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Postwar Emergency Measures

THE end of World War II brought no change in the direction of federal policy, which was toward greater participation in, and control over, the mortgage credit facilities and activities of the country. In addition, in the related fields of construction, operation of rental housing, and sale of new dwellings, certain extraordinary controls of the war period were adapted to temporary postwar situations. Somewhat less drastic measures in the field of credit were adopted as accessories to the emergency programs.

In September 1945, immediately after the collapse of Japan, the Administration, fearing heavy unemployment, released controls on industrial and commercial construction. Residential construction was purposely held back because of the presumed greater job-giving advantages of other types of building. However, the generally rapid reconversion of American industry to peacetime production, the maintenance of personal incomes, and the rise in the nation's marriage rate made it evident within a few months that the housing situation and not unemployment was to be the nation's critical domestic problem. It is not pertinent here to go into details of the planning and counterplanning that ensued. It is enough to note that, by the spring of 1946, all building and real estate activities were more completely under surveillance and control than during the war. And, as a consequence, real estate finance was equally influenced by governmental action.

The pattern of postwar emergency intervention by the federal government consisted of an elaboration of devices developed before and during the war: the creation of credit facilities for special groups of borrowers; the direction of credit into certain lines, through insurance and guarantees; the restriction of mortgage credit outlets through control over new construction; the use of federal and state funds where other means seemed inadequate to achieve the ends of public policy; the maintenance of priorities for the benefit of specific parts of the population; and the maintenance

of controls over the rental and management of rental housing. From 1944 to 1947, the attention of the federal government (so far as it was concerned with emergency measures in construction and real estate finance) was focused on four pieces of legislation: (1) the Servicemen's Readjustment Act (the so-called "G.I. Bill of Rights"),¹ (2) the Veterans' Emergency Housing Act (the Patman Act),² (3) the Price Control Extension Act of 1946,³ and (4) the Housing and Rent Act of 1947.⁴

At the same time, the strands of a longer-term housing and credit policy were being more deliberately woven. The present chapter is concerned only with the emergency measures and their impacts, while the succeeding chapter discusses the synthesis of these with longer-term action.

SERVICEMEN'S READJUSTMENT ACT

Of the immediate postwar measures, the first and probably the most significant for the future was the enactment of the Servicemen's Readjustment Act of 1944, Title V of which provided for a system of government guarantees making possible 100 percent financing for farms, homes, and business ventures.

Under this plan, as first adopted in June 1944, the Administrator of Veterans' Affairs was authorized (for a period of ten years after the end of the war) to guarantee as much as 50 percent of a loan, up to a \$2,000 maximum amount, made to a veteran of World War II. No equity investment was required. In fact, the avowed purpose of the Act was to make such investment unnecessary. State legislation was quickly passed to permit state-chartered institutions to participate in the operation. Thus, 100 percent loans became possible on properties valued as high as \$6,000, where the lender made a conventional loan of two-thirds of value and added the maximum guaranteed amount. On dwellings financed with Federal Housing Administration insured first mortgages, the Act also authorized the guarantee of second mortgages up to 20 percent of the value or a maximum of \$2,000. The amortization period in both cases was set at twenty-five years, except for farm property,

¹ 59 Stat. 626 (1944); 38 U.S.C. 693 *et seq.*

² 60 Stat. 207 (1946); 50 App. U.S.C. 1821-33.

³ 60 Stat. 664 (1946); 50 U.S.C. 901 *et seq.*

⁴ 61 Stat. 193 (1947); 50 App. U.S.C. 1881 *et seq.*

where forty years was permissible. Interest on guaranteed loans was set by the statute at 4 percent.

Amid the subsequent inflation of realty prices, it was soon evident that the \$2,000 maximum guarantee would be ineffectual if the objectives of the Act were to be realized. In amendments passed in December 1945, the maximum guaranteed amount for home loans was accordingly raised to \$4,000, now making 100 percent financing possible for a property valued at \$12,000 or less, where a conventional loan for two-thirds of value was combined with the guaranteed amount, and \$20,000 where the plan for combination FHA-VA loans was utilized. The same amendments limited the eligible lenders to institutions regularly examined by state or federal agencies.

Some novel features of this Act deserve mention. Although a loan was automatically guaranteed when granted, it was required that the appraisal, and consequently the determination of the maximum amount of the loan, be made by an appraiser approved by the Veterans' Administration. In contrast to the FHA method of reimbursing an insured lender with long-term debentures in case of default and foreclosure, the veterans' loan plan provided for a cash payment on default of an amount not in excess of the guaranteed amount of the original loan, reduced or increased as that amount might be in proportion as the total loan outstanding had been reduced or increased; or, at his option, the Administrator of Veterans' Affairs might take an assignment of the mortgage and pay the obligation in full.

The scheme thus provided full debt financing for the acquisition or refinancing of real property with what was in effect a guarantee by government of the lender's risk. It resulted in a financial procedure in which the function of the lender was reduced almost to that of a disbursing and collecting agency of the government.

The plan had other unique aspects in its relation to the borrower. Plainly, it carried forward the idea of special facilities for special beneficiaries already established in the provisions for farm security and urban public housing. But more than this, it introduced a new kind of protective governmental scrutiny and control of the financial transaction: the veteran was barred from acquiring property under a "G.I." mortgage where the purchase price was in

excess of the value of the property as fixed by the approved appraiser, irrespective of his willingness or ability to pay the excess amount.

VETERANS' EMERGENCY HOUSING PROGRAM

Early in February 1946, the President, having already partially restored wartime construction controls and vested his wartime powers to regulate construction in the newly created Office of the Housing Expediter, recommended an elaborate and radical legislative program aimed to increase further the authority of the Expediter in dealing with the housing shortage.

The first phase of this program involved appropriations for federally-financed temporary dwelling units to be operated by educational institutions, localities, or the Federal Public Housing Authority for housing the families of veterans. Nearly 266,000 units were provided during 1946 and 1947 under this program.⁵

Late in May 1946, Congress passed the Veterans' Emergency Housing Act of 1946.⁶ This Act, which in many ways was more far reaching in its control over the housing supply than any previous legislation, contained the following principal features:

- (1) It confirmed and extended until the end of 1947 the wartime powers of the President to issue priorities, to prohibit proposed construction, and to make allocations of building materials, all of which already had been delegated to the Expediter. Large powers of direction over the actions of other governmental agencies (FHA, the Office of Price Administration, Civilian Production Administration), in so far as they affected the veterans' housing situation, were also granted to the Expediter.⁷
- (2) It authorized the fixing of prices on all newly constructed houses (but not, as had been requested, on houses completed before the date of enactment, except as such prices might have been established in priority agreements).
- (3) It provided preferences for veterans of World War II in either rental or purchase of newly completed housing accommodations.

⁵ Senate Report No. 892, 81st Congress, 1st sess., p. 28. As of March 31, 1949, a reported 123,000 units had been transferred to educational institutions and 196,600 units were owned by the federal government.

⁶ 60 Stat. 207 (1946); 50 U.S.C. 1821 *et seq.*

⁷ The President made the controls granted by the Act more effective by combining the functions of the National Housing Agency with those of the Office of the Housing Expediter through the appointment of a single official to administer both.

- (4) It renewed until June 1947 the war housing insurance provisions of the Federal Housing Administration (Title VI of the National Housing Act), limiting their use to builders of housing for veterans (in place of workers in war industries), setting the interest rate at 4 percent on mortgages so insured, and raising the maximum amount of an insurable mortgage to meet current increases in cost.⁸
- (5) It authorized the Reconstruction Finance Corporation to grant subsidies to manufacturers, up to a maximum amount of \$400 million, in the form of premium payments for increases in the production of building materials.
- (6) It authorized (again through the RFC) the making of production loans and the guaranteeing of markets for a maximum of 200,000 prefabricated dwellings and for what the Act called "new type" materials.

The effect of this Act, combined with the retained control of rents and operation of the veterans' loan program, was virtually to create a controlled realty market, in so far as additions to the supply were concerned. Since no structure could be built without a government permit, mortgage funds, except for the refinancing of existing property, could flow only to the extent and in the directions that government, within the limitations of the law, might determine.

After a twenty-five-day lapse in controls, the Price Extension Act of 1946⁹ re-established federal controls over rents and prices. A fear of mass evictions and rapidly rising rents led to the re-enactment of rent controls with only very minor changes from the war-time legislation.

FAILURE OF THE EMERGENCY PROGRAM

On assuming his authority, the Housing Expediter forecast the initiation of 950,000 new permanent dwellings during 1946, most of which were to be available to veterans at prices not over \$6,000, or at rentals not exceeding \$50 a month. By the fall of the year it was evident not only that this total would not be reached but also that the number of houses completed would fall far short of what

⁸ The FHA Commissioner was authorized to permit maximum mortgages of \$8,100 on houses for sale and \$1,800 per room for rental properties, where necessary to meet increased costs.

⁹ 60 Stat. 664 (1946); 50 U.S.C. 901 *et seq.*

might be estimated on the basis of units actually started.¹⁰ Moreover, it was clear that the prices of finished houses would much exceed the Expediter's calculations. The subsidy program had failed both to ease the price situation or measurably to affect the volume of materials production.¹¹ The guaranteed market program for prefabricated houses got under way too late to have any influence at all on the year's supply of new houses.¹² Faced with this situation, the Expediter called for more liberal use of government credit and more drastic controls both of prices and construction and resigned when his demands were not met. The machinery of control was then subjected to a process of gradual dismantlement.

Many reasons may be given for this failure, but nearly all are ultimately traceable to the shortage of materials and the increased cost of building.¹³ Serious strikes in the coal, steel, and shipping industries, which occurred in the first part of 1946, contributed to the materials shortage and the rising level of costs. More pertinent, however, were certain features of the program itself. The combination of an unrestricted wage policy and a rigid price policy caused serious distortions in profit margins among various optional items of manufacture and retarded the increase in materials production. At the same time, the housing program, through priorities and allocations of materials and insured loans to builders, greatly augmented the number of houses started; and the provision for 100 percent mortgage loans to veterans added greatly to the number of buyers and assured sales for all housing that might be produced. Inevitably, the extraordinary pressure on the materials supply

¹⁰ The figures for the year were approximately 670,500 permanent dwelling units started and 437,000 completed (*Construction*, Bureau of Labor Statistics, February 1948, Table 4, p. 5).

¹¹ By the end of the year only about \$13 million of subsidy payments had been disbursed from a total of around \$50 million in commitments. Total payments were in excess of \$30 million, according to information obtained from the Office of the Housing Expediter.

¹² During 1946, shipments of prefabricated dwellings amounted to about 37,200 units, of which few if any benefited from guaranteed market contracts. Up to June 1947, when the guaranteed market program had neared its end, it comprised less than 90,000 units for completion during 1947 and 1948 (Office of the Housing Expediter, *Monthly Bulletin*, June 1947).

¹³ Wholesale prices of building materials increased 37 percent between VJ Day and the end of 1946; in the same period hourly earnings in building construction increased 14 percent. These figures, however, do not adequately represent the increase in total building costs which, because of the added effects of delays and low productivity, probably rose from 40 to 60 percent above end-of-the-war levels. The upward movement continued during 1947 and 1948.

brought about first a lengthening of the time of completion and then a sharp decline in the number of starts.

It soon became evident that in an effort of this kind one sector of the economy could not be subjected to regulation and direction by the government while the remainder became increasingly free of official restraint. In his attempt to make the housing controls effective, the Expediter was more and more forced to consider sanctions that affected other industries: automobiles, furniture and household appliances, industrial and commercial building, public works, and the export trade. In the end there were only two choices: resort to a much more fully planned and regulated economy, or abandonment of the housing program. With the removal of commodity price controls in November, and with the resignation of the Expediter and revision of regulations in December 1946, it was evident which alternative had been taken.

RETREAT FROM CONTROL

The official veterans' housing program, as revised for 1947, replaced the priorities system by a federal permit system and ceiling prices for new homes by a limitation on floor area. Premium payment agreements for building materials were not extended, and all but two of the existing agreements were withdrawn. The market guarantee program for prefabricated houses and new materials was continued on a diminishing scale. Allocation of raw materials was discontinued after the first quarter of 1947, and, while limitations on nonresidential building construction were maintained, they were on a slightly more generous basis.

In mid-1947 the Housing and Rent Act of 1947¹⁴ repealed all but a few of the emergency powers conferred upon the Housing Expediter. The only remaining provisions of the Veterans' Emergency Housing Act related to continued veterans' preference for occupancy of new housing units and extension of Title VI of the National Housing Act. Control over nonresidential construction was limited to the relatively unimportant category of buildings for amusement and recreation purposes.

The Housing and Rent Act of 1947 took a step toward de-control of rents by exempting new construction along with other minor categories of rental accommodations, permitting increases

¹⁴ 61 Stat. 193 (1947); 50 U.S.C. 1881 *et seq.*

up to 15 percent for existing units upon voluntary agreement by landlord and tenant on a lease of not less than an eighteen-month term from the passage of the Act, and providing for decontrol as of February 29, 1948.

In spite of the general tendency of this legislation to remove war and early postwar restraints on construction, the idea of financial facilities for special groups was persistent. In the summer of 1947 the special class of mortgage insurance for veterans' housing under Title VI of the National Housing Act was extended, and a provision was added for FHA insurance of commercial loans to manufacturers of prefabricated houses.

Although the Housing and Rent Act of 1947 anticipated rent decontrol at the end of February 1948, the control powers of the Housing Expediter were extended for another fifteen months from March 30, 1948.¹⁵ Apartment hotels and single family houses rented for the first time were exempt from control, and other minor modifications of the control regulations were made.

In early 1948 another step in the gradual retreat from emergency programs was taken when the FHA Title VI insurance program for one- to four-family homes was permitted to lapse. The Title VI rental housing program, however, was extended with only slight modifications.

COMPLETE REMOVAL OF FEDERAL CONTROLS PROVES DIFFICULT

Termination of the last surviving emergency control programs was again deferred in early 1949 when the Housing and Rent Act of 1949¹⁶ extended both the veterans' preferences for occupancy of new accommodations and the federal program of rent controls until mid-1950.

At the time of passage of this legislation, however, the conviction was growing that by mid-1950 the federal government should be able to divest itself of responsibility for rent controls, placing control of individual areas under local authority and action. In anticipation of that time, three methods were provided by the 1949 legislation for elimination of federal controls in individual localities:

¹⁵ 62 Stat. 93 (1948); 50 U.S.C. 1881 *et seq.*

¹⁶ Public Law 31, 81st Congress.

- (1) Decontrol by the Housing Expediter, either on his own initiative or in response to a recommendation of the local advisory board. In these instances, future recontrol was permissible at the Expediter's discretion.
- (2) Decontrol by resolution of the local governing body, with approval of the governor of the state, declaring rent control no longer necessary. No recontrol power was provided in these cases.
- (3) Decontrol of the entire state or specific localities by passage of a state law declaring rent control no longer necessary. Possibilities of recontrol in these cases depended on the provisions of the decontrol law.

In addition, federal control could be replaced by state or local control established by state law and properly certified by the governor of the state.

By early October 1949, a total of 189 entire defense rental areas had been freed from control, out of nearly 600 such areas in March 1949. Parts of an additional 144 defense rental areas had been decontrolled; and control of rents in fourteen areas in Wisconsin had been transferred by state law to control by the state of Wisconsin.¹⁷

In addition to the Wisconsin law, which provided for the removal of rent control on June 1, 1950, four other states had made steps in the same direction. Nebraska and Texas had acted to terminate controls in the fall of 1949, with authority for local controls in Texas at the option of the localities. Legislative action in Alabama and Nevada, the former providing decontrol in May 1950, was incomplete. The Alabama legislation was involved in a court test of the legality of the governor's approval; the Nevada law awaited the governor's action.

In October 1949 the federal government was still arranging for disposition of federally-owned housing produced during the war and postwar emergencies. The initial disposition date for this housing had been extended from July 1949 to January 1, 1951. The unsolved disposition problems involved 136,300 war housing units in permanent structures, 188,250 war housing units in temporary structures (including trailers), and about 125,250 veterans' emergency units in temporary structures.¹⁸ Proposals for disposi-

¹⁷ Summarized from notices by the Housing Expediter in the *Federal Register* and other sources.

¹⁸ Public Housing Administration statistics for June 30, 1949.

tion included sale of the permanent units for public low-rent use or private investment and transfer of the responsibility for disposing of temporary units to local governments or educational institutions. However, with the exception of an authorization for the Public Housing Authority to give veterans' emergency units on municipally-owned land to the cities in which they were located, all decisions on the disposition of war housing were deferred in the first session of the Eighty-first Congress, by setting the date for disposition ahead from January 1, 1950 to January 1, 1951.

With the gradual dismemberment of the federal rent control system and the plans for an end to federal ownership of the war and veterans' housing, the series of emergency postwar measures in the field of housing and housing finance drew to a close. The incorporation of some features of the emergency programs into longer-term federal policies and practices, especially in the field of finance, is discussed in the succeeding chapter.

EMERGENCY HOUSING PROGRAMS OF STATES

The same pressures for emergency action that were brought on the first postwar Congress were felt by the state legislatures, forty-seven of which were in session during the first half of 1947. The governments of the various states developed legislation adapted to the specific emergency housing problems of their own populations. For the most part, state emergency activities related to providing assistance to veterans, to relieving special local problems of nonveterans, and to supplementing federal rent control.

The federal emergency program for providing temporary units for the use of veterans' families extended into every state and the District of Columbia. In addition, twenty-eight states adopted veterans' programs supplementing federal activities.¹⁹ There was great variety in these state programs, ranging from the establishment of a state coordinating committee in Maryland to assist cities in participating in the federal veterans' emergency housing program to a comprehensive program in California involving construction of

¹⁹ Discussion of emergency housing action by states is based on material prepared by the Office of the Administrator of the Housing and Home Finance Agency for the *Hearings on General Housing Legislation Before a Subcommittee on Banking and Currency* (U. S. Congress. Senate. 81st Congress, 1st sess., February 3-21, 1949). See also "State and Local Housing Programs After World War II," *Monthly Labor Review*, Vol. 69, No. 5 (November 1949) pp. 499-502.

units for rent to veterans, with state and local subsidies, loans from the state to veterans for purchase of both homes and farms, and purchase of federal surplus housing units for resale to veterans.

Other devices enacted that year for assistance to veterans included (1) construction by municipalities of permanent units for rent to veterans in Colorado, Illinois, Kentucky, Massachusetts, and Virginia and construction of units for sale in Milwaukee; (2) provision of land for use of veterans—for building temporary units in Lincoln, Nebraska and in Connecticut, or for building homes to be owned by veterans in Massachusetts; (3) an extra homestead tax exemption in Louisiana; (4) special lumber production for veterans from public lands in Connecticut and New Hampshire; (5) dormitories at colleges in several states; and (6) preferences for occupancy in publicly-owned, state-assisted housing in New York and Rhode Island.

Nearly all of these activities have a specified time limit, such as a five-year period for the homestead tax exemption in Louisiana, and a common proviso that temporary units provided for veterans' occupancy shall be vacated and demolished by a specified date or at such earlier time as the housing emergency is declared at an end. On the other hand some of the benefits for veterans are of indefinite duration, as, for example, the funds provided in California and Mississippi for purchase of farms or homes to be resold to veterans at cost and the specific authorization for groups of veterans in North Carolina to establish housing cooperatives.

In addition to the emergency programs for aid to veterans, a few states adopted plans for emergency aid to nonveteran groups with special problems. California provided state funds for financing housing for agricultural laborers. Rhode Island authorized Providence and other cities to acquire or build permanent housing for veterans and nonveterans. Arkansas authorized cities to acquire federal surplus property to be operated as emergency housing for a two-year period, without restriction of use to families of veterans.

A number of states adopted emergency legislation between 1945 and 1949 supplementing federal rent controls.²⁰ Most com-

²⁰ Discussion based generally on Carrie E. Hunter, *State Rent Control Laws*, Public Affairs Bulletin No. 62 (February 1948), Legislative Reference Service of the Library of Congress, supplemented by additional information on legislation adopted by August 1949.

mon were laws to enable the state or local governments to act effectively if local emergency conditions developed when federal residential rent controls ended. Some states, however, established state controls of rents for rooming houses, tourist homes, hotel accommodations, or trailers when federal controls over these facilities were removed by legislative or administrative action in 1947 and 1948. And New York in 1945 established controls over rents of commercial and business space when Congress refused to inaugurate federal controls.

Louisiana, Michigan, New Jersey, and Rhode Island enacted residential rent control legislation in July 1946, when federal controls lapsed between June 30 and July 25. New York had previously adopted stand-by controls to take effect when federal controls expired.²¹ During 1947, additional state control programs were enacted in Connecticut, Illinois, Maryland, Minnesota, Missouri, Virginia, and Wisconsin. Texas adopted a rent decontrol law in 1949 which also authorized local rent controls at the option of the local governments involved.

The state of New York established the first rent control programs for nonresidential properties in early 1945. Rents of industrial, storage, and wholesale business properties were controlled under a Commercial Space Act adopted on January 24, 1945, while a companion law, approved on March 28, 1945, brought the rents of retail store and office space under control.

All state programs for rent control included restraints on evictions as essential parts of the control procedure. From these state laws for controlling residential rents emerged two significant variations from the federal program. First was a proviso in some of the stand-by legislation as early as 1947 that localities would be able to declare an end to the state control on their own initiative. Second was the frequent assignment of responsibility for enforcement or adjustment of rent ceilings to the courts, rather than to elaborate administrative organizations.

The New York programs for control of nonresidential rents involved two additional distinctive features which deserve study

²¹ The first state rent legislation was enacted after World War I in Massachusetts, New Jersey, New York, and Wisconsin. In World War II, Virginia was the first state to enact rent control legislation in 1942, but this legislation expired March 15, 1944, without having been placed in effect.

should the question of rent control arise in the future. One feature provided for rent increases above the legislative maximum if the increase were arrived at by arbitration, written agreement of the parties involved, or a Supreme Court decision. The second feature was that the law made excessive rent charges unenforceable, rather than prohibiting the excessive rentals. While somewhat greater court activity may have resulted from these features, a substantial reduction of administrative expense and possibly greater equity of administration may have been gained.