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Club.

HOUSING TODAY

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I know you all didn't come here tonight to be told that these are troubled times. They are and no one knows it better than you do. And I didn't come to tell you that I have a magic cure-all for our problems. I don't. Nor does any other responsible elected official or candidate for political office.

While I have no magical patent medicine, I do bring you some prescription and diagnosis provided by the best economic doctors in the nation. Washington is loaded with them now. We have both resident practitioners as well as many transients who make the pilgrimage to offer their wisdom. Just last week, for example, the Banking and Housing Committee, on which I serve, heard from the six economic wise men who have served as Chairmen of the President's Council of Economic Advisors for each of our Presidents since 1964. The eminent economists served both Democratic and Republican Presidents, and surprisingly hold similar views about our condition today.

Their most important theme is one that we all understand--inflation. It is the most serious problem facing us today, for the rate of inflation has risen to alarming levels. In 1977, the rate of inflation was

6.5 percent, two years later it was almost double that, and the predictions are that by the end of the year it will reach 18 percent. Inflation is one of those diseases that if not caught early spreads quickly. While we have known that we have had the inflation bug for some time, the price changes in 1979 and the first months of 1980 have startled all of us.

While inflation is clearly our most urgent problem, the spector of a recession has been with us for more than a year now. But the recession that everyone has been predicting hasn't yet happened. Some forecasters warn us that it is just around the corner and could be very serious. Yet, the business statistics continue to belie that prediction.

Industrial production has continued to grow although at a slower pace. In 1977, U.S. output increased by 5.9 percent, continued at that level in 1978 (5.7%) and in 1979 declined to 4.2 percent. Employment in the nation has grown at about 3 percent over the last three years (1977-3.5%, 1978-4%,1979-3%). When we consider that we have a labor force of about 100 million, that's not a bad record.

At the same time, unemployment fell from 7 percent in 1977, and today hovers at 6 percent, which is the figure that many experts say is an acceptable level in a free society (6% in 1978).

During the past three years, the standard of living in our country has continued to increase despite what our own pocketbooks seem to indicate. Personal income in 1977 rose almost 11 percent (10.9%) and today is 12 percent (1978-12.1%). It should be said, however, that it appears that income has not kept pace with inflation since late last year.

These figures suggest that we have successfully put off the day of reckoning that many observers were forecasting.

But while the general economy, according to the figures collected in Washington every month, has remained buoyant, particular sectors have weakened. Housing has clearly been in trouble for the past year or more. At hearings before our Housing Subcommittee, industry and other economists have been pointing to the signs of weakness and have, on a number of occasions, projected a major housing recession.

But the months went by and the housing activity remained reasonably high. The problems that you could see in your markets could not be detected in Washington where the statistics reflect continued housing booms in California and Texas. That picture has now changed. It is clear even in Washington that the bottom is beginning to fall out of housing.

In 1977, U.S. homebuilders built almost 2 million privately owned units and more than that in 1978. But in 1979, the figure tailed off to just over 1.7 million, and within the past 6 months housing starts have declined from a level of 1.6 million to 1.2 million. The decline has been most severe in the construction of single family housing. In 1977 and 1978, more than 1.4 million single family houses were built. Last month, the annual rate of single family construction dropped below 900,000.

When the housing forecasters convened early this year, they agreed that starts this year would be in the neighborhood of 1.4 to 1.5 million units. They predicted that the housing recession this year would be mild compared to the drastic decline that took place in 1974. But the forecasters are now going back to the drawing boards, and their new revisions indicate that the predicted recession in housing may well turn out to be a depression, such as occurred in 1974.

Housing is not the only industry that shows signs of serious weakness. How much of a rebate are you getting with your new car? When our Committee held hearings over the Chrysler guarantee request, we were all sobered by the outlook for the automobile industry here in the United States. Detroit could very well capture Washington's attention in the months ahead.

But for now, housing is high on our minds, because shelter is not only a basic requirement, but because housing is an essential industry in the United States. People often say "as housing goes so goes the nation." The health of your industry is clearly recognized to be vital to the country. And we know very well that the housing industry cannot now survive with a 17 percent mortgage rate.

Many experts argue that if we reduce interest rates and build housing now we will only accelerate inflation. They argue that expanding homeownership can push up inflation and list three reasons.

First, it increases the price of money by increasing the demand for credit. Last year alone the demand for mortgage credit exceeded $100 billion; the year before it exceeded $114 billion.

Home financing requires an enormous amount of credit and in the last decade has been one of the fastest growing users of financial markets. An expansion of mortgage credit can, under certain circumstances, reduce the availability of financing for other purposes including business investment, and ultimately increase the costs of other goods and services.

Second, expanding homeownership in a period of rising home prices can increase the demand for other goods and services. Homeowner loans that are available "for any worthwhile purpose" permit homeowners to convert their equity in a home into purchasing power while still occupying their homes. This "monetarizing" of equities has been singled out as a serious issue by a number of economists who strongly support the restriction of mortgage credit at this time.

Third, increased homeownership in a period of rising prices may also affect labor costs and incomes in an inflationary manner by affecting the consumer price index. Increased housing prices, it has recently been pointed out, can disproportionately increase the consumer price index and because many pension plans and labor contracts utilize the consumer price index as a cost-of-living escalator, this can accelerate inflation disproportionately.

Other experts, however, argue that we must build now, or otherwise suffer even greater inflation tomorrow. They point out that the basic demand for housing in the coming decade requires that the home building industry produce close to 2 million units every year. WE clearly are not going to build that many in the year ahead, and we didn't last year. Because the babies of the fifties will be forming their households in the eighties, we are guaranteeing that shelter dollars will be chasing very scarce housing in the years ahead. By not building today, we're insuring greater housing inflation tomorrow.

The experts leave us in a dilemma. How can we, today, sustain homebuilding and, at the same time, curb inflation?

The Economic Advisors who testified last week agreed that we must reduce the demand for credit. Almost all of them stressed that many steps have to be taken to curb inflation. They said that we need an anti-inflation program that includes wage-price restraint, government spending restraint, a staunching of the dollar hemorrhage for oil imports and strong measures to encourage savings and to increase productivity.

They all agreed that Federal spending should be cut, but they also agreed that a cut in Federal spending is needed more as an example than as a tool. Walter Heller, Advisor to President Kennedy, recommended that sizable budget cuts be made on their merits but warned that "to assume that $15 billion or so of spending cuts, even if that balanced the budget, will make a sizeable dent on inflation is the triumph of hope over reality." He estimates that the proposed cut in Federal spending will reduce our national product by 1 percent, and will reduce inflation by only 1/3 of 1 percent.

On the other hand, Paul McCracken, Advisor to President Nixon, while recognizing the limitations of fiscal policy, wants our budget decisions to "be tough, with a bias in the direction of being too severe."

We are being told that we need to reduce <u>both</u> private and governmental spending; but in doing so, we must avoid reversing the expectations and the spending habits of people to the point where we send the economy into a tailspin. We are being advised, in short, that we need to affect the mood of the nation, to rein in an unhealthy exuberance of spending and to do it without causing people to become manic-depressive. That's not easy!

The experts agree that stringent measures are in order and that most of the steps that are being taken are in the right direction. Most of them appear to agree that the action of the Federal Reserve Board in tightening credit was necessary; that the Presidential credit controls (which excluded direct controls over mortgage credit) could have some effect, and that efforts to secure a balanced budget could help. Some say more drastic steps are needed, and a hot debate is now beginning over the necessity for direct wage and price controls.

Your industry, I have said, is high on our minds in Washington. It was generally conceded by many homebuilders, lenders and others that some reduction in housing activity was necessary if inflation was to be curbed. Many of us were, and are, concerned that housing would bear the burden almost entirely, as it has too frequently in the past.

While recognizing that some homebuyers may have speculative fever fed by easy mortgage credit, income tax benefits, and expectations of appreciation in values, I and other members for the Banking Committee remain concerned that our present government policies are freezing many families particularly the very young out of the opportunity for decent housing.

There are several measures that I support that will prevent housing from bearing the burden of curing inflation disproportionately.

First, I supported the amendments to the Emergency Home Purchase Act of 1979, familiarly called the Brooke-Cranston Program. Under this program, the Secretary of HUD would have authority to provide some $10 billion in emergency mortgage credit and to reduce interest rates to a level that will encourage homebuilding and homebuying. The amendments have been approved by the Banking and Housing Committee,and will, I fully expect, be passed by the Senate in a matter of days. Because neither the House nor the Administration has yet seen the light on this measure, all of us are going to have to show them the way. Frankly, I think the most recent housing statistics will make it very clear to them that the program is needed now.

Second, I intend to support, within the need to achieve a balanced budget, a strong housing program for 1981. The Banking Committee will very shortly mark up the HUD-Farmers Home legislation for this coming year. This legislation should provide assitance for close to 400,000 housing units in 1981. As you know, housing programs don't come cheap. They will require that the Congress authorize the spending of some $30 billion. There will almost certainly be efforts this year to cut housing authorizations. I will oppose those who seek to impose significant cuts below the levels requested by the President.

Third, the Senate will soon consider the Mortgage Subsidy Bond Tax Act of 1979. The House has just completed its work on a bill sponsored by Congressman Ullman that is considered by most "housers" to be too restrictive. The Senate Finance Committee will shortly begin its consideration of a comparable bill. I intend to work for a Senate bill that will continue broad tax exemption for bonds devoted to housing purposes. Preliminary discussions with the Senate Finance Committee indicate that there may well be disputes over the total amount of housing bonds that will be permitted to be exempt from taxation and the income level of persons to be served by such a program. I am very hopeful that the Senate will approve a bill that will support a strong housing program, and that the Senate conferees will get more than they give in the conference with the House.

I also want you to know that I am keeping my eye on the Building Energy Performance Standards now being considered by the Department of Energy. I know these standards, which are required under the Energy Conservation Act of 1976 that came out of the Banking-Housing Committee, are important to you in your job as homebuilders, as well as to your customers. I am aware that there are differences of opinion regarding the standards, and particularly about the impact they may have on the initial cost of houses. I shall, in the weeks ahead, be monitoring the activites of the Department of Energy before the regulations are finally issued.

Let me say in closing that I feel strongly that we need a healthy housing industry in this country. Your well-being is a matter of great concern not only as it effects all of us today, but as it could effect our children for years to come. The problems of inflation and of housing prosperity are complex, and the solutions are, in many respects, beyond our current understanding. The roots of inflation, it is said, lie in our expectations, and affect our daily work and living habits. If that is indeed the case, it will be up to all of us to pull together to solve the problem of inflation, and to sustain a high level of housing production.