

Speech presented by  
United States Senator Robert Morgan  
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#### HOUSING AND INFLATION

It's timely that you are celebrating private property week. We need a reminder of its importance. Particularly, since interest rates today are denying many persons the opportunity to own their own homes. The Bureau of the Census tells us that we are the most homeowners nation in the world. Some 50 million American families -- almost two out of every three -- own their own houses. Their real estate provides both shelter and savings. Widespread private ownership of property is both a mark of success and a safeguard for the nation. In reminding ourselves of this, we need, particularly today, to work harder to ensure that all Americans can enjoy the opportunity to "own their own".

As your representative to the Senate, I'm called upon to make decisions and to vote on issues that I'm not expert on. I do my homework. I listen to views of the experts, like you. But I can tell you, it is not always easy to come up with the right answers. We are a great and complex nation. And governments -- local, State and Federal -- have correspondingly, grown bigger and more complex.

You learn just how complex things are when the economy gets unbalanced, and everyone looks for ways to restore stability. The experts frequently don't agree on what's wrong, and often, even when there is some agreement about

what the problem is, they prescribe different remedies.

A good case in point is our current economic situation. Many experts tell us that we are experiencing something new: the threat of runaway inflation at the same time we are faced with signs that production and employment could slip dramatically downward. Some identify our oil guzzling habits that leave us vulnerable to OPEC as the major new element; others point to the growth of world markets, as for example, in the recent trading fluctuations in wheat and gold and silver. Others point to the decline of U. S. productivity stemming from problems in getting new capital investment, new technology, new labor incentives, and new management ideas. Others point to foreign competition, both fair and unfair. Our television manufacturers went abroad. Our steel manufacturers are claiming foul. And our auto industry is racing against time to break into the small car market. When U. S. autos, steel, and electronics are having troubles, you know that times have changed.

Some people point to the Federal government as the most important source of our recent difficulties. Viet Nam, big spending for domestic programs and over-regulation are frequently mentioned. There are many letters coming to Washington these days urging Congress to solve the economic problem by cutting spending and reducing regulation.

Let me say that I think there's a good deal of merit in these suggestions. There is no question in my mind that the Government must act responsibly in collecting and spending tax dollars. And it is also clear to me that it must exercise a leadership role in developing a national effort to curb spending. Inflation, after all, simply reflects excess bidding for scarce goods.

But let me also provoke you a little, and maybe help you stay awake, by saying that I think it is too simple to say that Government alone got us into this mess, and government alone can get us out of it.

Take the matter that I will be voting on next week -- the budget for 1981. I understand that your organization has recommended that there be a 1% slower growth in Federal spending than called for in the President's initial budget request. I believe that Congress will adopt a restrained budget that provides for spending at a level you have recommended. I intend to work very hard to secure such a budget. But I don't want you to think that's going to be an easy chore. It's going to require that somebody gets less than he has anticipated for his "essential" program. It's going to require some real sacrifices.

I know that polls show there is a widespread support for budgetary restraint. The polls, however, do not show exactly

how that restraint should be exercised. And I can tell you that for weeks now, I've had a steady stream of visitors to tell me how that restraint shouldn't be exercised. I've been told that we shouldn't cut veterans pensions, social security benefits, aid to the handicapped or elderly, assistance for education or conservation, spending for business development or agriculture. You name it, some so-called "special interest" has been pleading its case for avoiding a budget cutback. And I haven't mentioned those who have counselled that we must substantially increase our spending for military preparedness now. Nor have I mentioned the many callers I have had from the housing industry. They have urged that Congress take action now to increase housing assistance in order to forestall a serious depression that could spread throughout the economy, and ensure future increases in housing prices, because production would fall well below future needs. I will return to this later.

The call for fiscal responsibility cannot be satisfied simply by eliminating waste and inefficiency in government. There simply isn't \$15 or \$20 billion in waste to cut.

I am confident we will, next week, be able to resolve these conflicting demands and adopt a prudent fiscal plan. But, while necessary, that won't be sufficient to win the fight against inflation.

The Banking Committee recently heard from the chief economists of our Presidents since 1964. These six economic wise men, both Democrats and Republicans, gave remarkably similar counsel. They agreed that Federal spending should be cut, but more as an example to the nation than as an effective tool for curbing price increases. They tended to agree that balancing the budget would have negligible effect on inflation (possibly reducing it by 1/3 of 1%).

Most of them agreed that the actions taken by the Federal Reserve Board were necessary, and that the credit controls invoked could have some positive effect. Some of the experts, however, felt that more drastic steps, possibly including wage and price controls, would be required. Almost all of them stressed that we will need to adopt and carry out a comprehensive anti-inflation program that includes not only fiscal restraint by Federal, State and local governments, but also wage and price restraint; effective measures to encourage saving and investment, and to increase productivity; and last, but not least, energy conservation to curb the outflow of dollars for oil.

We in the Congress and all of the experts recognize that housing is a pivotal industry in our economy.

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 because (1) 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.

(2) 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.

(3) 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 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 homebuilding 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?

Many leaders in the housing industry conceded that some reduction in housing activity was necessary if inflation was to be curbed. But 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 of 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.

To ensure that housing will not bear the burden of curing inflation disproportionately:

(1) I supported the amendments of 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 have 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.

(2) 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 assistance 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.

(3) 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.

(4) I also expect early action by the Senate to update the Section 235 Homeownership Assistance Program in order to accelerate its use during this emergency period. Amendments being readied by the Senate will increase mortgage ceilings and income eligibility, reduce the amount of subsidy per unit and permit use of a graduated payment mortgage. Existing law

authorizing use of Section 235 for existing as well as new housing would remain unchanged.

I know that many of you are concerned about the fact that the FHA interest rate has lagged behind market rates, has been changed too many times in too few days, and has permitted excessive discount points to be levied. There is some feeling apparently that FHA rates should float fully with market rates. My office has talked to HUD about this. HUD, as you know, tries to establish a rate that approximates the market, but does not fluctuate as much. Hopefully, with interest rates peaking, you won't be subjected again to the recent problems you have had to cope with.

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 affects all of us today, but as it could affect 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.