if the new Farm Act provides for expenditure of funds beyond those planned in the regular budget, means of providing an equal amount of revenue must be found. May I reiterate that with all the emphasis I can give?

We have regard for the fertility of our soil. We have begun to assist farmers to stop soil waste and save the good soil that remains. Any sound, longtime program must have soil conservation as a primary goal.

We have regard for the welfare of farm families. We must make sure, as a long-time national policy, that farmers have a fair share in the national income; in so doing, farm buying power will keep city factories running.

Finally, we have regard for the American democratic way. Farm programs cannot long succeed unless they have the active support of the farmers who take part in them. They must be ~~not~~ planned and administered, so far as possible, by the farmers themselves. Here again, majority rule seems logical.

If and when huge surpluses in any one crop threaten to engulf all the producers of that crop, our laws should provide ways by which a small minority may be kept from destroying the proceeds of the toil of the great majority.

WAGES AND HOURS

In the interval since the adjournment of the last session there has been ample opportunity for discussion of the many principles of Federal Wage and Hour legislation. The question has been before Labor Conventions, Employers' Associations and many other groups. I myself have sounded out opinion on this subject over a wide section of territory. I believe that the country as a whole recognizes the need for immediate congressional action if we are to maintain and improve the standard of living for our working population and hold up the wage income and the purchasing power of the nation against recessive factors in the general industrial situation.

I believe that the country as a whole appreciates that far too many American workers are receiving today pay so low that they pull down the prosperity of the rest of their fellow citizens.

I believe that the country as a whole recognizes the need of working towards a more uniformly decent standard of living and purchasing power in every part of the country if all

sections are to live happily together as a nation. We do not recognize the destiny of any part of America to be permanently backward. Political and social harmony requires that every part of America not only produce goods for the nation's markets but furnish markets for the nation's goods.

As our population is no longer growing by leaps and bounds as it once did, our domestic markets can no longer be expected to expand unless our existing population is able not only to produce more but to consume more. Before business can be justified in making capital expenditures to enlarge the productive capacity of American industry we must see to it that markets exist to absorb the increased capacity of American industry to produce.

The breaking-down of wage and hour standards of the poorest paid workers in periods of business recession immediately has a serious adverse effect on the purchasing power of the nation. In the interest of the national economy such adjustments as must be made in periods of business recession should not be made at the expense of those least able to bear them.

This does not mean that Government action calls for immediate uniformity of standards of wages and hours; that is an ultimate goal.

We could not immediately apply rigid uniform standards to the many different industries in different parts of the country without producing temporarily at least, economic disturbances.

We can, however, provide flexible machinery which will enable industries throughout the country to adapt themselves to progressively better labor conditions. But no policy of flexibility will be practical unless a coordinating agency has constant power of inspection and investigation to ensure the recognition and enforcement of what the law requires.

There are geographic and industrial diversities which, as I have said, practical statesmen cannot well ignore. Nevertheless, it is high time that we had legislation relating to the manufacture of goods moving in or competing with interstate commerce, which will accomplish two immediate major purposes; First, to rid the country of wage scales too low to sustain the minimum decencies of life and working hours too long for the well-being of either the worker or the nation. Second, to end the unsound practice of some communities -- by no means confined to any one section of the country -- which seek new industries by offering as the principal attraction labor more plentiful and much cheaper than may be found in competing communities. The Congress should reiterate to them the oft-repeated pledge that labor is not a mere commodity.

REORGANIZATION

Last January I presented for the consideration of the Congress the need of making possible the improvement of administrative management in the Executive Branch of the Government. Five principle objectives were outlined:

1. The placing of executive activities in regular executive departments by Executive Order issued in accordance with standards set by law, together with the creation of one or more additional departments and a National Resources Planning Agency.
2. To establish accountability of the Executive to the Congress by providing a genuine independent audit by an officer responsible to the Congress, who will have no administrative part in the current transactions, settlements and accounts which it is his duty to audit and certify; placing the responsibility for current transactions and accountings upon the Executive.
3. To extend the merit system upward, outward and downward to cover practically all non-policy determining posts. Effective administration of the government in all its branches will remain dependent upon the ability and efficiency of the men and women employed by it and responsible for the vast detail of its operation. I have recently issued executive

orders to the full extent of the authority vested in me by the Constitution and Revised Statutes to extend the merit principle of selection and the method of orderly classification upward, outward and downward -- at the same time modernizing the Civil Service rules which have developed piecemeal and defensively through the years since 1903. I seek a modernized affirmative machinery for the enforcement of merit principles in appointment, promotion, and personnel management throughout the service. I would stress that Executive Orders have not the permanence of law; and their issuance does not lessen the need in connection with reorganization for permanent legislation. It is my hope that modernization of our Civil Service administration will be made permanent through legislation, so that the benefits to be expected of reorganization shall be fully realized and perpetuated.

4. To strengthen and develop the managerial agencies of the Government, in order that the Chief Executive may ~~be~~ at all times be able to coordinate the executive departments through a budget and efficiency agency, a personnel agency and a planning agency.

5. To authorize a slight extension of the White House Staff in order that the Chief Executive may keep in close touch with, and maintain knowledge of, the widespread affairs of administration necessary for executive decision.

No person conversant with the management of a great private corporation or a great government honestly suggests that reorganization in the interest of efficiency ~~XXXXX~~ saves large sums of money. The experience of States and municipalities proves this; but it proves also that adequate reorganization does increase efficiency, minimize error, waste and duplication and increase morale of the public service. It is worth observing once more that large savings in government expenditures can be made only by cutting of government functions. To those who advocate such a course, it is pertinent to ask the question -- which functions of government do you advocate cutting off?

PLANNING

Of equal importance with intelligent reorganization of the executive departments is intelligent reorganization of our methods of spending national funds for the conservation and development of those natural resources which are the foundation of a virile national life. As I said in a special message to the Congress last Spring, we have reached a stage in the depletion of our natural resources that calls for the allotment of a definite portion of each year's budget to this work of husbandry.

Our present machinery for carrying out such purposes, however, is geared to methods exemplified by the rivers-and harbor legislation of by-gone years. We spend sporadically -- on a project here and a project there, originated by haphazard -- without relation to the needs of other localities -- without relation to possibly more important needs of the same locality-- without relation to the national employment situation or the Federal Budget.

To avoid waste and to give the nation its money's worth from the national funds we expend, we must, like any business corporation, have a definite building plan -- a best order in which to make expenditures, a best timing for expenditures in order to keep our working force employed, and a best organized use of the projects after completion. And because relative values of local projects should first be appraised by those with local knowledge, and then by regional conferences before they come to Washington, we must have some kind of local and regional planning machinery and coordination to get full value-- money value and human value -- out of the final appropriations authorized in Washington.

Last year I recommended such machinery. For this purpose of conservation and development of ~~our~~ our natural resources, I recommended that the country be divided into the seven great regions into which Nature divided those resources -- that in such regions local authorities be set up to arrange ~~regional~~ projects into some kind of comprehensive and continuing plan for the entire region -- and that only after such consideration should projects be submitted to the Executive and the Congress for inclusion in a public-works program of such size as the budget of the year will permit.

Such machinery will provide decentralization. It will give local communities and the nation alike new confidence in the ^{True} ~~worthiness~~ of expenditures. And it will enable us to use these expenditures with better net effect on our national economy because we can then plan a continuing program to be ^{spread up or planned down} ~~accelerated or slackened~~ as employment ~~increases~~ falls ^{or rises}.

~~There are these big problems ahead. It seems only efficient for the sake of the Nation and for the sake of the Congress that we get at the problems already on the docket and clear up this docket before we go into the big ones, etc.~~

7
November 24, 1937.

SUGGESTIONS FOR MESSAGE ON HOUSING

In my message to the Congress upon the convening of the Extraordinary Session on November 15, I said that I would address you further in regard to proposals to encourage the private construction and financing of housing on a large scale. The proposals which I am presenting for your consideration now are an important part of the program for increasing general business activity and employment during the coming year.

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over the next five years 3 or 4 million housing units, which at a moderate estimate of \$4,000 per unit would ~~amount to~~ ^{mean spending} from ~~\$12~~ ¹⁶ billion dollars, without creating a surplus of housing accommodations, and consequently without impairing the value of existing housing that is fit for ^{decent human} occupancy.

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Since 1933 we have had a great recovery movement in which housing construction has played only a minor part. That it should play a major part has been clearly recognized by this Administration from the outset. But, though much has been done to encourage construction activity, the results have not yet been satisfactory. Instead of a seasonal rise in housing construction through the past spring and summer, there was an early

downturn. This was one of the principal reasons why general business failed to forge ahead during the latter part of the year.

We must recognize clearly that housing will not be built if costs are too high in relation to the consumer's income. The fact that housing costs rose sharply ^{— for too sharply —} between September of 1936 and March of 1937 was primarily responsible for the downturn in housing and thus in recovery generally this year.

Revival of housing construction must be based on reduction of the costs of building ^{and the payment for buildings} rather than on a resumption of the rising costs that stopped progress in this essential field last spring and summer. Housing must be produced at prices ^{and} and rents that the mass of our people can afford to pay.

The government has made provision, through assistance to municipal housing, for many of the most needy. But private enterprise and private capital must bear the burden of providing the great bulk of new housing. The measures I now suggest are to encourage private building to meet the needs of families of moderate means. These proposals cannot be effective, however, unless all elements concerned in the construction industry--builders, contractors, manufacturers of materials and equipment, labor, and finance--cooperate in producing housing that is within reach of the incomes of the vast majority of our citizens.

If the building industry is to play the vital part that it ought to have in our economic system, it must do it in the characteristic American way. It must develop, as other great industries have developed, the American genius for efficient and economical large-scale production. The lower unit costs resulting from large-scale production will make for greater annual returns for the entire building industry, including all workers engaged in that industry, and for a higher standard of living for the country as a whole.

The problem of reducing costs to a point where larger volume, longer employment, and higher annual earnings are possible is one that must be solved in major part by the building industry itself. The government, however, can take the initiative by bringing about a reduction of financing costs, by making it easier for families of moderate means to buy or rent new houses, and by providing mechanisms to make it practicable for private enterprise to engage in large-scale housing operations for the mass market.

In order, therefore, that government may give the fullest encouragement to a broad revival of building, I recommend that the Congress adopt at this time measures to facilitate the financing of every type of housing construction, whether for sale or for rent, and ranging from the small house to entire residential communities and large ^{low rent} apartment buildings. In addition to measures to stimulate

new construction, I recommend that provision be made for an extensive program of repairs and modernization.

As a practicable means of encouraging and facilitating a more effective operation of private enterprise and private capital in the housing field, I am suggesting enlargement of the framework of the National Housing Act in the light of actual experience. This legislation, enacted by the Congress in 1934, provided a new financial mechanism applicable to all types of lending institutions that make loans for housing purposes. Enabling legislation giving effect to this new mechanism was subsequently enacted by all the states. Within the limits of the types of housing to which it applies, it has proved to be both popular and practical.

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Under the National Housing Act the Congress established the Federal Housing Administration, which insures mortgages on certain types of housing, but itself makes no loans. The agency is designed to become self-sustaining through the operation of a mortgage insurance fund, into which premiums are paid by borrowers who obtain loans under the provisions of the act from private lending institutions. An ultimate guaranty of loans that may default is given by the Federal Government, but this guaranty becomes operative only in the event that recoveries from the sale of defaulted properties, together with all the monies in the insurance

fund, should be insufficient to pay the insured claims. Hence, even if any cost should result to the government because of this guaranty, it would be negligible when measured by the volume of construction and employment induced by the fact that the guaranty is there should it ever have to be availed of.

The benefits of financing under the National Housing Act apply to two main classes of transactions--namely, those in which a single house becomes security for a loan and those in which a limited-dividend company obtains a loan in order to develop a rental housing project. The amendments which I am suggesting are of three kinds: (1) to effect further reductions in financing costs; (2) to extend the insurance of mortgages to types of housing operations not now adequately provided for in the act; (3) to make the funds of institutional and individual investors more easily available for the financing of large-scale operations.

Because it takes the ~~ordinary~~ ^{average} buyer of a house or investor in housing a long time to pay for the property, the cost of financing is in the long run one of the largest items in housing costs. In the case of rental housing it is a determining factor, first in whether construction shall be undertaken at all, and second in arriving at the scale of rentals to be charged.

Institutions making loans to be insured by the Federal Housing Administration are now permitted by regulation to make an interest charge up to 5 per cent and a service charge of 1/2 of 1

per cent, or a total of $5\frac{1}{2}$ per cent per annum. It is proposed to reduce this to 5 per cent net by amending the administrative regulations.

As a means of further reducing the cost to the borrower, however, I would ask the Congress to authorize the Federal Housing Administrator to fix the mortgage insurance premium as low as $1/2$ of 1 per cent on the diminishing balance of an insured mortgage instead of on the original face amount as now required by the act. Further, as a means of giving special encouragement to the construction of small, moderately-priced houses, I would ask the Congress to authorize the Federal Housing Administrator to fix the mortgage insurance premium as low as $1/4$ of 1 per cent on the diminishing balance of an insured mortgage in cases where the estimated value of the property to be built does not exceed \$6,000 and where the mortgage is insured prior to July 1, 1939.

Another change that I would ask the Congress to make in the existing legislation is to raise the insurable limit from 80 per cent of the appraised value of the property, as at present, to 90 per cent in the case of loans to owner-occupants where the appraised value of the property does not exceed \$6,000. This proposal is of great importance. It recognizes the fact that most persons who desire to own homes of their own cannot make a first payment as large as 20 per cent of the purchase price. This is particularly true after the severe depression of recent years,

in which the savings of millions of prudent and thrifty families were depleted. 4

The fact is not generally recognized that the majority of our urban families are not home-owners. In the larger cities, the proportion of rented dwellings runs from 60 to nearly 80 per cent of the total. Accordingly, I am suggesting for your consideration measures designed especially to facilitate the construction and financing, under the economies of a blanket mortgage, of groups of houses for rent, or for rent with an option to purchase. Such operations would afford economies in construction as well as in financing, and would therefore, I believe, lead to the formation of substantial companies to avail themselves of the opportunities in this particular field. These same measures are also designed to encourage the construction of apartment buildings to be operated on a moderate scale of rentals, with the mortgage in any case not to exceed \$1,000 per room. This is a type of apartment property particularly adapted to the requirements of our smaller cities.

In the construction of large-scale rental properties, a small but creditable beginning has already been made under the existing provisions of the National Housing Act applicable to limited-dividend companies. Those provisions, however, need to be clarified and simplified in order to encourage a more extensive

development of large rental projects in the larger communities where they are needed.

Among the most important of the measures to which I would invite your consideration are those designed to facilitate the financing of these large projects. Here there is a great gap in our financial mechanisms. The large projects thus far constructed under the provisions of the National Housing Act have been closely regulated as to rents, charges, capital structure, rate of return, etc., and the excesses and abuses which widely characterized the financing of apartment properties in the 1920's have thereby been avoided. The very size of the loans in the case of these large projects, however, makes it difficult to finance them by means of a single mortgage.

I would therefore urge the Congress to liberalize the provisions of the act under which the chartering of National Mortgage Associations is authorized, and, among other things, to give these associations explicit authority to make loans on large-scale properties that are subject to special regulation by the Federal Housing Administrator. The effect of the change here proposed would be to enable these properties to be financed by National Mortgage Associations through the sale of housing bonds or debentures amply secured by the insured mortgages on the properties.

In order that one or more such associations may be promptly organized, I shall ask the Reconstruction Finance Corporation to make available, out of the funds already allocated to the RFC Mortgage Company, \$50,000,000 for capital purposes. Under the amendments proposed, this would provide the basis for \$1,000,000,000 of private funds obtainable through the sale of National Mortgage Association debentures.

Another of the suggested amendments that I regard as of special importance would make the limitation of \$2,000,000,000 on the amount of mortgages insurable under the National Housing Act apply to the amount of insurance to be outstanding at any time and would remove the limitation of July 1, 1939, now applicable to the ultimate guaranty of the Federal Government. These changes would measurably encourage private financing under the act without increasing the amount of the contingent guaranty provided in the existing legislation. In connection with these changes, I would suggest that the Congress ^{eventually} limit the insurance of mortgages ~~of~~ ~~standing after 1939~~ to housing on which the application for mortgage insurance is approved prior to the beginning of construction.

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Finally, I am suggesting that insurance be provided for repair and modernization loans in a manner similar to that which was formerly provided under Title I of the National Housing Act. This former provision expired by limitation on April 1 of the

present year.

Considered in relation to existing provisions of the National Housing Act, the Federal Reserve Act, the Federal Home Loan Bank Act, and extensive enabling legislation that has been enacted by the several states, the adoption of these measures would for the first time provide all the financial mechanisms essential to a widespread and sustained revival of housing construction. The terms of financing would be the most favorable ever made generally available in this country for housing purposes--half, or less than half, the cost of loans of comparable proportions under the system of first, second, and third mortgage financing that was widely prevalent in the 1920's. Large and continuous activity and employment in housing construction, which is not feasible under our present limited methods of financing, would be put decisively on a practicable basis.

The success of such a program as this, however, cannot be assured by governmental action alone. It will depend mainly on the willingness of industry and labor to cooperate in producing housing at costs that are within the reach of the mass of our people. The goal at which both industry and labor should aim is sustained large-scale production at lower costs to the consumer. This will mean a larger annual wage for labor because of the larger amount of employment than is possible at high hourly rates

with long periods of unemployment. It will mean a larger annual income for industry because of the larger volume of production than is possible at high unit prices with greatly restricted output.

Because this was not the goal of industry and labor during the past construction year, the result soon proved injurious not only to the building industry and its workers, but to business and employment generally. The sharp rise of wage rates and prices in this industry, just before the last building season, reduced by 100,000 to 150,000 the number of new dwelling units that competent authorities had estimated were in prospect for 1937.

It is now clear that we cannot have a strong revival of housing construction on the terms that were exacted by industry and labor last spring. The rise in ^{hourly} wage rates and ^{low} material prices was too rapid and too great for the consumer to bear. A similar rise in costs likewise checked production and buying in other industries as well. In emphasizing these facts, I am not seeking to apportion blame, for manifestly no industrial or labor groups would deliberately adopt a policy that would react to their own disadvantage. I am simply pointing out what did occur and what the consequences were.

In the budget of the great mass of our families, the point is quickly reached where increased costs mean reduced con-

sumption. Reduced consumption, in turn, means a decline in someone's business and someone's employment. The essential problem of the construction industry and its workers, then, is to find a reasonable way, through continuity of production and employment, to adjust the costs of housing to the consumer's means.

To help attain this end, it is my intention to initiate a series of conferences with representatives of industry, labor, and finance, with a view to giving housing construction a fresh start in the coming building year and averting a recurrence of the conditions that brought about the reverses of the present year. If these groups will cooperate in this effort, as I believe they will, the result cannot but work to the advantage of our whole national economy.

*Comparatively simple changes in, and, that
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In my budget message of January 5, 1937, I deferred submission of estimates of appropriations needed for 1938 relief, and expressed hope that the amount would not exceed \$1,557,125,000. My expectations at the time were that industry and business would continue to draw heavily on the workers, which the various branches of government were maintaining for them at public expense.

These drafts from the Works Program and local relief rolls were so gratifying that I was able to recommend on April 20, 1937 that the work-relief appropriation for the fiscal year 1938 be \$1,500,000,000, which amount Congress appropriated. At the same time the Congress, relying upon continuance of business expansion, surrounded the grant with provisions to insure that the appropriation last the full year.

It is possible to report that up to the present time, due to drastic economies, the Federal relief funds have been expended on a schedule which has kept full faith with the mandate of Congress.

The increased demands resulting from seasonal unemployment were foreseen and provided for in the scheduled expansion of expenditures during the winter months. These demands we are substantially meeting.

However, my full duty requires me to state that the loss of jobs by additional hundreds of thousands of workers in recent months constitutes a potential additional burden on our existing funds. Although the rate of decline in business activity has been markedly checked in recent weeks, we must face the fact that the extent to which the Federal government will be compelled to assume this added burden will depend upon how promptly American business re-adjusts itself to recent economic changes.

Due to the foresight of the Congress and the several states in their willingness to accept the responsibility for providing security to the American people, the Nation is today in a better position to cope with devastations of business recession. Beginning in the current month, 22 states and the District of Columbia will start disbursements to workers eligible for unemployment insurance payments. Provision has already begun for the unemployed aged, for the blind, and for dependent children.

Thru these newly-created facilities, and thru the Works Program and local relief agencies, we are better able to conserve our human resources, to keep intact the skills of our workers until such time as industry and business again requires them, and, above all, to maintain that priceless confidence of the American people in the American system.

I am keeping in close touch with the unemployment situation and I am glad to see that a special committee of the Senate, under the chairmanship of Senator Byrnes, is about to hold hearings on the subject of unemployment and relief. I am sure that many facts will be brought out in these hearings that will be valuable in helping us handle this problem.

Meanwhile, we must recognize that unemployment is a drain on every segment of the National economy. It is, therefore, a National responsibility and can only be met through Federal action. I have said, and I say now again, no one in this Nation shall be allowed to starve. To this we should add that no one capable of working shall be denied the opportunity to work. If it becomes necessary, due to happenings during recent months in business, to request of the Congress additional funds, I shall so advise you.