

SPEECH BY: ROBERT MORGAN
To: N. C. HOMEBUILDERS
GOVERNOR'S INN
RALEIGH, NORTH CAROLINA
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YOU KNOW IT'S A RARE OCCASION IN THIS COUNTRY WHEN THE GREAT MASS OF AMERICAN PUBLIC REACH A CONSENSUS ON ANYTHING. WE AMERICANS JUST AREN'T MADE THAT WAY AND SOME TIMES IT SEEMS THAT WE ENJOY NOTHING BETTER THAN FRIENDLY DISAGREEMENT.

BUT THE TIME HAS COME WHEN WE DO AGREE ON ONE MATTER: INFLATION IS THE BIGGEST PROBLEM NOW CONFRONTING THE AMERICAN PEOPLE.

PRESIDENT FORD, SOON AFTER TAKING OFFICE, REFERRED TO INFLATION AS "PUBLIC ENEMY NUMBER ONE," AND OBVIOUSLY HE WAS RIGHT. EVERY RECENT POLL I HAVE SEEN, EITHER NATIONAL OR LOCAL, HAS SHOWED IT IS THE FOREMOST CONCERN OF OUR PEOPLE.

FRANKLY, I DON'T THINK ANY OF US SHOULD REALLY BE SURPRISED THAT WE HAVE COME TO THIS POINT.

FOR THE LAST SEVERAL YEARS THE ADMINISTRATION IN WASHINGTON HAS FOCUSED ITS EYES ABROAD, MAKING STRIDES IN THE AREA OF INTERNATIONAL RELATIONS. GOOD WORK HAS BEEN DONE, AND I BELIEVE HISTORY WILL SO RECORD IT.

BUT AT THE SAME TIME HERE AT HOME OUR PROBLEMS HAVE BEEN TOTALLY IGNORED. THE FREE ENTERPRISE SYSTEM HAS BEEN SHAKEN TO THE ROOTS, AND THROUGHOUT THE COUNTRYSIDE OUR PEOPLE CAN HEAR THE ECONOMIC WOLF HOWLING AT THE DOOR.

THERE ARE MANY WHO SAY THAT THE RECENT CRISIS WE HAVE EXPERIENCED IN LEADERSHIP AT THE NATIONAL LEVEL HAS PROVED THAT OUR CONSTITUTIONAL SYSTEM OF GOVERNMENT IS ALIVE AND WELL. I AGREE; BUT I RECOGNIZE, AS I AM SURE YOU DO, THAT OUR SYSTEM OF GOVERNMENT IS TIED IRREVOCABLY TO OUR ECONOMIC SYSTEM AND BOTH MUST BE STRONG OR NEITHER CAN SURVIVE.

IN MY OPINION, THERE HAS NEVER BEEN A TIME IN OUR HISTORY WHEN OUR PEOPLE HAVE BEEN MORE KEENLY AWARE OF THE ECONOMIC PROBLEMS FACING THEM. THE EVIDENCE IS EVERYWHERE.

I READ RECENTLY THAT IN THE FIRST HALF OF THIS YEAR MORE THAN 5,000 BUSINESSES FAILED, LEAVING UNPAID DEBTS OF MORE THAN \$1.5 BILLION, ALMOST 50 PERCENT MORE THAN THE UNPAID DEBTS OF THOSE WHO WENT BROKE DURING THE SAME PERIOD LAST YEAR.

I DON'T NEED TO TELL YOU THAT A MAJOR CASUALTY HAS BEEN THE HOMEBUILDING INDUSTRY. I HAVE RECEIVED SEVERAL LETTERS RECENTLY FROM SOME OF YOU TELLING ME JUST THAT.

A SALES REPRESENTATIVE FROM DOWN EAST WROTE SAYING, "THE HOME BUILDING INDUSTRY OF THIS COUNTRY IS DYING. WE CANNOT SIT IDLY BY AND WATCH MILLIONS OF PEOPLE BECOME UNEMPLOYED AND SEE OUR ALREADY CRITICALLY SHORT HOUSING SUPPLY BECOME SO FAR BEHIND THAT WE CAN NEVER CATCH UP."

AN OFFICER OF ONE OF YOUR PIEDMONT ASSOCIATIONS PUT IT THIS WAY: "WITH HOUSING STARTS AND SALES DOWN, AND CONSTRUCTION UNEMPLOYMENT UP, THE HOUSING SECTION OF OUR ECONOMY IS IN THE GRIPS OF A DEPRESSION. LAST WEEK, OUR COMPANY LAID OFF APPROXIMATELY 190 EMPLOYEES, AND THE PROSPECT FOR THE FUTURE IS VERY GRIM. WE ARE FEARFUL THAT OUR JOBS ARE IN JEOPARDY; WE HAVE TO WORK IN ORDER TO FEED, CLOTHE AND SHELTER OUR FAMILIES."

THE OWNER OF A REAL ESTATE AGENCY ALSO PAINTED A DARK PICTURE FOR THE INDUSTRY AND SUMMED UP BY STATING: "IF SOMETHING IS NOT DONE QUICKLY AND DECISIVELY IN WASHINGTON, MANY OF OUR BUILDERS WILL BE FORCED TO SHUT DOWN THEIR OPERATIONS COMPLETELY."

YOU CAN SEE THAT THE STORY IS THE SAME THROUGHOUT THE STATE, THROUGHOUT THE INDUSTRY AND I THINK WE OUGHT TO TAKE A FEW MINUTES TO EXAMINE THE SITUATION WHICH IS CREATING THIS KIND OF ANXIETY.

FRANKLY, I THINK EVERY NORTH CAROLINIAN OUGHT TO BE JUST AS CONCERNED AS YOU ARE BECAUSE PRIVATE OWNERSHIP OF HOMES IS A VERY PRECIOUS PART OF OUR NATIONAL HERITAGE, A PART OF THE DREAMS OF EVERY YOUNG COUPLE IN THIS STATE AND NATION.

BUT MORE AND MORE IT LOOKS AS IF OWNING ONE'S HOME IN THE FUTURE WILL BE SIMPLY THAT — A DREAM — UNFULFILLED, AND UNATTAINABLE BY A GREAT MAJORITY OF AMERICANS.

"TO MOST AMERICANS, THE TRADITIONAL ONE-FAMILY HOUSE IS A FOUNDATION OF PERSONAL FELICITY AND PROSPERITY, RANKING IN IMPORTANCE WITH EDUCATION, JOB, FAMILY, HEALTH AND FAITH. YOUR OWN HOUSE, SURROUNDED BY YOUR OWN TERRITORY, IF ONLY AN EIGHTH OF AN ACRE, SEEMS TO SATISFY ALL KINDS OF PSYCHOLOGICAL AND FINANCIAL NEEDS. A HOUSE FORCES YOU TO SAVE, GIVES YOU EQUITY AND SECURITY, ENDOWS YOU WITH STATUS AND PROVIDES A HEALTHY SETTING FOR THE NOISY, DISORDERLY LIFE OF A FAMILY WITH CHILDREN." (MONEY, SEPT., 1974)

YOU KNOW AS WELL AS I DO THOUGH, THAT IT'S JUST ABOUT IMPOSSIBLE FOR A FAMILY WITH AN AVERAGE INCOME TO PURCHASE A HOME THESE DAYS, WITH INTEREST RATES OF NINE OR TEN PER CENT ON MORTGAGE MONEY — IF YOU CAN FIND IT AT ALL. AS COMPARED WITH A YEAR AGO, THE AVERAGE PRICE OF A COMPARABLE NEW HOME IS UP 10 PER CENT, EFFECTIVE MORTGAGE INTEREST RATES HAVE RISEN FROM 7 3/4 PER CENT TO 9 3/4 PER CENT. MORE THAN 60 PER CENT OF THE NEW HOMES BEING SOLD ARE PRICED AT \$30,000 OR MORE. IT TAKES A FAMILY INCOME OF \$18,000 OR MORE TO MEET THE HOME OWNERSHIP COSTS ON A HOUSE WITH A \$30,000 MORTGAGE WHICH EXCLUDES THREE-FOURTHS OF AMERICAN FAMILIES FROM THE NEW HOME MARKET.

AT THE TIME OF THE 1970 CENSUS, 63 PER CENT OF THE HOUSES IN AMERICA WERE OCCUPIED BY THE OWNERS. NOW, WE ARE TOLD THAT SKYROCKETING INFLATION HAS PUT THE AVERAGE NEW HOME OUT OF THE REACH OF THREE-FOURTHS OF OUR FAMILIES. IT IS OBVIOUS WHERE WE ARE HEADED AND WE MUST TURN THIS SITUATION AROUND, AND QUICKLY.

HOW CAN WE BEGIN TO DO IT?

SOARING INTEREST RATES ARE A MAJOR STUMBLING BLOCK TO HOME OWNERSHIP. THIRTY-SEVEN CENTS OF EACH DOLLAR'S INCREASE IN HOUSING COSTS IS ATTRIBUTABLE TO MORTGAGE INTEREST.

A "TIGHT-MONEY POLICY" DICTATED AT THE HIGHEST LEVEL BY THE FEDERAL RESERVE BOARD HAS MADE MORTGAGE MONEY IMPOSSIBLE TO GET; AND IF IT'S AVAILABLE, YOU CAN'T AFFORD THE PRICE YOU MUST PAY FOR IT.

THE ROUND OF "ECONOMIC SUMMIT CONFERENCES" PRODUCED A LOT MORE SMOKE THAN FIRE. BUT ONE THEME WAS STRUCK TIME AND TIME AGAIN: MONETARY RESTRAINT IS NECESSARY BUT THE FEDERAL RESERVE BOARD HAS GONE TOO FAR.

JUST RECENTLY, THEY FINALLY HEARD THE HUE AND CRY WHICH HAS GONE UP ACROSS THE LAND AND RELAXED CONTROLS ON THE FLOW OF MONEY A LITTLE, BUT NOT ENOUGH. LAST WEEK SECOND DISTRICT CONGRESSMAN L. H. FOUNTAIN, A FISCAL CONSERVATIVE BY ANYONE'S STANDARDS, CALLED ON THE BOARD ONCE MORE TO REASSESS ITS CONTINUING TIGHT MONEY POLICY AND COME TO THE RESCUE OF YOUR INDUSTRY. HE NOTED ALSO THE PACE AT WHICH HOMEBUILDING COMPANIES ARE GOING UNDER.

IT BOILS DOWN TO THIS: WE MUST MAKE MORE CREDIT AVAILABLE FOR BOTH CONSTRUCTION LOANS AND PERMANENT FINANCING, AND IT MUST BE AT REASONABLE RATES.

ONE WAY TO DO THIS IS TO GET THE FEDERAL GOVERNMENT OUT OF THE CREDIT MARKET,

FOR 18 OF THE LAST 20 YEARS THE FEDERAL GOVERNMENT HAS SPENT MORE MONEY THAN IT HAS COLLECTED IN TAXES, THUS CREATING A HIGH NATIONAL DEBT. MORE AND MORE FREQUENTLY, WE SEE THE FEDERAL GOVERNMENT GOING INTO THE MONEY MARKET AND BORROWING MORE MONEY BY OFFERING SECURITIES FOR SALE WHICH ARE NOW PAYING AT LEAST NINE PER CENT.

NEEDLESS TO SAY, DOLLARS INVESTED IN TREASURY NOTES ARE DOLLARS WHICH ARE NOT AVAILABLE TO FINANCE NEW HOMES AND THIS IS WHERE THE HOMEBUILDING INDUSTRY IS RECEIVING A DEATH BLOW.

WE KNOW THAT NINE PER CENT INTEREST IS FAR MORE THAN SAVINGS INSTITUTIONS LIKE THE SAVINGS AND LOANS CAN PAY SO PEOPLE HAVE BEEN WITHDRAWING THEIR DEPOSITS FROM THEM IN ORDER TO INVEST IN TREASURY BONDS WHICH YIELD HIGHER INTEREST. THIS HAS THE DIRECT EFFECT OF DECREASING THE AMOUNT OF MONEY AVAILABLE FOR HOME LOANS, AND MORTGAGE MONEY HAS ALL BUT DRIED UP.

YOU CAN SEE THEN THAT TALK ABOUT BALANCING THE BUDGET IS MORE THAN JUST WORDS.

THE FEDERAL GOVERNMENT MUST GET OUT OF THE CREDIT MARKET WHICH MEANS SIMPLY THAT IT MUST BALANCE THE BUDGET AND STOP DEFICIT SPENDING.

CERTAINLY THERE MUST BE A WAY TO DO SO. THE STATE OF NORTH CAROLINA BY LAW MUST OPERATE ON A BALANCED BUDGET, AND WE HAVE FOUND IT NO GREAT PROBLEM TO DO SO. IT'S A MATTER OF PRIDE TO THE PEOPLE OF OUR STATE. MAYBE WE OUGHT TO ASK THE FOLKS IN WASHINGTON TO COME DOWN HERE AND SEE HOW IT'S DONE.

ONE OF THE EASIEST ECONOMIC LESSONS IS THAT A SHORTAGE OF GOODS PRODUCES HIGH PRICES. IT'S THE OLD LAW OF SUPPLY AND DEMAND. SO IT'S NO WONDER THAT EVERYTHING IS SKY-HIGH WHEN WE CONSIDER THE TREMENDOUS GAP BETWEEN DEMAND FOR GOODS AND PRESENT PRODUCTIVITY.

SOMETHING MUST BE DONE TO ATTACK THESE SHORTAGES WHICH EXIST THROUGHOUT THE ECONOMY, INCLUDING THE HOUSING INDUSTRY.

THIS NATION NEEDS TO CHANNEL ITS RESOURCES — AND ESPECIALLY ITS MONEY THAT IS AVAILABLE FOR LOANS — TO ESSENTIAL INDUSTRIES THAT CAN EASE THESE SHORTAGES.

THE GOVERNMENT SHOULD SIT DOWN WITH BANKERS, INSURANCE COMPANY EXECUTIVES AND PEOPLE FROM OTHER FINANCIAL INSTITUTIONS, AND URGE THEM TO DIRECT THEIR LOANS TO FACTORIES AND INDUSTRIES THAT CAN SUPPLY SUCH THINGS AS MORE HOUSES, MORE ENERGY AND MORE FOOD.

THE PRESIDENT SHOULD URGE THEM TO BEGIN A VOLUNTARY PROGRAM OF LENDING MONEY TO COMPANIES WHO WILL USE IT TO RELIEVE THESE SHORTAGES.

AS AN AID TO THIS SORT OF ACTION, THE CONGRESS SHOULD GIVE THE FEDERAL RESERVE MORE FLEXIBILITY TO GUARANTEE A REASONABLE AMOUNT OF MONEY TO ENCOURAGE HOME BUILDING, EXPAND MANUFACTURING AND TO HELP SMALL BUSINESSES. THIS WAS A MAJOR RECOMMENDATION IN THE RECENT REPORT OF THE JOINT ECONOMIC COMMITTEE OF THE CONGRESS.

A RECENT NEW YORK TIMES NEWS SERVICE ARTICLE (WILLIAM WOLMAN, SUNDAY, SEPTEMBER 15) STATED THAT "SAVINGS INSTITUTIONS ARE IN AGONY AND WILL HAVE TO CHANGE RADICALLY IF THEY ARE TO REMAIN VIABLE AND IF THE UNITED STATES IS EVER TO HAVE A HEALTHY HOUSING INDUSTRY AGAIN."

ACCORDING TO REPORTS, AUGUST SAW A NEAR-RECORD AMOUNT OF SAVINGS WITHDRAWN FROM INSTITUTIONS WHICH SPECIALIZE IN HOME MORTGAGES AND INVESTED WHERE INTEREST RATES ARE HIGHER. I CANNOT BLAME THE SMALL INVESTOR FOR LOOKING FOR THE HIGHEST YIELD, BUT I DO KNOW THAT CONTINUATION OF THIS TREND COULD SPELL DOOM FOR THE HOME BUILDING INDUSTRY AND THE DREAMS OF MILLIONS OF AMERICANS.

THE FEDERAL GOVERNMENT HAS ISSUED NEW REGULATIONS FOR ISSUING ITS NEXT TREASURY BONDS AND INCREASED THE MINIMUM AMOUNT ONE MUST PURCHASE FROM \$1,000 TO \$10,000. THOUGH THIS WILL STOP SOME OF THE FLOW OF FUNDS FROM THRIFT INSTITUTIONS TO HIGHER INTEREST BEARING TREASURY BONDS, IT HARDLY SEEMS FAIR TO PENALIZE THE SMALL INVESTOR THIS WAY. MANY VIEW THIS MOVE AS ANOTHER EXAMPLE OF THE RICH GETTING RICHER, AND THE POOR GETTING POORER.

AS I SAID A MOMENT AGO, THE ULTIMATE SOLUTION IS TO GET THE FEDERAL GOVERNMENT OUT OF THE CREDIT BUSINESS, BUT IN THE MEANTIME WE HAVE TO FIND ADDITIONAL WAYS TO HELP OUR SAVINGS INSTITUTIONS WHO SPECIALIZE IN FINANCING HOME PURCHASES THROUGH THIS CRISIS.

SOME SUGGESTIONS HAVE BEEN MADE TO STOP THIS TREND AND THEY SHOULD BE CONSIDERED CAREFULLY. ONE WHICH DESERVES SPECIAL CONSIDERATION WOULD ALLOW TAXPAYERS TO ACCRUE \$1,000 WORTH OF INTEREST ANNUALLY ON DEPOSITS IN SAVINGS AND LOANS AND MUTUALS WITHOUT FEDERAL INCOME TAX LIABILITY.

THIS MAY NOT BE THE BEST ANSWER, BUT IT IS IMPORTANT THAT WE KEEP SEARCHING AND, EVEN MORE IMPORTANT, THAT WE START ACTING TO RESCUE THE HOMEBUILDING INDUSTRY, THUS ASSURING ADEQUATE HOUSING FOR OUR PEOPLE, BEFORE IT IS TOO LATE TO DO SO.

TO ILLUSTRATE THE SEVERITY OF THE PROBLEM, LET ME SHARE WITH YOU SOME FIGURES FROM A RECENT ISSUE OF THE U. S. NEWS AND WORLD REPORT, (SEPTEMBER 16, 1974). IN JULY, 1973, CONSTRUCTION WAS BEGUN ON 2.5 MILLION HOMES. BY JULY, 1974, NEW CONSTRUCTION HAD DROPPED ALL THE WAY TO 1.3 MILLION.

THE RIPPLE EFFECT OF THIS KIND OF DECREASE IS ASTOUNDING.

THE AVERAGE HOME BUILDER IS FAR FROM BEING A GIANT, HOWEVER, ACCORDING TO STATISTICS PROVIDED BY YOUR ASSOCIATION, HIS PRODUCT ACCOUNTS FOR ABOUT TEN PERCENT OF THE GROSS NATIONAL PRODUCT.

CLOSE TO \$1.35 TRILLION NOW IS CHANGING HANDS ANNUALLY BETWEEN BUYERS AND SELLERS OF MERCHANDISE AND SERVICES. OF THIS AMOUNT, \$140 BILLION IS ATTRIBUTABLE TO NEW CONSTRUCTION, OF WHICH ALMOST ONE HALF IS IN RESIDENTIAL CONSTRUCTION.

YET, WITH ALL OF THE MONEY INVOLVED AND THE 10.5 PERCENT OF THE GROSS NATIONAL PRODUCT IT REPRESENTS, THE CONSTRUCTION INDUSTRY STILL REMAINS COMPOSED OF PRIMARILY SMALL, INDEPENDENT BUSINESSMEN ON THE COMMUNITY LEVEL.

FOR THE MOST PART, THE HOME BUILDER BUYS LOCALLY, GETS HIS BRICKS AND LUMBER AND CEMENT AND NAILS AND OTHER MATERIALS AND PRODUCTS FROM LOCAL DEALERS. HE ARRANGES MORTGAGES FOR FAMILIES LOCALLY. HIS EMPLOYEES ARE FROM THE LOCAL COMMUNITY.

CONSIDER THE ECONOMIC IMPACT OF ONE THOUSAND NEW RESIDENTIAL UNITS ON A REPRESENTATIVE COMMUNITY IN A ONE-YEAR PERIOD. THESE NEW RESIDENCES ENTAIL MORE THAN \$35 MILLION IN DIRECT CONSTRUCTION COSTS. SOME \$4 MILLION IS SPENT ON SITE IMPROVEMENTS OF THE LAND.

THE RESIDENTS OF THESE NEW UNITS SPEND APPROXIMATELY \$3 MILLION IN THE FIRST YEAR ON THE PURCHASE OF NEW APPLIANCES, RUGS, DRAPES, GARDEN EQUIPMENT, FURNITURE AND, IN MANY CASES, A NEW CAR.

THE RESIDENTS SPEND CLOSE TO \$4.6 MILLION MORE FOR REAL ESTATE TAXES, MORTGAGE INTEREST, PROPERTY INSURANCE, UTILITIES AND PROPERTY MAINTENANCE AND REPAIR.

THERE ARE OTHER ECONOMIC CONSIDERATIONS TO THE COMMUNITY. FOR EACH ONE THOUSAND NEW LIVING UNITS, MORE THAN TWO THOUSAND WORKERS ARE EMPLOYED FULL-TIME FOR ONE YEAR. EACH HOME PROVIDES A NEW MARKET FOR MORE THAN THREE THOUSAND SEPARATE PRODUCTS, OR MORE THAN THREE MILLION FOR ONE THOUSAND HOMES AND APARTMENTS. THE HOMES OWNED BY FAMILIES WHO MOVE INTO THE NEW UNITS MUST BE SOLD STIMULATING AN EXPANDED RESALE MARKET FOR OTHER FAMILIES. (INFORMATION SUPPLIED BY N.C. HOMEBUILDERS ASSOCIATION).

WITH ALL OF THIS, IT IS EASY TO UNDERSTAND THE ECONOMIC CONTRIBUTION OF A SOUND HOUSING INDUSTRY TO EVERY AMERICAN COMMUNITY. ANY SLOW-DOWN IN RESIDENTIAL CONSTRUCTION, MUCH LESS A "SLUMP", HAS A SERIOUS EFFECT. WHEN THIS EXTENDS THROUGHOUT THE COUNTRY, AS IS THE CASE TODAY, THE ECONOMIC STABILITY OF THE NATION IS SERIOUSLY HARMED.

IT IS EASY TO SEE, I THINK, WHY IN ATTACKING INFLATION AND THE PROBLEMS IT HAS CREATED THAT WE SHOULD GIVE SPECIAL ATTENTION TO THE HOUSING INDUSTRY.

WE MUST PUT OWNERSHIP OF A PRIVATE HOME BACK WITHIN THE REACH OF THE WAGE EARNERS OF OUR NATION.

AMERICA IS A GREAT NATION AND NO SACRIFICE IS TOO GREAT TO SUSTAIN IT. AND IT SURELY WILL TAKE SACRIFICES ON THE PART OF EVERYONE - GOVERNMENT, PRIVATE INDUSTRY AND LABOR - BEFORE WE FINALLY COME TO GRIPS WITH THE INFLATION WHICH HAS STRUCK OUR NATION. WE MUST RECONCILE OURSELVES TO THIS FACT AND THEN BE WILLING TO TAKE WHATEVER STEPS NECESSARY TO RETURN OUR NATION TO ECONOMIC STABILITY.

OBVIOUSLY, I DON'T HAVE ALL THE ANSWERS AND I DON'T PRETEND TO. I AM CERTAIN NO ONE ELSE DOES. BUT MY HOPE IS THAT THE NEW NATIONAL ADMINISTRATION WILL MOVE BOLDLY AND RAPIDLY ON MANY FRONTS TO ATTACK OUR PRESSING ECONOMIC PROBLEMS, SLOW THE UNPRECEDENTED INFLATIONARY SPIRAL IN WHICH WE FIND OURSELVES, AND PUT THIS NATION BACK ON THE RIGHT TRACK.