

**SAVINGS AND LOAN
ANNALS 1968**

**United States Savings and Loan League
221 North La Salle Street
Chicago, Illinois 60601**

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United States Savings and Loan League



Handwritten signature
PRESIDENT

FOREWORD

WHEN THE SAVINGS AND LOAN history books are written, the year 1968 will probably be recorded simply as "better than 1966 and not as good as 1967." That is the sort of year it was.

The year 1968 was one of uncertainty from one moment to the next. During the turbulent 12 months the nation saw the continuation of the war in Vietnam; fluctuations in the Federal Reserve discount rate; fast-changing interest rates at all levels of the economy; a run on the American gold supply; and the worst period of sustained inflation that the nation has ever known.

With this sort of activity, it is no wonder that the year saw a partial return to the "disintermediation" which our business experienced in 1966. Perhaps the extent of the "uncertainty" of 1968 can be measured somewhat by the fact that the tax surcharge and expenditure control bill which was passed in the middle of June had by year's end shown little, if any, effect on the economy.

The major problem during the year, of course, was the inflation. There is no question that people continued spending money at the expense of their savings programs. The underlying motive on the part of these thousands of families is easy to understand: "We may as well buy now because if we defer the purchase the price will go up." This has been an exceedingly difficult philosophy to combat.

I think in perspective that the business came through 1968 in a splendid fashion. Our savings gain of \$7.4 billion, while not nearly as good as the almost \$11 billion gain of 1967, nevertheless was fine considering the type of year we went through. We put almost \$22 billion in new mortgage loans on our books which was more than we did in 1967.

In fact, if our savings inflows had not slackened we might well have established a mortgage lending record in 1968. Certainly the demand for all types of housing was there, and it looks as if this situation will continue throughout the coming year.

Probably the most important single factor affecting the savings and loan business which took place during the year was the passage by Congress of the Housing Act of 1968. This act, when implemented by regulations from the Federal Home Loan Bank Board, will create virtually a new climate in which our institutions can operate.

The bill includes language which modernizes the powers of the sav-

ings and loan associations. It is my belief that the language in which the bill is written reflects the realization of the Congress that since the public's concept of housing, as well as its savings objectives, have changed markedly in recent years that savings and loan associations—the traditional American specialists in savings and home finance—are now to have the means of meeting these new needs and desires on the part of the public.

The authorities contained in the bill put new emphasis on the thrift and home financing responsibilities which all of us bear. These new authorities, which were not lightly given to us, should help us to accomplish the following: (1) provide broader service to home buyers and home owners, (2) facilitate the gathering of sufficient savings capital to provide this service, and (3) improve the operational capabilities of savings and loan associations.

All in all, the coming years should see great advances in our business, and the passage of this new legislation will play no small part in this.

I believe that the many gains we have made during 1968, an admittedly difficult year, point up the fact that the business has learned its lesson well since 1966. I look forward to even further improvements in 1969 and the coming years.

HANS GEHRKE, JR.

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1953	CHICAGO, ILL.	CHARLES L. CLEMENTS, MIAMI BEACH, FLA.
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1967	SAN FRANCISCO, CALIF.	OTTO L. PREISLER, CHICAGO, ILL.
1968	MIAMI BEACH, FLA.	HANS GEHRKE JR., DETROIT, MICH.

GENERAL SESSIONS

PRESIDENT'S ADDRESS

by HANS GEHRKE JR., *President*

United States Savings and Loan League

Detroit, Mich.

IT IS MY PLEASURE to welcome all of you to this, the 76th Annual Convention of the United States Savings and Loan League. In terms of attendance, this happens to be our biggest convention on record. In terms of quality and scope, we believe the program and events arranged for the next few days will prove to be outstanding and memorable.

A year ago this month, I began my assignment as president of the League at the close of the convention in San Francisco. I doubt that anyone at the San Francisco convention could have foreseen the eventful and turbulent 12 months that stretched ahead. It has been a year which has seen the continuation of the Vietnamese War, the devaluation of the British pound, three increases and one decrease in the Federal Reserve discount rate, an unprecedented run on the American gold supply, a fullblown international crisis resulting from the Soviet invasion of Czechoslovakia, fast fluctuating interest rates, substantial monetary and fiscal mismanagement resulting in the worst period of sustained inflation that this generation of Americans has seen, and, of course, a presidential election with far more than the usual surprises, climaxed by the election of a new President and a new administration by a very slim margin.

It has been, in short, another uncertain and uneasy year for everyone and especially for those of us in the savings and loan business. It was no great surprise that the disorder in American financial affairs during the early part of the year produced a partial return of the savings "disintermediation" reminiscent of 1966. A measure of the magnitude of this disorder is that the tax surcharge-expenditure control bill passed in mid-June has so far shown little effect. People still are spending money at record rates and, to a considerable extent, are using accumulated savings to finance their purchases. So far we have seen only the first faint evidences of a slowdown in the rate of inflation of the economy and a restoration of more normal conditions in the capital and credit markets.

Now, it is customary for the League presidential address to include

an assessment of the prospects for the business in the coming year. This I shall do—but not imposing my conclusions on your new president.

In my judgment, the developments of 1968—financial, economic and political—provide substantial reason for predicting that 1969 should be a better year for the savings and loan business than was 1968.

This forecast is based on three assumptions that I think are reasonably valid. The first is that the Nixon administration will not become engaged in any new major military ventures in the coming year. The second is that there will be a moderation in direct Treasury demands on the capital markets because of the improved condition of the federal budget. The third is that there will be less inflation in the economy during the next 12 months than during 1968.

For three reasons, therefore, I expect a resumption of the decline in short-term interest rates in the first half of 1969. This decline will strengthen the competitive position of savings accounts and savings certificates, and should produce a new savings gain for our institutions substantially over the estimated \$7 billion gain for 1968 and approaching, if not exceeding, the \$10.6 billion gain of 1967. This significant improvement in savings foreshadows, in turn, some pickup in outstanding loan commitments during the first half of 1969, and it also means that 1969 should be a better year for home building than 1968. Because of the time lag between improved savings flows and improved housing starts, it is likely that the pickup in home building will be more evident in the second half of next year than in the first half.

We Americans have grown used to living in a dangerous world, and we understand that a new international crisis could develop overnight and shatter the assumptions on which this forecast is based. Those of us in the thrift business are all too familiar with the fact that major new international commitments by the United States inevitably are made at the expense of the residential real estate market and all business firms and industries that help provide housing for American families.

MUCH DEPENDS ON INTERNATIONAL CLIMATE

In a little more than 60 days from now, a new President and a new administration will take office in Washington. This administration has pledged to reach an honorable peace in Vietnam. I believe it will accomplish this difficult objective and, as progress is made towards peace, that the by-products of the war in Southeast Asia, including heavy budget deficits and ominous inflation—by-products which in recent years have threatened our institutions—should begin to disappear.

The diminished influence of unfavorable world affairs will be a salutary development for the housing market and for savings institutions specializing in mortgage finance in 1969. Whether this will prove more than a temporary respite extending beyond 1969, however, still remains to be seen.

The conventional wisdom throughout the housing industry these days runs largely along these lines: An easing of international tensions inevitably means lower interest rates, improved savings flows for home financing institutions, and a building boom that will make the building

surge after World War II modest by comparison.

After the past three years, I am sure that most savings and loan executives hope that this prediction of things to come will be realized. Perhaps it will. On the other hand, there have been so many surprises and unforeseen developments in recent years that optimism in the savings and loan business is likely to remain guarded for some time to come. By the standards of recent years, the short-term outlook for our business is now quite favorable. Whether this short-range improvement in our fortunes will evolve eventually into a major new period of unprecedented growth and prosperity depends, in part, on factors beyond our control and, in part, on whether we can find and implement answers to questions that will affect the long-range future of our business.

PREPARE NOW FOR LONG TERM

Today I wish to list some of these long-range questions in the hope they will stimulate discussion during this convention and during the months to come to the end that we may find the proper solutions to our problems.

The first major question that should be confronted is: Will home financing organizations be able to attract a reasonable share of savings capital at a time when the United States may well be entering upon a period of a chronic shortage of savings?

Because of the war in Vietnam, most Americans understand that there have been some major new programs of the federal government—including huge expenditures for air and water pollution, and programs related to the problems of our cities—that still will require financing in the coming years. Most Americans also understand that a full employment economy, a most likely objective of the Nixon administration, will require an ever-expanding economy accompanied by a continuing large volume of corporate security offerings which, in turn, means heavy competition for savings by American corporations. It also is difficult to envision anything but a sizable increase in the expenditures by state and local governments. Thus, the recent important and growing competition for savings from the municipal bond market may only be a taste of what we can expect in the years to come.

These factors suggest that the competition for savings will continue to be strenuous for many years ahead. They also suggest that the hopes of American home buyers for a return of mortgage interest rates to the levels of the mid-1960s may not be realized in the near future. Probably we need a greater public educational effort to advise home buyers of the problems they face in competing for funds with General Motors, the United States Treasury, and city and state governments.

Perhaps we also need more effort to remind all Americans that our institutions are the only consistent lenders—year in and year out—in the home mortgage market.

As demands for credit continue to expand and the financial sophistication of the American people broadens, we may well see an even greater interest in security investments on the part of the holders of large accounts in our institutions than we have in the past. The last

several years have demonstrated rather clearly that a substantial part of our funds are extremely rate-conscious.

We have developed savings certificate plans in recent years in an attempt to retain some of the large accounts, and one important test in the years ahead will be our ability to devise new kinds of savings and money market instruments that will enable us to compete for and retain some reasonable share of the savings capital of this country, and thus be better able to assist in home financing.

The Housing Act of 1968 opens the way for this kind of forward thinking and planning. Now it is up to the business, working in collaboration with the Federal Home Loan Bank Board, to devise some new plans for attracting money. A special U. S. League committee, headed by Harold Smith of Connecticut, has been hard at work in a search for new ideas, and before long you will be seeing the recommendations of this committee. Another committee, headed by George Leonard of Phoenix, is developing recommendations to the Board with respect to the new mobile home financing authority. The new liquidity law is being studied by a special committee headed by Roy Blount of Decatur, Ga. Other studies of the new Housing Act authorities are being handled by members of the League's professional staff.

FLEXIBLE REGULATORY IMPLEMENTATION

One of the early responsibilities next year of the Federal Home Loan Bank Board will be to complete the implementation of the new authorities provided this business by the Housing Act. We hope that the Board will permit the business to use these new authorities to the fullest and with a maximum of flexibility and latitude to management. The business needs some new tools and some new authorities, and this is an area in which the Board can express a very helpful attitude concerning the ability of the business to move out and ahead in serving the tremendous shelter needs of the American people.

For our part, it is the responsibility of our institutions to recognize and use the opportunities for broader public service that have been provided.

A second major question that confronts the business is the problem of increased competition from the commercial banking business. The unpleasant truth is that in the past five years household savings at the commercial banks have been growing at a pace roughly twice as fast as savings in our institutions. After World War II, the commercial banks ignored the savings market but, obviously, they will not pursue that same policy whenever the war in Vietnam comes to a conclusion. Quite the contrary, savings departments of the commercial banks—once the step-child of the banks—now are attracting more and more thought and attention on the part of the top rank bank executives and also, as all of us know, a very high percentage of bank advertising dollars. Because of interest rate controls, it is true that we retain a slight competitive edge in terms of a rate advantage over the savings departments of commercial banks. Minimal though this advantage is, I think it is reasonable to expect that, as the competitive pressures continue in

the savings market, we will see efforts on the part of the commercial banking business to attempt to entirely eliminate this savings rate differential.

Down through the years, the savings and loan business generally has maintained a "hands-off" attitude with respect to the legislative aspirations of the commercial banks. It is well to remember that there has *not* been a similar attitude on the part of the commercial banking business. Everyone in our business is familiar with the fact that it was an all-out effort on the part of the commercial banking business that brought about the defeat of the Federal Savings Institutions Bill during 1968.

One of the ironies of the American financial world is that while the commercial banks are very anxious to limit the scope of operation of savings institutions, they feel no compunction about an indefinite expansion of their own sphere of influence and operations. During 1968 we have seen the inauguration by the commercial banks of a practice clearly designed to broaden operations of the commercial banking business, and thus open the way for the banks to own literally any and every type of business in the American economy. I refer, of course, to the loophole in the bank holding company law which permits so-called one-bank holding companies to move into non-banking activities and ownerships.

Governor Robertson of the Federal Reserve has stated that by pursuit of this new device the commercial banking business may be entering upon practices reminiscent of the 1920s. The concern of the Federal Reserve is shared by congressional leaders of both parties, by many commercial bankers themselves, and I hope that it also will be shared by the Nixon administration.

DANGER OF BANK EXCESSES

The United States has suffered before because of excesses of commercial bank operations. Though some of the new generation of commercial bankers may not be aware of where these excesses helped to lead the country, four decades ago, I do not believe that the Congress has forgotten. An excessive concentration of economic power and resources in the commercial banking system will be unhealthy for the country and for the commercial banks. Just as was true 40 years ago, the over-extension of the commercial banks would pose a threat to the economy and to the American people. As Governor Robertson so well described it, the "unrestrained expansion" of the commercial banks in the 1920s was "followed by a collapse and a depression that caused untold suffering."

I believe that most savings and loan executives will agree with Chairman Martin, Governor Robertson and other members of the Federal Reserve Board that the use being made currently by the commercial banking business of the one-bank holding company arrangement clearly is not in the public interest. I would urge that the United States League next year under Tom Scott and his legislative committee vigorously support the efforts of the Federal Reserve Board and others to head off this threat to our nation's financial system.

A third big question is whether our institutions will be willing and able to identify ourselves with the new generation of young Americans now reaching adulthood. It is difficult, I suppose, to think of young people in mini-skirts and Nehru jackets as the markets of tomorrow, but this happens to be true.

The most rapidly growing age group during the 1970s will be adults between 25 and 35 years of age. By and large this population will be better educated than their parents, and they will be earning higher salaries. The pressure of this group on the housing market already is being reflected in the demand for apartments across the country.

This new generation of the affluent society will have a capacity to save. The question is will they save as their children come along, and will they save with us or the commercial banks, or will they invest in equities?

Will we be able to bridge the generation gap and develop the kind of "nest egg" savings plans that will encourage the development of regular thrift habits among the young adults? Do we need, for example, a new type of savings plan for young adults?

Some institutions will find that recruiting savings money from this market will be expensive in terms of personnel and merchandising. They will be consoled by three things, however: First, this money is not as rate-conscious as that of larger depositors, and hence is less vulnerable to sudden changes in the money market. Second, many small accounts eventually become sizable accounts. And third, many of these young couples will provide a ready-made home loan market.

A few years after World War II, Norman Strunk made the observation that one reason for the sensational postwar rise of the savings and loan business was that we had made "the saver a king." Later on we discovered that we could recruit savings faster by featuring appeals to those who already had accumulated sizable savings balances, though the effectiveness of such appeals now has declined as Americans have become more financially knowledgeable, the yields on direct investments have risen, and commercial banks have raised their savings rates.

Now as tens of millions of young Americans are about to become "small savers" will we be alert to this opportunity?

THE INNER CITY QUESTION

A fourth major question which bears on the long-range development of savings and loan institutions is whether we will do our appropriate share in relieving the deep unrest and volatile tensions in our American cities. The problem of housing in the inner cities is interwoven, of course, with the issues of law and order and civil disturbances which were so widely aired in the recent political campaign. Violence cannot be condoned or excused regardless of the frustrations that appear to occasion it. On the other hand, the great majority of Americans also understand the need for corrective action to eliminate the basic causes of misery and hopelessness that pervade many areas in the inner cities. This understanding is broad, it is bipartisan and it will continue to mean new private and government programs to improve education, em-

ployment and housing opportunities for the underprivileged.

At the close of World War II, the savings and loan business took the financial lead in solving what was then the most acute housing need of the times—the provision of shelter for returning veterans and their families. The leadership in the savings and loan business in fostering the GI home loan program touched off the great postwar real estate boom and an unprecedented rise in home ownership.

LOW-INCOME FAMILY HOUSING

Today, the most acute housing problem in the United States is that of the low-income American families. The American people are a generous people, and there is, I am confident, a widespread determination to improve the housing standards of underprivileged families. One of the most encouraging developments in recent years was the bipartisan support of the concept in the Housing Act of 1968 that the best hope for housing these families and for the general betterment of American society is a program for private home ownership rather than tenancy. People do not burn down homes that they own, or business firms that they own and manage.

A year ago the United States League organized a joint committee on urban problems in cooperation with the National Association of Mutual Savings Banks. The members of this committee have worked diligently, and the product of their deliberations and field studies was sent to you recently in the form of the *Urban Financing Guide* which outlines a score of ways savings institutions already are working to provide housing for low-income families. Further opportunities will become available as the programs of the Housing Act are implemented and funded.

ASSOCIATIONS SHOULD LEAD THE WAY

The real question is whether there is the will and determination within our business to make use of the programs that are available. If we do not, we will have passed up the opportunity to help expand the American middle class which provides the real basis for order in our society. If we do not, a new set of financial institutions—probably government owned and operated and competing for a share of the saver's dollar—will most certainly be created to do this job and, eventually, other mortgage lending jobs as well.

Everyone recognizes that it is easier for our institutions to finance housing in the suburbs and in stable neighborhoods rather than in the deteriorating areas of inner cities, and also to finance higher income rather than low-income families. Of all American financial institutions, the savings and loan business has the greatest amount of technical skill necessary to move the country toward even greater home ownership and toward the solution of this staggering problem. If we seize the opportunity for new and broader service, we can be the agent for infusion of new hope among low-income and minority families across the land. In the final analysis, we must counter the nihilistic philosophy of "burn, baby, burn" by assisting in the fulfillment of people's hopes and desires of home ownership.

A fifth major question that will influence the course of the savings and loan business in the years ahead can be stated simply: What will the Federal Home Loan Bank Board do? Every savings and loan person understands and appreciates the difficult and challenging problems which have confronted the Board in recent years. In discharging its supervisory responsibilities, the Board has had serious problems and, in my judgment, it has met them honestly and forthrightly. In its task of aiding the business through the chaotic money market conditions of recent years, the Board has managed the affairs of the Bank System in such a way that ample backstop liquidity for withdrawals has always been available, although it remains true that a bigger Bank System could have permitted fewer interruptions in savings and loan support of home financing during these recent past years.

The operation of the Federal Savings and Loan Insurance Corporation in the past several years certainly deserves the praise of the business. The Board has had many difficult problem cases, and it has attempted to solve them by creating as little public attention as possible.

BUSINESS IN SOUND CONDITION TODAY

The past six or seven years have been difficult years for the savings and loan business and, as a result, they have been difficult years for the Federal Home Loan Bank Board. Happily, many of the problems that were faced by the business and the Board roughly six years ago do not exist today. The savings and loan business today is in as sound condition as it has been for more than a decade. Our balance sheets are stronger, our asset quality is higher and our earnings are improving. There were times during the 1960s when a surplus of housing threatened the stability of real estate markets which led to genuine concern about the strength of our institutions in some areas. Today there are growing housing shortages in almost every area, vacancy ratios are at record low levels and a strong demand for housing of all types exists in all parts of the country.

After steady increases in the late 1950s and early 1960s, mortgage loan delinquencies and foreclosures have been declining the past year or two. This provides another sign of the basic strength of the real estate market.

Ours is a risk business, and because the best intentioned businessmen make mistakes and even the most effective supervisors can fail to uncover and correct all errors in time, there always will be a few supervisory cases in our business and in the commercial banking business. With greater knowledge and abilities, better real estate markets, the effective work of supervisory authorities and the backing of the FSLIC, problems of this type are largely behind us. With the help of the United States League and the American Bankers Association, the Congress provided all the banking supervisory agencies a new supervisory law two years ago. This, together with the new holding company law and the so-called "receivership law," should provide our supervisory authorities with adequate legal authority to keep supervisory problems at a minimum.

The environment in which the Board finds itself today and the laws with which we operate are considerably different and better than those under which the Federal Home Loan Bank Board has worked in the past two administrations. The business is strong and getting stronger every day. The basic laws that appear to be needed for the Board to fulfill its responsibilities to the business and the public have been passed. Most significantly, the needs for a great increase in savings and loan resources have never been more apparent.

The second phase of the postwar housing boom is now upon us. The babies that were born during and after the war are now entering the housing market. We also have the challenge of providing adequate housing for a whole new part of our population that up to now has not been able to achieve home ownership or the rental of decent housing.

Congress expressed the housing needs of the years ahead in the Housing Act of 1968. The goals of housing production in the neighborhood of 2.5 million units per year were set for the housing industry and our home financing system. This is an increase of 50% over the levels of recent years. There is no way that this tremendous increase in housing demand can be met without an equal increase in savings and loan resources.

It has been obvious in the past few years that the savings and loan system is not only an integral but a vital part of the home financing system of this country. The country's housing needs cannot be met in the years ahead without a significant expansion of the resources of our institutions. The time has come for creativity on the part of all who have a key influence in the functioning and growth of the savings and loan business. By this I mean the Federal Home Loan Bank Board and other federal agencies, the Congress, and particularly the banking committees of the House of Representatives and the Senate, and the leadership of the savings and loan business represented by and expressed through the United States Savings and Loan League.

The savings and loan amendments to the Housing Act of 1968 provided many of the new legal authorities our business has needed to move strongly ahead in meeting the challenges of these times. Now it is up to the Federal Home Loan Bank Board to provide flexible regulatory language for these new statutory powers, and it is up to our business to move energetically in using these new powers.

With the current strength of the business and the recognition of the importance of its role and place in housing urban America, we are confident of being able to work with the key people in the Nixon administration to improve the tools and the regulatory environment for our business.

It has been a pleasure and privilege to serve as your president this past year, and I know that your new officers have a stimulating period ahead of them. I can assure them that they will lead a live and dynamic organization serving a business that has proven its ability to meet competition, to adjust to rapidly changing economic conditions, and a business that is anxious to move strongly and vigorously ahead in service to the American people.

NEW CHALLENGES AND NEW OPPORTUNITIES

by the HON. WILLIAM B. WIDNALL

United States Congressman

Saddle River, N. J.



SOME SIX DAYS after a presidential election, it is difficult, if not impossible, to divorce one's remarks before a business as large as yours from the subject of national politics. With the problems and challenges facing our nation, together with the unprecedented alienation of millions of Americans from our traditional two-party structure, that old phrase, "to the victors belong the spoils," has taken on a double meaning.

If the next administration is to meet these new challenges, we will have to strive for a reconciliation, and such a reconciliation will have to be built on a structure of trust and confidence. Were our nation under a parliamentary system of government, it seems clear that last week's election would have forced the creation of a coalition government. As we all know, coalitions can produce either compromise or paralysis.

SPIRIT OF INVOLVEMENT LOST

The most startling spectacle any of us encountered this year was the realization that millions of Americans—right, left and center—have lost their spirit of participation and involvement. By far the most numerous of this group were those who came to be identified as the forgotten or quiet Americans; those who have yet to manifest their frustrations but who nevertheless must be counted among the multitudes who have lost faith in the ability of their government to respond to the needs of a society that bears little resemblance to that which gave birth to our institutions and our political heritage.

Americans yearn for a quieter and more peaceful age, and the campaign oratory often held out that promise. But, as Thomas Wolfe lamented, "You can't go home again." We can never return to the past.

If neither of our two major political parties can achieve a popular mandate at the voting booth, it seems painfully apparent that the ability to govern effectively can only be achieved through the com-

bined efforts of both, maintaining a healthy and growing spirit of competitiveness within the confines of a coalition of mutual trust, cooperation and above all, respect.

Today, the savings and loan business finds itself deeply involved in seeking solutions to our domestic crisis. Although this crisis has been several decades in the making and solutions cannot be forthcoming overnight, the next few years may determine the ultimate fate for American democratic ideals and free enterprise.

You are all familiar with the ground rules—and they are grossly unfair. Big government as the supreme arbitrator and the beneficent dispenser has failed. The ground rules are unfair because to a large extent the private sector is now being called upon to come to the rescue and provide solutions practically overnight. Worse yet, if our future experiments with government-private partnership fail, the most tempting alternative to anarchy or chaos may be repressive government actions and controls of an unparalleled magnitude.

1968 HOUSING ACT: ACCOMMODATION OF DIVERGENT OPINIONS

Both the next administration and private industry have the good fortune of having been given a running start by the monumental 1968 Housing Act. This month's *Forbes Magazine* astutely observed that the 1968 Housing Act stands on a par with the Employment Act of 1946 in terms of potential future impact. This act is proof that strongly divergent political opinions can be resolved amicably and positively.

At the same time, the new Housing Act, more than any other single piece of legislation in our nation's recent history, reflects the inability of government at all levels to operate effectively in the absence of vigorous support from private industry and individual effort. With the bitter debate that accompanied the rent subsidy proposal in the very liberally oriented 89th Congress, few ever would have dared to predict that a more conservative 90th Congress would provide a majority vote in support of this year's act.

It is interesting to recall that in 1967, when Senator Percy and I co-sponsored our Home Ownership bill, the full weight of unified Johnson administration opposition tumbled over us. Correspondingly, in that same year the late Senator Kennedy's housing proposal based primarily upon tax incentives was greeted by total and unrelenting opposition from the Treasury Department. Similarly, Senator Ribicoff's frustrations with the lack of long-term goals and FHA policies were ridiculed as being either inaccurate or irrelevant.

Yet, on August 1, 1968, the Housing Act that President Johnson signed into law to a vast extent implemented certainly the direction if not the substance of much that his own administration previously had opposed. For its own part, however, the Johnson administration was rewarded with an expansion of the low-income housing subsidy concept in a far more friendly congressional environment.

Within this Housing Act, therefore, we were able to achieve in a presidential election year accommodation of widely divergent opinions and an unprecedented commitment to the future. Ironically, the statu-

tory ink already was dry on substantial portions of Hubert Humphrey's Marshall Plan for the Cities and Dick Nixon's emphasis on private financing even before these campaign proposals were unveiled.

I would like to spend a few moments with you describing some of the opportunities for your business that were made possible by this year's Housing Act.

Two predictions safely can be made with respect to future operations of the savings and loan business. In the first place, I agree with your leaders that your business will become more oriented to FHA, Fannie Mae, Ginnie Mae and other government housing programs; and second, that you will become more investment security conscious.

As you know, the Housing Act placed great emphasis on lower income housing and sets as an objective the production of 6 million low- and moderate-income housing units over the next 10 years. Financial incentives were provided to achieve such a goal.

For low-income people, home ownership is to be made possible by a new system of FHA mortgage insurance whereby a government subsidy related to need will be made available to cover much of the interest cost of home mortgages. This interest subsidy will enable the mortgage to produce a market interest rate that will attract funds competitively in the private market. There is also a new subsidized interest rate rental program for low-income families. Personally, I hope the major emphasis will be in the low-income home ownership program.

The social unrest of the recent past has given a new urgency to improving the housing conditions of low-income families. It is inevitable that your business, which holds approximately 44% of the one- to four-family home mortgage debt of the country, should become heavily involved in the drive to provide homes for low-income families. Through the new FHA program you can participate in this endeavor, earning a fair return for your shareholder accounts and shielding your investors from the otherwise higher risks normally accompanying such lending.

FINANCING INCENTIVES IN HOUSING ACT

Another reason that savings and loan associations will become more deeply involved in government housing programs is found in the financing incentives included in this year's act. To benefit from them associations will have to be operating in government-insured or -guaranteed home mortgages. An important point to remember is that these new financing arrangements can supplement rather than substitute for traditional home financing activities. Through tapping the whole private investment market, the normal flow of savings funds channeled into home mortgages can be greatly augmented.

In this connection, I direct your attention to Title VIII of the new Housing Act which relates to operations in the secondary mortgage market. Under its provisions, the then existing FNMA was partitioned into two separate and distinct corporations: one to be a government-sponsored private corporation to be known as FNMA to carry on the secondary market operations of the old FNMA, and the other to be known as the Government National Mortgage Association (GNMA)

which will continue to operate the special assistance and management and liquidation functions of the old FNMA.

The new FNMA is given authority to set aside any mortgages held and sell securities against the mortgages pooled. These securities may be in the form of debt obligations or trust certificates of beneficial interest, or both. Their investment quality is assured by the right of the GNMA to guarantee the payment of principal and interest on such securities issued. The full faith and credit of the United States is pledged to the payment of all amounts required to be paid under the guaranty.

Obviously, an effective secondary market is being provided for government-assisted housing mortgages, including the new FHA programs for low-income families. These securities being fixed-rate, fixed-term obligations will appeal to the private investment market, opening up vast amounts of funds for mortgage lending. Through this mechanism, associations will be able to roll over commitments made in low-income housing mortgages without impinging on the normal flow of funds.

Ginnie Mae also may guarantee securities against pools of government-assisted mortgages sold by any other issuers. As you know, that includes an individual savings association or a service corporation of savings associations or any other entity in which they may be interested.

Accordingly, the Home Owners' Loan Act has been amended so as to authorize federal savings and loan associations to issue and sell securities which have the benefit of the Ginnie Mae guaranty under the pooled mortgage arrangement.

While the provisions of the law are broad, the key to the operation is the government guaranty which Ginnie Mae at its own discretion may or may not issue. I cannot conceive of Ginnie Mae endlessly proliferating government-guaranteed securities through indiscriminately granting such guaranties. Make no mistake about it, Ginnie Mae will have to run a tight ship in issuing its guaranties. To do otherwise would threaten an orderly market for all federal government securities. You can be sure the Treasury Department will be looking over the shoulder of Ginnie Mae and checking closely on its guaranty operations.

The point I wish to emphasize, however, is this. Here is new financing authority of tremendous potentialities in tapping pension and public retirement funds indirectly for mortgage credit. But if the guaranties are to be forthcoming from Ginnie Mae, the arrangements will have to be set up on a sound and sensible basis. I am heartened that your leaders already are putting their minds to work on this new opportunity in home mortgage financing.

Further evidence of the emphasis on lower income housing in the new Housing Act is found in Title IX providing for the establishment of the National Corporation for Housing Partnerships.

Generally overlooked, this is an attempt to mobilize the executive talent and capital resources of big business in undertaking large housing ventures for lower income families. The appeal to big business will be in the form of a tangible opportunity to fulfill its more broadly recognized social responsibilities. The incentive to do so will be the pass through of limited partnership tax losses, primarily from depreciation

allowances, to the big corporate investor as a usable offset to taxable income from other business activities.

The conception is timely and with this combination of objectives, namely social welfare at a substantial profit, it is bound to be appealing to big business. Already the National Corporation for Housing Partnerships is in the process of being incorporated. It has an impressive list of incorporators from the business community. Its initial capitalization will be provided by stock subscription of large business corporations. It does not take much imagination to anticipate that corporate subscribers to stock of the new corporation will constitute a new "social register" of American big business.

Operating through the limited partnership device, a vast source of equity capital will become available for lower income housing projects. While federal savings associations were not given authority to invest in the new institutions, the program nevertheless is of direct interest to you. As mortgage lenders, you can participate in the provision of mortgage funds for such undertakings. It is contemplated that mortgage funds will be provided with or without the use of federal programs. It is anticipated that the now organizing National Corporation for Housing Partnerships will be in operation early next year with housing production actually beginning by the middle of the year.

It may be profitable for the savings and loan business to follow the development of this concept closely. The existing real estate tax shelter wired into corporate social welfare is apt to prove to be an explosive combination for action. A powerful new force, big business capital, know-how, economies of scale and ingenuity are being added to the lower income housing picture.

This new partnership between government and private industry and particularly our financial institutions is dependent as never before upon a healthy, stable economy.

The real problem appears to be long term, and here the concern should be concentrated on the question of how our nation is to finance its normal growth, coupled with the huge inventory of needs that have accumulated in connection with our domestic social crisis.

FUTURE FINANCING REQUIREMENTS FORMIDABLE

Undersecretary of the Treasury for Monetary Affairs Frederick Deming last month delivered a speech in which he said that the nation's future financing requirements are truly formidable and that there is a pressing need for finding more imaginative and efficient means of mobilizing the needed capital. Secretary Deming emphasized that the area that presents the greatest challenge relates to the financing of what he called the infrastructure for social welfare.

Where taxation is involved, an equitable sharing of the burden among federal, state and local governments is required. In the case of borrowing, questions logically arise as to the optimum mix between federal borrowing, traditional state and local debt financing, and resort to the borrowing arrangements reflected in this year's Housing Act.

How large are the capital needs and how best can they be financed?

More important to your business, what impact is such financing likely to exert on capital markets generally?

We are in a period of national crisis where we cannot assume normal trends; where we instead must assume a very substantial increase in federal, state and local debt as a result of new and expanded programs involving federal financial assistance. The Treasury Department predicts that within 10 years state and local debt alone will be more than triple its present size. Even with a growing economy and an average growth in GNP of 4% to 4.5% per year, the task before us can only be managed if we find entirely new ways to mobilize capital.

Some have suggested the formation of a national urban development bank while others stress the need for much closer coordination and planning of government and agency financing operations. Clearly, if we are to avoid undue pressures on the general capital market during a period of unprecedented demand, action along one of these lines will have to be a top priority consideration by the new administration.

NEW ERA OF GOVERNMENT-PRIVATE PARTNERSHIP

Speaking personally, I am convinced that a new era of government-private partnership already has commenced and that it will prove to be startlingly successful. The major obstacle, however, is the method by which the necessary capital requirements can be met without exerting such strains on our economy that the private partners and eventually the general public would be forced to become less enthusiastic.

Along with this, serious attention must be given to fiscal and monetary reform. A new spirit of cooperation between the executive and legislative branches must produce means by which fiscal policy can become far more responsive.

This leaves unanswered the larger question confronting any private industry: How can such activities be justified to your savers? Even taking into consideration the possibility that government will assist through guarantees, interest subsidies and possibly tax considerations, the cost will be high.

Some have rationalized this cost on the justifiable premise that we have no choice. Others, with equal conviction, point out that it is simply good business.

Keep in mind our attempt at large-scale government-private partnership is a bold experiment, but an experiment unique in that failure cannot be tolerated. The stakes are the survival of free enterprise and rejection of government by repressive and intolerable controls.

Since I have been frank with you today, I think it appropriate to mention another consideration. Your assistance during our nation's most critical hours will not be quickly forgotten. The expanding opportunities of the savings and loan business hold great future promise, but these opportunities will precipitate monumental legislative controversies. The inconsistency of a narrow legislative and supervisory attitude toward your business with the assumption of unimagined new responsibilities in meeting our nation's social problems may become increasingly apparent.

THE FUTURE OF THE SAVINGS AND LOAN MOVEMENT IN LATIN AMERICA

by the REV. DANIEL MCLELLAN, *President*

Peoples Savings and Loan Association

Lima, Peru



I AM GRATEFUL for this opportunity to bring you the voice of the people—the voice of the little man down in South America, whom the planners plan for without knowing who he is. I hope to give you some idea of the problems of the people of South America. These problems are your problems. As Congressman Widnall said, “The world is one now.” What happens anywhere in the world happens here.

I am frequently asked how I got into this business. In 1950 I was sent to Puno, Peru, on the shore of Lake Titicaca, 13,000 feet high. Here I was struck by a poverty I had never seen. It was not just the subsistence economy of a million people that struck me. It was the hopelessness of these people. There was no way for anyone to better himself.

After a few years we tried to get help although we knew that even a million dollars would be a drop in the bucket. We also felt that a giveaway program would be no good. Finally, with much fear and trembling we developed the idea of helping ourselves by forming a credit union. It took me six months to get 21 Indians to put up the equivalent of \$23 in savings.

Our first loans were for \$5.00 and \$10.00 and everyone was laughing at us. The experts in Lima said it would not work. Those experts who knew everything about Indians although they had never seen an Indian or talked to an Indian said that the Indians would not save, could not save and would not pay back. However, our idea did work. Today there are over 600 credit unions in Peru. They have spread all over South America. The original \$23 is now over \$50 million in savings from peo-

ple who “would not save, could not save and would not pay back.” More than \$150 million of credit at reasonable rates has been produced for people who previously had to pay 10% to 40% interest a month.

Next we tried to solve the housing problem in a small way through the credit unions. We soon found that this was impossible because we had tied up too much of our money in long-term obligations. We did not have the liquidity necessary to attend to the other necessities of life.

At this time two pioneers came down to South America—Morton Bodfish and Ray Harold. They succeeded in getting enabling legislation passed for savings and loan associations. The first association failed. The second association accumulated over a million dollars and made something like 10 loans for a total of \$100,000.

Morton Bodfish and Ray Harold came down again and persuaded me to start the Peoples Savings and Loan Association with 53 members and 110,000 soles. Today we have over 32,000 savers with over 450 million soles in savings. We have made over 6,000 housing loans for over 600,000 soles. Our bad loan loss is as low if not lower than here in the United States. The delinquency ratio runs from about 2% to 2.5%, depending on the season.

What I want you to understand is that the people have done this. The United States has given us the instruments in the credit unions and the savings and loan associations whereby we can help ourselves.

Incidentally, it was not until the idea of a mutual association was effectively preached in Peru that the associations began to grow. Before this point was effectively made clear—that the people own the association—the savings and loans were looked upon as just another financial institution. When the people began to feel that the ownership was theirs, when they became identified with the movement, it grew.

I should like to emphasize that it was the people of Peru who made this possible. They are the people who built the roads, the churches, the schools, who raised the terraces and dammed the torrents, who rebuilt their homes after earthquakes. When it was required of them, they gave their sons to the army and they suffered the nation’s indifference without complaint. Denied their ancestral rights to choose their own leaders and goals, they could not be deprived of their traditions.

GO TO THE PEOPLE

I suggest that this should be the philosophy of the United States AID Agency: Let us go to the people. I know we have to give government-to-government aid, but not exclusively. I have been tremendously inspired by the response of the savings and loan movement. The National Housing Bank of Peru received \$4.5 million in aid with all risk guaranteed. My own association received \$1.5 million with all risk guaranteed.

Now there is something like \$30 million pledged from the savings and loan associations to the guaranteed housing program in South America. This is the kind of help we want. It lets us keep our own human dignity, it is good business for you. I beg you to support these future aid programs. I beg of you to help me fight to get more of this money from institution to institution.

I would rather put my faith as an American in you people to pick out the good institutions than in some individual with a slide rule in Washington.

If you have \$1 million with me, I am sure one of your staff men will come to spend his vacation in Peru to see how the \$1 million is doing. Then we shall get some free technical help.

It has been a tremendous problem down here. In 1963 the Pan-American Union estimated that two-thirds of the population of the region—roughly 180 million people—lived in sub-human dwellings. The United Nations declared that a need for 19.4 million new homes existed. The problem was so great that the planners were frightened. They ran. We fought. Now the economists are beginning to see that there can be no economic growth without human growth and development.

Give these people a chance to get into a home and they change. In the slums of Lima, a visitor from the United States once asked an 11-year-old boy why he wanted to have a home of his own. The lad replied with a deep, moving philosophy of the people. "To be able to watch the rain outside while I am inside." Maybe this is better translated, "To be able to get out of the rain."

Every time we watch the rain fall from within a house, I hope we will remember the boy in the slums. God give us the vision and the courage and the strength to become personally involved in the problems of others—problems which really are the problems of all of us.

THE CITY: CHALLENGE TO AMERICAN BUSINESS

by ANDREW HEISKELL, *Chairman of the Board*

Time, Inc.

New York, N. Y.



THOSE OF YOU in this room today come from the cities of America. You are—or should be—acutely aware of the extent of the crisis we face today. Increasingly the cities are the measure of the nation. Our cities are in deep trouble. More than 70% of the entire population in this country now lives in cities. In two of our largest cities, Newark, N. J. and Washington, D. C., more than half the population is black. In some cities, this will go up to 80% and 90% during the next 10 years. The problems of New York, where I live, are typical. One and one-half million black people crowd into squalid slums. Ten percent of the people are on welfare, at a cost of \$56 million a month. Houses crumble. Money to reconstruct, refurbish or even repair is very scarce. Nearly 10% of the Negro men in New York City are unemployed; 21% of full-time workers earn less than \$60 a week; and the unemployment rate in the 15- to 25-age group—among the young men who could make or break our cities—reaches a chilling 27%. The problems of New York, though magnified, are not unique. Every city, indeed, every town in this country, suffers from slums and poverty and unemployment.

I know you are concerned about these things. I am going to take advantage of your presence and your good will and take the liberty of confronting you with two basic questions about your role in this urban crisis. The first is: "What can you do about it?" The second is: "What must you do about it if you are to survive?" I ask the first question for a simple reason. You are all financial leaders, distinguished citizens, opinion-molders in your cities. You have succeeded, and because of your success, people listen to you. What you tell them in these confusing times could have an important effect on their actions.

But it is not enough to ask, "What can I do?" That question implies

choice, and I do not think people who run savings and loan associations in this country have a choice. You are limited by your charters to the cities of your country. Your future is inextricably bound to theirs. The easy refuge of many big corporations does not exist for you. You cannot move around the country. You cannot develop international operations. You are stuck with the cities. And, to me, the second question is the crucial one: "What must we do about the urban crisis if we are going to survive?" If urban America continues to stagnate and decay, you who make money in the cities will suffer as much as the people who live in them.

CITIES DO NOT HAVE TO BE URBAN JUNGLES

Our cities do not have to be urban jungles. We can make them more than that—if we want to. As James Rouse, a businessman and highly successful developer, says: "How do we know the city isn't a tremendous economic opportunity? What would happen to the assessable base in a city with no slums, good housing, parks and green spaces, effective transportation, good schools, health centers, recreation areas, appealing opportunities for business and industry? What new values would be created? What new revenues would these values produce? What capital expenditures would these new revenues support?"

I think our society can bring about this transformation of our cities. I think we must. The history of savings and loan associations in our country makes it clear that you should be the leaders of this transformation. Your business exists today because, poor, down-trodden people needed help in transforming their society. You came into being to serve working men when they were turned away from the rich man's banks. Through each successive wave of immigration, you were the people who offered opportunity and hope to those who had little, but wanted a chance. In the years after World War II, your business, by committing itself to the GI loan program financed the country out of a desperate housing shortage. You helped bring home-ownership to middle-class America, but the challenge of meeting the post-war housing shortage is behind us, and I fear that many of you, like much of the rest of our country, are not effectively facing the present. Now there are new needs and a new group of people who want their chance to get a stake in the system.

BLACK MAN MUST HAVE FAIR SHARE

It is both fitting and necessary that the black man should have a fair share in this society. The Negro has contributed much to this country, to our culture, to our economy and to our wars. He has received little in return. We must see to it that those we want to support and work through our system have a stake in it.

The Urban Coalition stated the challenge in its Declaration of August, 1967. It called for a reordering of national priorities with a commitment of resources equal to the magnitude of the problems. The Coalition made it clear that if we are to survive as a society, we must turn this country around. We must turn our attention to the problems

of the cities and we must forge a united front to respond to those problems. Our cities are dangerously fragmented. Business, labor, city officials and minority groups live in different worlds and seldom manage to communicate with each other. Such isolation was tolerable in earlier days and simpler times, but the problems of the modern city cannot be solved by any one group alone. Solutions will come only through the collaboration of all influential elements in the community. On the local level, urban coalitions seek to promote such collaboration by bringing together in each city the leaders of every group that holds power or veto-power. Each coalition tries to mobilize community leadership and resources for a massive, sustained assault on local problems.

The National Urban Coalition in Washington seeks to bring the urban crisis to the top of the national agenda and keep it there. The simple message of the Coalition, in the words of its chairman, John Gardner, is that "Our cities won't be fit places for any of us until they are fit for all of us." The job is far more difficult than the message, and the Urban Coalition cannot begin to do the job alone. We need the cooperation of people like you. You have a substantial stake in this reordering of national priorities. You ought to be as committed as any group of businessmen to the renewal of our cities, and you can do more than most.

Although I ask you to make a commitment, I am aware that there is a difference between total commitment and contribution. Whether you call it contribution or commitment, I think there are three areas where your influence would be effective and your action could be decisive. I would like to talk briefly about each.

REEVALUATE LOAN STANDARDS, CRITERIA

First, you must reevaluate standards and criteria for the loans you make. You must begin to take some of the funds you now invest in the suburbs and commit them to the inner cities. It is not necessary—nor would it be wise—to take outlandish risks. There are good investment opportunities in the city if you will search them out.

A number of savings and loan associations have begun to find and use such opportunities. I should like to mention a few that I have heard of. In the East Liberty section of Pittsburgh a few years ago, Friendship Federal Savings recognized that the neighborhood was deteriorating and the association's future was deteriorating along with it. So Friendship sparked and helped finance a multi-million dollar redevelopment and rehabilitation project to renew housing in the area and build a showpiece shopping plaza for the association's main office.

Pulaski Savings and Loan in St. Louis has several hundred thousand dollars invested in the inner city. Working with a group of concerned businessmen, Pulaski is making mortgage loans to rehabilitate residential properties in older neighborhoods of the city. The investment is yielding good income, and delinquencies and foreclosures are running no higher than on other types of loans.

Pulaski and 22 other associations around St. Louis have now launched a service corporation. Each association bought stock in the corporation

and each has agreed to loan the corporation up to 1% of its assets. Eventually, the corporation hopes to have \$15 million available for loans to people who now live in substandard houses and want to fix them up. Every city has this kind of housing in it—once pleasant buildings on a rapid road to deterioration. Your investment can help save these buildings, rescue the neighborhoods and, most important, redeem the lives of the people who live in our cities.

GREAT POTENTIAL IN NEW HOUSING LAW

Of course, private enterprise is not expected to do the job alone. The federal government is committed to radical improvement in housing for Americans with low incomes, and savings and loan associations are essential to the success of these efforts. The President this summer signed into law a dramatic, comprehensive and far-reaching housing bill. The provisions of this law could be a lifeline for our cities. The prime objective of the legislation is to get the housing industry moving on construction of units for lower income people; Robert Weaver, the Secretary of Housing and Urban Development, wants to push up housing starts by about 1 million a year over what has been built under current programs. The new law has great scope and potential. It provides for subsidized mortgages, reducing effective interest rates to as low as 1% for low-income families. It provides government guarantees for financing of new towns by private developers. It authorizes establishment of corporations to provide housing for low- and moderate-income families. It authorizes more than \$1 million for Model City programs. It provides for federal reinsurance insurance against riots in slum areas.

In short, the new law could make possible a dramatic turn-around in housing opportunities for the people in our cities. The participation of savings and loan associations—with a commitment equal to the one made to the GI bill—could spell the difference. But what the bill authorizes and what Congress will appropriate for this vital work are, unhappily, two separate matters. In the closing days of the 90th Congress, the housing program floundered. The money which we must have if we are to do the job was not appropriated. Your voices could have made a difference. Most of you are acquainted with, many of you have influence with, the men who blocked meaningful appropriations for the cities. Your voices were needed. In the years ahead, the Congress will consider much legislation which is essential to the cities and advantageous to U. S. businessmen. Many of these programs will strive to involve the skills and know-how of the business community. But the business community will have to make it clear that it wants these programs funded. I think it is in our self-interest and in the interest of our country that such programs get started, but we must make our views known. The fights in Congress are our fights, too.

At the same time we strive to improve housing and living conditions in our cities, we must guard against locking the black man into permanent discrimination. My second point is that financial leaders must commit themselves to a dispersal of the ghettos. Our cities will not prosper if they remain a pit of despair for those society will not ac-

cept. Our country cannot survive as a land of free and decent men if fearful whites and angry blacks dwell in separate pockets of mistrust and hatred. Our segregated past has fed and intensified the separatism of the present. In cities across the land, this separatism is now begetting heartbreak and violence. Schools are closed; police stations bombed; firemen shot at. The evil feeds upon itself and the problems get worse each day we fail to take positive steps to integrate our society. If we cannot survive together, we may not survive at all. Your commitment could make the difference. You are deeply involved in the financing of suburbia. Your policies and actions will help determine the effectiveness of the new Fair Housing Law. Through your economic leverage, you hold a master key to genuine integration of our country. It is up to you to turn it.

WORK FOR IMPROVEMENT IN URBAN LIFE

Thirdly, we must commit ourselves to supporting and working for dramatic improvements in the overall quality of life in urban America.

The recent trauma of rioting and racial unrest is but a part of the problem. Even if we erase the social and economic stigmas of racial difference, the urban crisis will remain. A true and just reconciliation of black and white Americans will not cleanse polluted air and rivers, nor unclog congested highways, nor eradicate crumbling, rat-infested houses. The way you make your loans, the conditions you attach to them, the pressure you bring to bear on city, state and federal officials will all be important in determining what kinds of cities we are to have. It is in your interest that they be places in which people want to live, in which all people can live in comfort and in peace.

THE AMERICAN COMMUNITY—2001 A.D.

by LLOYD E. CLARKE, *President**National Association of Home Builders**Des Moines, Iowa*

AS BUSINESSMEN we have to deal in visions of the distant future as well as in the hard practicalities of tomorrow, next year and 10 years from now. Perhaps by the 21st century, we shall be living at sea, or under the sea, or in new land structures.

The idea of living at sea actually is a serious conception of some British architects and engineers. They envision glass and concrete off-shore floating islands, housing up to 30,000 people. Such cities, complete with shops, schools and industries would help the space situation.

We may be a little ahead of the British. The Triton Foundation of Cambridge, Mass., under a grant from HUD, has concluded that floating communities could be located near major coastal cities. The study made by this foundation sees a community on water with highway and mass rapid transit to the central city. It could offer a possibility for relocating people, facilities and services when core area renewal on land is in progress. Buckminster Fuller says the concept of a floating city is completely feasible.

It is possible, too, that by the year 2000 we may see cities rising over the cities which exist now, using that space which is all around us—air space. Already there are such office and residential developments.

New forms may be given to structures erected over slums which would put the city into a harmony lost through decentralization and decay. We may see self-contained housing units, employing nuclear or solar energy—creating and disposing of their own wastes, taking water from the air and reducing waste to non-noxious gases which are then returned to the air. Houses may be portable, lighted to fit your mood.

Townhouse and apartment construction certainly will expand dramatically in the next few decades. There will be greater density per dwelling structure, but it will not mean the end of the individual home. Electronic communication and high-speed transportation will link ur-

ban clusters with comfortable isolation. We may dine by computerized meals and bring up our children through computerized education. With it all, of course, there most certainly will be some sort of mortgage.

Let us lower our sights and take a look at what may be happening in housing in the next year, the next 10 to 15 years. This nation, despite being the best-housed on earth, is confronted with desperate needs now, and these needs will multiply enormously in the years ahead. Are we in the industry prepared to cope with the challenges that could in good part determine the destiny and future of the country?

Technology, credit and people—to my mind—will be the determinant factors in shaping this new nation of ours, not necessarily in that order.

Today we are still in the midst of an unprecedented economic boom; tomorrow, the likelihood is more of the same. We are in the 93rd consecutive month of expansion—almost eight full years. What has happened during this period? Americans have almost doubled their earnings—personal income rose by 77%—from \$401 billion to \$710 billion. The gross national product—the total of government and private output of goods and services—has risen from \$503 billion to \$868 billion, an increase of almost three-quarters. Civilian employment has grown by 11.3 million people, and the unemployment rate, hanging around 3.5%, is at a record low—down from the 6.7% rate of eight years ago. The industrial production index has risen from 108.7 to 168. The money supply rose from \$140 billion to \$198 billion and, naturally, federal spending shot up—from \$90.4 billion to \$198 billion, a rocketing 85%. During this period inflation ate up about 20 cents of every dollar.

The home building industry managed to produce some 11.6 million new housing units during the eight-year span. About 7.5 million of these were single-family homes and 4 million were apartments.

Along the way, consumers seem to have become conditioned to those rising and inflationary trends—much more conditioned than we in the industry have become to the cost of money.

Despite all contrary factors, this year is proving a pleasant surprise for home building. While interest rates are at a record high and money is not exactly loose, it appears we will reach a 1.5 million housing unit production level, or perhaps even slightly better. Next year there will be a 10% increase in production on top of this year's rising volume.

What is more to the point is that the consumer is buying these housing units. However, there is really no deep satisfaction in these statistics. The problems and challenges ahead are too complex and too disturbing socially and economically for us to be even faintly complacent.

INCREASE IN 20-TO-29 GROUP ANTICIPATED

The U. S. population is growing at about 2.5 million to 3 million people per year. For the next 10 years there will be no increase in the numbers of those over 60 and those under 20.

However, the demographers foresee increases in the 20-to-40 age bracket with the largest increase to be registered in the 20-to-29 group. That is of importance to us since these are the groups which are the future home buyers and the apartment residents. By 1975 we shall have

added about 23 million to the population of the United States.

What were once clear distinctions between what was considered "urban" and what was considered "rural" now are rapidly breaking down. There has been an amalgamation of the city and the farm with the rapidly advancing homogenization of the American people. Only 45 years ago, the population of the United States was about 50% urban. Now more than seven out of 10 people live and work in the cities or urban areas. And a little over half of our people live on $\frac{7}{10}$ of 1% of the land. Any distinctions between the urban and rural way of life are becoming less well-defined with each passing year and in the years ahead will necessitate revisions in our concepts of housing American families.

Many experts look for the development in the heavily populated sections of the United States of continuous or contiguous urban chains, linking the largest cities with one another. This, of course, will require major revision in our present systems of municipal services and mass transportation, and undoubtedly, our many forms of government.

HOUSING INDUSTRY RESPONSIVE, EFFICIENT

In these postwar years, the housing industry itself has built some 30 million housing units, a record of which it can be proud. About 87% of them were single-family homes and the remainder rentals. Some 97% of them were privately financed.

Despite that magnificent record, the housing industry still has to face the recurrent criticisms that it is a fragmented, inefficient one—scarcely able to cope with the demands of the future.

The Kaiser Commission has just completed a year-long study of the housing industry, and it has found that the industry is not as inefficient as has been thought. That, in fact, it makes a reasonably efficient response to the nature of the market for housing and to the product.

Out of Mr. Kaiser's study came one major proposal which has been incorporated into the Housing and Urban Development Act of 1968—the program creating the National Housing Partnership. Essentially the partnership program is intended to create and attract equity capital to help achieve production of at least 600,000 housing units a year for low- and moderate-income families over a period of 10 years. It would seek to stimulate formation of local profit and nonprofit groups in developing federally assisted housing on a local metropolitan basis and offer technical and financial assistance when requested.

Technology has a place in home building. We in NAHB have invested much money and much talent in the development of our own research laboratory to find new systems and new ways to hold down and reduce costs, to develop and test new materials.

There is no magical solution in a systems or industrialized method in our business. The whole process of using factory methods—and they are used in good measure—is an evolutionary one. The housing process involves much more than the structure. It involves the problems of land, raw materials, sewers and streams, transportation, building codes, zoning restrictions and mortgage financing.

Technology, however, will be a determinant factor in achieving our goals in the future since it is one of our hopes in holding down costs, in devising more efficient methods of producing building materials, of reducing the manpower needs, of increasing man productivity.

LABOR SHORTAGE IN HOME BUILDING

The labor shortage in the home building industry is now very severe. Labor is expensive and this is one of the reasons for the higher cost trend. We are bidding against each other for a share of a limited manpower pool and often for a limited number of subcontractors.

The association itself has embarked on a carpenter training program, in conjunction with the Department of Labor, and we see some faint hopes. But such programs must be expanded a thousandfold, and there must be more emphasis in the colleges and universities on the residential construction industry.

The inexorable increase in prices of land continues. There is no land shortage in America the spacious, but there most certainly is a shortage of reasonably priced land near transportation and utilities.

We have made great strides, and are continuing to take greater steps, in recent years with planned unit developments, utilizing land more efficiently to increase overall density. These developments have preserved desirable facilities and open green spaces. Yet the matter of land rests with people—the people who man the zoning and planning boards. We still have to gain more understanding and agreement with planning and zoning boards to allow higher overall densities while still preserving all the environmental amenities.

Unfortunately, too many communities when zoning vacant residential land preclude the construction of housing for middle or lower income families, either accidentally or on purpose. More education, more persuasion are needed here.

1968 HOUSING ACT LANDMARK LEGISLATION

This brings me to the Housing and Urban Development Act of 1968, landmark legislation in many respects. For the first time in our national history, housing goals have been quantified—and I am proud to say that the National Association of Home Builders exerted a very real and meaningful force in giving this direction to our national commitments.

The prime goal is the building of 26 million housing units in the next 10 years. 6 million of these for low- and moderate-income families—the area in which we admittedly have not been successful.

By 1975, the low- and moderate-income housing programs incorporated into the Housing Act of 1968 may constitute, if all goes well, fully one-quarter of all housing starts. I would expect that the programs for these sectors of our population will be combined generally into three major assistance programs: (1) The home mortgage interest rate supplement; (2) the interest-rent supplement; and (3) subsidized rehabilitation loans and credits to home owners for small scale rehabilitation.

In addition to these federal programs there is a good possibility that the individual states will establish their own supplemental programs

which would reduce the interest rates to zero and offer real estate tax abatement and zoning density concessions.

The emphasis on national housing goals and proper resources allocation in the construction industry will result in the establishment of regional planning for residential housing. This regional planning realistically should reflect local market forces which affect home building and which are not presently evaluated in economic decision making.

Substandard housing, of course, will not be eliminated in the next 10 years. It is expected that by 1975 the number of substandard units may be reduced to 4 million, or 60% below the 1965 estimate.

In this process, I am sure that established home builders will increasingly be using minority-race contractors in providing the housing for low- and moderate-income families. Such partnerships, in fact, will be encouraged by the federal government by reducing bonding requirements and by development of higher professional standards for small contractors through programs of the Small Business Administration.

I would expect that the federal manpower training programs will be substantially accelerated and that labor's very exclusive craft licensing and entrance requirements will be reduced to recognize varying degrees of skill.

Careers in home building trades and crafts, very likely, could be encouraged through means of supplements to insure year-round employment in the construction industry, perhaps emulating the recent experiences in Canada and Europe with government-supported year-round projects.

All of you are familiar with the projections which generally put the mortgage credit needs of the nation by 1975 at approximately double those of today. This would necessitate the raising of \$40 billion annually in new mortgage money. More than likely, interest rates will stay high or go higher under such heavy demand, but that should not interfere with the government supplement programs to enable lower income families to achieve home ownership.

I am confident that pension fund investment in mortgages—now at about \$20 billion—will expand enormously during the next decade as a result of the new mortgage-backed securities and the increased attractiveness of the FHA-VA programs.

Pension fund administrators, I would expect, in order to preserve tax exempt status, will shift some of their present bond investments into the mortgage market and will curtail expansion of their stock portfolio. The goal of our industry is a \$2 billion annual increment in mortgage investment.

New mortgage-backed securities and participations will broaden the base of mortgage investment and perhaps even create new types of financial institutions which would generate mortgage credit—groups or institutions akin to mutual type funds which would package mortgage securities.

Despite the rapid growth in the savings and loan business, I do not see how you will be able to maintain your present share of new mortgage debt which, I believe, is about 44% of the total. The investment

banker, the commercial banker, the credit union, the investment club—all will play an increasingly significant role in supplying mortgage credit.

FLEXIBLE INTEREST RATE FORESEEN

Sooner or later, I think, we are going to come to a flexible interest rate. The traditional mortgage instrument, I believe, will be modified to provide a renewable or renegotiable document which would permit the adjustment of interest rates to reflect changes in the marketplace. Such new instruments, naturally, will be more attractive to the commercial bank and the life insurance company which seek an accommodation between rising prices and fixed long-term interest rates.

It is likely, too, that the Federal Home Loan Bank Board will become the central bank of the conventional mortgage market—much as the new Federal National Mortgage Association has taken on a new role as the central facility for FHA and VA mortgages. It will be much like the Federal Reserve Bank in its relationship to the commercial banking system. The Home Loan Bank, as I see it, will issue debentures to raise funds for long-term advances to member institutions, thus permitting a flexibility of lending to a business which now must rely exclusively on consumer savings.

Lastly, I would expect that Fannie Mae will become more active with the anticipated expansion of the FHA mortgage programs and have broader authority in the creation of mortgage market policies. This will include a greater role in the determination of FHA interest rates and discounts prevailing in the marketplace.

Fannie Mae will assist in the establishment of a truly free market interest rate and will be active in the issuance of mortgage-backed securities.

This economy of ours functions, not only by its basic demand-supply relationship, but also under the influence of monetary and fiscal policies and, obversely, the lack of such policies. The enactment of the 10% surcharge, which we supported so heartily, was an attempt to correct such imbalances as was the effort to cut expenditures. What we have seen reflects the inability of modern government—this modern government at least—to effectively “manage” economic growth.

We are still using 19th century mechanisms in the 20th century, while looking ahead to the 21st. They simply do not work fast enough in this highly volatile age. The inability of any administration to control the tax burden effectively, or at least to have some flexible tax structure, and the clumsy budget appropriation process make it almost impossible to act with proper speed to meet changing conditions.

Most governmental policies and decisions, as well as private ones, are based to a great degree on published economic data—with most of this data coming from government agencies. I realize full well that decisions affecting the economy are not made purely on hard economic fact, whether those facts be early or late, but have some political roots. However, the lag in supplying reliable and accurate information to industry and the people is, in itself, a gross economic and political error.

CENTRAL BANKING AND RESIDENTIAL MORTGAGE CREDIT

by ANDREW F. BRIMMER, *Member*

Federal Reserve Board, Washington, D. C.



IN APPRAISING some of the contributions which central banking policy can make toward expanding the availability of funds for home financing, I shall focus initially on the short-run outlook for the residential mortgage market. Next I shall explore some of the opportunities for structural improvements which might make the oftentimes uneasy relationship between the central bank and home-financing intermediaries somewhat more comfortable. Let me say immediately, however, that the following discussion must necessarily

steer clear of any suggestions about prospective monetary policy or about the probable course of interest rates. Moreover, these comments must also be taken as an expression of my own personal view.

The main points covered in these remarks can be summarized briefly. Both residential construction and mortgage market activity may show considerable strength over the near-term. Just how much strength, of course, will depend heavily on the ability of financial intermediaries (particularly savings and loan associations) to compete for funds. Given the delicate balance established among commercial banks and savings institutions in the competition for funds during the last few years, I am personally convinced that the existing structure of maximum interest rates payable on time and savings deposits should be kept in place for the time being.

However, I am also convinced that in the longer run it would be better to keep interest rate ceilings on a standby basis, thus permitting a wider scope for market decisions in the allocation of savings flows. In the meantime, it is desirable to press on with structural improvements which would strengthen the competitive position of home financing institutions and enhance the efficiency of residential mortgages.

In my opinion, the above approach is much more promising than some of the recent suggestions that the Federal Reserve provide sup-

port to the mortgage market through the direct purchase of debt issues offered by federal government housing finance agencies. Nevertheless, I do recognize that the Federal Reserve, through normal market operations undertaken in the conduct of monetary policy, can help to enhance the marketability of federal agency issues, including those of the housing agencies.

SHORT-RUN OUTLOOK FOR RESIDENTIAL MORTGAGES

The prospects for the residential mortgage market during the next year will be influenced to a considerable extent by several developments not directly related to housing. Undoubtedly, if the negotiations seeking an end to the Vietnamese War are successful, the outlook for housing and mortgage financing—along with many other important sectors of the economy—will be altered greatly. Since there is no way to assess this possibility, it must remain as a principal source of uncertainty. In the same vein (and partly reflecting the domestic impact of the military effort in Vietnam), the outlook for inflation and the new administration's fiscal policy—especially the question of continuation of the 10% surtax after mid-1969—can only be recognized at this point as important considerations to be kept in mind. Because of these uncertainties—plus the continuing deficit in our balance of payments—the course of monetary policy must necessarily be less clear than one might ordinarily conclude it should be—given the magnitude of the fiscal restraint measures adopted last June. Nevertheless, although it is an obvious point, one must note in passing that the greater the degree of relaxation in monetary restraint that can be undertaken, the stronger will be the housing and mortgage markets in the year ahead.

While judgments differ as to the details, there seems to be a rough consensus among housing economists placing housing starts in the neighborhood of 1.65 million units in 1969. This would represent an increase of 10% over the 1.50 million units which may be achieved in 1968. The projection for next year seems to rest on a reasonably sound basis: During the last few years, the short-fall of actual construction compared with its long-run growth rate apparently has resulted in a backlog of unmet demand of about 400,000 residential units. Since vacancy rates this year have been the lowest recorded in more than a decade, the replenishment market should be fairly strong. The potential expansion of the regular market for shelter should also be considerable in the year ahead. Net household formation may be at least 1 million, and net demolitions of existing structures may run 500,000 or more. Therefore, the level of housing starts might be around 1.5 million units under normal conditions. Given the pressure of replenishment demand already mentioned, the projection of 1.65 million total starts for 1969 does not appear unreasonable.

In the end, however, the strength of these demand factors will have to be tested against supply conditions which can be expected to prevail as 1969 unfolds. Even in the face of relatively modest effective demand for new residential units, shortages of construction labor have continued in a number of areas across the nation. As a consequence, labor

costs have risen sharply. Recently, costs of building materials have also moved higher. Upward pressures on land costs have not only continued but have actually accelerated. One would ordinarily expect these cost developments to have an adverse impact on housing demand. However, although recent survey results appear to differ on this point, there is some evidence suggesting that the continuing rapid advance in home prices (amounting to at least 5% per year for single-family houses) has stimulated—more than it has dampened—the demand for residential units.

Turning to the mortgage market, it seems that the probability of a substantial decline in interest rates on mortgages has been discounted by the market. Consequently, it appears that the availability of funds—much more than their cost—will be a dominant influence on transactions in both new and existing real estate in the coming year. During the first half of this year, mortgage holdings of all lenders rose at a seasonally adjusted annual rate just over \$26 billion; in the third quarter, the rate of expansion was almost the same (\$25 billion). Thus, during the first three quarters of 1968, the net increase in all types of mortgages outstanding was substantially above the average recorded in the same period last year. However, compared with the gains registered in the final quarter of 1967 (when recovery from the late-1966 low was still in progress), the average quarterly rise this year has been smaller.

As the current quarter began, the mortgage market continued to show considerable strength. However, there were also scattered indications that conditions were somewhat tighter than they were during the summer following the adoption of the fiscal measures last June and the lessening of pressures in the money and capital markets. As interest rates on competing capital market instruments rose somewhat faster in October, mortgage yields in the sensitive secondary market area also turned upward again. For example, yields on FNMA's six-month forward purchase commitments of government-underwritten home mortgages climbed steadily through October to close the month at about 7.24%. Although this level was still substantially below the peak of 7.71% set last June, it does represent a noticeable advance from the yield level prevailing at the end of September.

On the other hand, during the third quarter mortgage lenders accelerated their commitments to make future loans—partly to take advantage of high yields which many thought would not prevail much longer. Net savings inflows to thrift institutions were sustained through and after the mid-year interest crediting period. In each of the first three quarters of this year, savings accounts in these institutions rose at an annual rate of just over 6%. The expansion of time and savings deposits at commercial banks was somewhat more varied, growing in each quarter, respectively, at annual rates of 7%, 3.2%, and 17.9%. Moreover, the spread between gross yields on mortgages and competing market securities (though less than the 100 basic points in September) has kept mortgages relatively more attractive as an investment outlet than was the case early this year.

Looking to the year ahead, as I mentioned above, the extent to which

savings institutions can meet the expected rise in demand for real estate mortgage loans will depend substantially on their ability to compete for funds—especially for consumer-type savings. Aside from the impact of the factors cited above (including the course of domestic inflation and monetary policy), institutional ability to compete will also depend heavily on the structure of maximum rates of interest which can be paid on consumer-type time and savings deposits.

INTEREST RATE CEILINGS AND SAVINGS COMPETITION

While I personally accept the view that the existing interest rate ceilings should be kept in place, it is not a comfortable position for me. It will be recalled that since September 1966, the Federal Reserve Board, the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation have been authorized to set maximum rates of interest payable on consumer-type deposit claims. However, it might not be recalled quite so readily that the Federal Reserve and the FDIC since the 1930s had been required to establish ceiling rates on time and savings deposits in commercial banks, while the FHLBB had no authority to do the same with respect to insured savings associations. In addition to covering the latter, the 1966 legislation (which has been extended year-to-year) also broadened the basis that can be used in establishing the rate ceilings.

A principal aim of the 1966 legislation was to shift the distribution of funds flowing to financial intermediaries to provide a more favorable position for savings associations (and to a lesser degree for mutual savings banks) compared with commercial banks. A basic underlying motive, stressed when the legislation was before the Congress, was the desire to improve the availability of mortgage funds. Given the sharp changes which occurred in the distribution of savings during 1966 (partly as a result of an increase in maximum interest rates payable by commercial banks but also as a result of a steep climb in market yields), I believe the structure of rate ceilings adopted in that year was necessary. That structure, you may recall, involved a maximum of 4% on commercial banks' passbook savings, 5% on their consumer-type time deposits and 5.5% on their large denomination CDs while for savings associations the maximum passbook rate was typically 4.75%. Although a few modifications have been made in the ceilings since then, the structure of maximum rates has remained essentially unchanged for over two years.

Over this period, of course, market interest rates varied considerably, declining substantially during the early part of 1967 but generally rising or easing very little since then. Under these circumstances, the existence of the interest rate ceilings and their effects on the competition for funds have been the focus of much discussion—some of it heated—among participants in the financial markets. From time to time, I am urged by commercial bankers to support an increase in the ceilings on consumer-type time and savings deposits (or better still their complete removal). Even more frequently, I hear complaints from bankers about the advantage of 75 basis points which savings as-

sociations have over banks in the maximum rates payable on passbook savings. At other times, I receive complaints from savings and loan officials about the competition from commercial banks because of the latter's ability to offer up to 5% on consumer-type CDs—the "Golden Passbook" being a special target of criticism. In reporting these comments, I do not intend to suggest that there is widespread unhappiness with the existing interest rate ceilings. However, I do think they are indicative of the kinds of difficulties which must be encountered when bank regulatory authorities are called upon to engage so directly in setting prices.

For this reason, as I have stated numerous times, I think it would be a serious mistake for federal agencies to get into the habit of substituting their judgments as to a desirable interest rate structure—on a quarter-to-quarter basis—for those of management officials responsible for the conduct of the affairs of particular institutions. In my opinion, it would be better not to have any mandatory ceilings (as is currently the case under the temporary authority now in force). Moreover, under normal circumstances, I would favor removing the ceilings entirely—although I would like to see a continuation of standby authority to reimpose the ceilings if a serious disequilibrium were to emerge among those institutions competing for savings flows.

In reaching this conclusion, I am not unmindful of the fact that some depository institutions (particularly savings associations) compete in imperfect markets and thus run the risk of losing deposits (or gaining them at a slower pace) if they were to attempt a reduction in rates while their competitors continued to advertise higher rates. Given this situation, I am convinced that the rate ceilings should be kept in place for the time being.

NEED FOR STRUCTURAL REFORMS

On the other hand, I also think it is highly desirable that efforts to bring about reforms in the structure and techniques of operation of depository institutions (again especially among savings associations) should be accelerated. Consequently, I applauded the FHLBB's encouragement of savings associations to modify the structure of their liabilities by putting more stress on the sale of savings certificates—offering higher yields on longer maturities rather than making across-the-board adjustments on regular accounts. For the same reasons, I also applauded the efforts to enact the federal charter bill in the last Congress, because this would have broadened considerably the instruments available to institutions to compete more vigorously for savings. It also would have created much wider investment opportunities. Hopefully, the savings associations (despite the benefits they derived through the amendments to the 1968 Housing Act) will not abandon their efforts to help bring about these needed reforms.

On the other hand, while I think we are well advised to stress the improvements required to strengthen the position of thrift institutions, we ought not to lose sight of the significant changes already occurring in the structure and functioning of the mortgage market. For example,

the market for existing homes traditionally has been a major user of mortgage funds; the volume of transactions in this part of the market has normally run as much as two to three times greater than the volume in the market for new units. In the early years of this decade, when funds were much more ample, when interest rates and other terms were relatively easy and when opportunities for refinancing were much wider—it was to the market for existing homes that lenders turned to keep their funds employed. During the last few years, however, there has been an increased tendency to by-pass regular lender channels as sellers of old homes have allowed buyers to assume outstanding mortgages carrying interest rates much more attractive than those currently available.

Increased reliance on assumptions of existing mortgages is only one of many indications that the market is becoming more efficient in the direct use of mortgage funds from regular lender sources. And this increased efficiency has apparently been supported by other developments as well. For example, equity participations in real estate ventures, particularly by life insurance companies but also by others, have grown in place of direct investment in mortgages. This has reflected investor awareness of the greater yield potential offered at a time of rapid appreciation in real property values mentioned earlier, compared with the yields on fixed market instruments. The trend has also reflected both the lure of the special tax advantages that still accrue from apartment and related ownership, and the possibilities opened by the expanded capital and management requirements for new ventures.

Another perhaps less obvious illustration of factors that have promoted greater efficiency in the use of direct mortgage funds from conventional sources has been the shift by FNMA to regular weekly auctions in connection with its secondary market activity. Instead of buying outright eligible government-backed home mortgages at a set price, since last May FNMA has offered, in effect, standby commitments that may or may not be taken down within three months, six months or a year at the option of the bidders. Among other benefits, this change has allowed FNMA to make a greater immediate contribution to activity with a much smaller outlay of its own resources.

Such institutional changes will inevitably have a bearing on the volume of commitments builders will be able to secure for new construction. Even so, if the availability of mortgages is to be assured in the long run, basic improvements in traditional sources of funds—that is, in flows to major lender groups—will have to come. Also, the differential in favor of mortgages vis-a-vis bonds and other types of investments will have to be maintained or improved if life insurance companies and mutual savings banks (two of the lender groups with relatively broad investment options) are to return to their traditional positions in the mortgage market. Also, as seems possible, commercial bank mortgage financing—which has already expanded significantly in recent years—will have to grow further. In addition, the structural adjustments in funds-flows resulting from the removal of the statutory ceiling on federal government-backed home mortgages last May and

the raising of usury ceiling limits for conventional mortgages in certain states—particularly in the Northeast where such ceilings had been especially low—will have to be preserved.

THE FEDERAL RESERVE AND THE MORTGAGE MARKET

As I have said, steps such as these discussed above—designed to bring about greater stability in the flow of funds into mortgages—should be applauded by all of us. In my opinion, efforts in that direction are far more promising than are proposals that the Federal Reserve support the mortgage market directly. Such a proposal was debated and rejected, although narrowly, by the Senate last summer. This was in an amendment adopted by the Senate Banking and Currency Committee to S.3133, a bill to extend the temporary authority for establishing ceilings on rates payable by banks and thrift institutions to attract savings—which was discussed above. The amendment would have authorized the Federal Reserve System to purchase, directly from the agencies involved, obligations issued or guaranteed by federal agencies. And it would have directed the Federal Reserve to make such purchases “when alternative means cannot effectively be employed, to permit financial institutions to continue to supply reasonable amounts of funds to the mortgage market during periods of monetary stringency and rapidly rising interest rates.”

This proposal was opposed by the administration and by the Federal Reserve. Speaking for the board of governors, Chairman Martin testified in opposition to the proposal before the House Banking and Currency Committee on June 27. The basic objections to the proposition were expressed in one paragraph in that testimony:

“Such a directive would violate a fundamental principle of sound monetary policy, in that it would attempt to use the credit-creating powers of the central bank to subsidize programs benefiting special sectors of the economy. There are, of course, legitimate grounds for concern about the mortgage market, just as there are many other areas in which federal support programs may be called for. But thus far the Congress very wisely has refrained from attempting to finance such programs through creation of money by the central bank. At a time when confidence in our ability to manage our financial affairs responsibly is being severely tested, we simply cannot afford to create the impression that we are about to embark on a new support program to be financed in such a fashion.”

If this support operation were directed at assuring something approaching a normal flow of funds into mortgages, the amounts involved could be massive, perhaps as much as \$9 billion at annual rates. System purchases of FHLBank and FNMA issues in such magnitudes would, of course, mean that we would have to make offsetting sales of Treasury bills to avoid an inflationary increase in bank reserves. And such sales would push Treasury bill rates higher, at a time when (by hypothesis) interest rates were already rising rapidly. The Federal Reserve would then face, as Chairman Martin pointed out, “the diffi-

cult choice of abandoning the effort to support the mortgage market, or continuing it notwithstanding its inflationary impact, or attempting to make offsetting sales of Treasury obligations at the risk of disrupting the market for Treasury securities.”

Large-scale sales of Treasury bills by the System would pose another problem, too, for thrift institutions and the mortgage market. As interest rates rose under the pressure of such sales, savings could be diverted from depository institutions directly to the market, thus reducing the supply of funds available for the principal mortgage lenders. And yields on mortgages would decline relative to other investments, so that lenders who were free to do so would tend to shift out of mortgages.

The end result, then, would be a massive substitution of Federal Reserve funds for private funds in the mortgage market, which would benefit neither lenders nor borrowers in that market.

Let me add that the Federal Reserve recognizes an obligation to assist thrift institutions in emergency conditions, as a lender of last resort. Standby procedures to accomplish this purpose were authorized by the Board in 1966, and the System study of the discount mechanism released last July reiterates our readiness to meet this obligation.

Moreover, since September 1966, the Federal Reserve System has had authority from Congress to buy and sell in the open market all federal agency issues (including those offered by FNMA and FHLBanks) which are direct obligations of, or fully guaranteed as to principal and interest, by the agency. System transactions have taken the form of repurchase agreements. The gross volume of such agreements has been over \$1.7 billion since late 1966, and housing agency issues have accounted for more than one-half of the total.

Currently there are roughly \$21 billion of outstanding obligations issued by the Federal Home Loan Banks, the Federal National Mortgage Association, the Federal Land Banks, the Federal Intermediate Credit Banks, the Banks for Cooperatives and the Tennessee Valley Authority. Housing agency issues represent almost one-half of the total federal agency debt outstanding. Over the last decade the volume of debt issued by all agencies has more than quadrupled.

Agency issues are generally fairly close substitutes for U. S. government debt; the same investor groups that hold regular Treasury debt are typically holders of agency debt as well. Yields on agency debt ordinarily vary in about the same pattern as those on Treasury debt of the same maturity. While the levels of yields on agency debt are generally somewhat above those on Treasury issues, they are below yields on private securities of comparable maturity.

As I noted above, some Federal Reserve System transactions during the last two years have been conducted through repurchase agreements involving agency issues. These transactions have tended to strengthen the agency market by encouraging dealer willingness to hold securities in position as they intermediate between buyers and sellers. Since nearly one-half of this debt outstanding consists of housing agency issues, strengthening of the agency market also contributes marginally to an improved market for home mortgages.

PROGRAM FOR LATIN AMERICAN HOUSING

by STANLEY BARUCH, *Director*

Housing and Urban Development Agency

for International Development, Washington, D. C.



IN THE FOREIGN AID HOUSING business we are at the end of one era and, as such things work, we have, happily, already started another. The old era provided a unique opportunity for the savings and loan business of the United States to contribute to what was undoubtedly the single greatest advance in institutional development experienced by the Latin American countries throughout the entire history of the Alliance for Progress. The result of these efforts is evident in the 12 savings and loan systems now flourishing in Latin America,

the 120 savings and loan associations, the \$200 million in net savings, the 370,000 savings accounts, and the 90,000 homes financed by the associations.

The new era has already added an awesome dimension to the world-shaping potential of our business by providing it with a highly sophisticated, attractively compensated investment opportunity in Latin America guaranteed against all risks by the government of the United States.

The era which ended was characterized by a series of homogenizing factors:

1. It encompassed the radical transformation of housing from something disreputable in international parlance to a major component of international technical assistance programs and international lending portfolios. This probably was the single most difficult objective to achieve because international policymakers for decades had refused to accept the chilling fact that residential construction has always been an absolutely basic and essential ingredient in the economic development process.

2. Since nothing had ever been done in the field of international housing activities prior to 1958, and since the capacity to engage in any kind of housing activity on a medium or large scale was virtually non-existent throughout the hemisphere, the heaviest technical assistance

emphasis at the beginning was logically focused on institution building—the creation of a housing finance, housing construction, and housing management infrastructure without which no meaningful attack on the housing deficiency could ever have been mounted.

3. In this exercise almost the exclusive source of international housing loans was allocations from the U.S. budget in the Foreign Assistance Acts, and the methodology involved in transmitting them to the Latin American countries was almost exclusively government-to-government.

4. Since the Latin American recipients of North American guidance were virtually devoid of any infrastructure around which to flesh out a dynamic private construction and home finance industry, the end product in a preponderance of the bilateral relationships was usually some type of public sector program. Even these public sector programs, however, did focus on achieving a primary U.S. objective in that they were usually dedicated to institution-building and self-help through housing cooperatives, trade union groups, and actual self-help construction activities.

5. With only rare exceptions the principal commodity which was provided by the U.S. was technical assistance. The transition from absolutely no international housing programs to the actual granting of substantial housing loans had to be a gradual one in order not to cause either the recipients or the donors of such loans to suffer an irreparable trauma.

6. All of the foregoing characteristics of the old era were popular with the sophisticated observers of the international scene. Nevertheless, for a variety of reasons beyond anyone's control, the old era suffered from the ravages of public apathy which turned eventually into public hostility and which culminated this year in the final manifestation of that unpopularity when the Congress virtually dismembered the entire Foreign Assistance Program.

The new era, on the other hand, is characterized by the following considerations:

1. The total emphasis is on people-to-people, institution-to-institution private sector relationships.

2. The institution-building efforts are now concentrated almost exclusively on private sector institutions, and particularly the dramatically successful newly emerging savings and loan systems and associations in Latin America.

3. Substantial dollar loans now either supplement or in many instances substantially supplant what were previously sheer technical assistance exercises as the essential ingredient in achieving our foreign aid-foreign policy objectives.

4. The source of the international seed capital required to assist private thrift and home ownership institutions in their early growth patterns and to encourage increasingly larger accumulations of local private savings for housing finance is no longer the Treasury of the United States but rather private U.S. investors encouraged and supported in this type of venture by a U.S. government guaranty.

5. The net result of this substantial metamorphosis in the essence of the foreign assistance program has been a complete turnabout in the public and private reactions and responses. The housing guaranty activities in which we are currently engaged have become so very popular with the U.S. business community, the press, and the general public, that it is now known to our Congress as the wave of the future. It is my feeling that not only will there be a continuation and expansion of this approach in the housing and urban development field, but also a very heavy adaptation of this private enterprise guaranty route to encompass an extraordinarily wide range of other activities in the foreign assistance field.

All of the foregoing is designed to provide the intellectual, political, economic, emotional, and psychological background against which I may summarize the Latin America Housing Investment Guaranty Program. This program provides the opportunity to invest up to 1% of an association's assets in loans to Latin American housing finance institutions and for Latin American housing projects. The loans are 100% insured by my office against every risk and they yield at this time a handsome 7.5% to the investor.

The program actually dates back to 1961 when an amendment to the Foreign Assistance Act authorized \$10 million in Latin American housing guaranties. The passage of time and a corresponding increase in our Congress' enchantment with this kind of activity has brought us to this year with our awesome total of \$550 million, representing the cumulative ceiling against which we may issue the housing guaranties. Thus far, we have authorized guaranteed loans totaling \$290 million in 80 projects with 64,000 homes of which 30,000 are already completed or under construction. To accomplish this we have assembled an impressive AID housing staff as well as a stable of contractual consultants. We have endeavored with some success to accelerate processing and minimize the red tape, keeping in mind, however, our supervisory and surveillance responsibilities and the necessity always to protect the foreign policy objectives of the U.S. government, as well as its best interests as guarantor.

It is my great privilege and pleasure to assure you that, on the basis of sheer common sense and the magnificent accomplishments of the fledgling savings and loan business in Latin America, I would be delighted to allocate all the remaining guaranty authorization to the Latin American savings and loan systems. Furthermore, to complement such a policy, I am offering to the United States savings and loan business the opportunity to become the prime and perhaps the exclusive source of financing for the balance of the current program—to the tune of one-quarter billion dollars.

I submit that the quality of the instrument I have for sale is unequaled in terms of yield and security even in today's market. I further submit that it is unequaled in providing you and the U.S. savings and loan business with an opportunity to make a spectacular contribution to achieving peace and equity in this hemisphere through the dynamics of free private enterprise.

THE OPERATION OF THE AID PROGRAM

by BRYCE CURRY, *President*

Federal Home Loan Bank, New York, N. Y.



FOR THE PAST 15 or more years, savings and loan management in this country has worked very closely with the Agency for International Development, with its predecessor, and with foreign governments and private individuals in assisting in the establishment of savings and loan facilities in the underdeveloped countries in the world. This was not necessarily an altruistic venture but hopefully one in the enlightened self-interest of this country and the savings and loan business.

As a result of these joint efforts, approximately 90 savings and loan associations have been chartered in Latin America alone since 1957. These institutions to date have financed about 80,000 homes.

In 1965 Congress amended the Home Owners' Loan Act to authorize federal associations to invest up to 1% of assets in AID-guaranteed housing loans in Latin America. This authority was broadened this year to include housing loans anywhere in the world if approved and guaranteed by AID. My recollection is that state-chartered associations in approximately half the states automatically acquired the right to make these loans by virtue of state code provisions granting these associations investment rights equal to those of federally chartered associations. There may be other states where state-chartered associations have this authority under specific investment sections of state codes. In any event, by these amendments Congress has theoretically approved a continuing investment of approximately \$1 billion for housing in the underdeveloped nations.

Soon after the 1965 amendments were adopted, it became obvious that only the very largest associations, for practical reasons, would be able to participate in the program. For example, the average size housing loan guaranteed by AID to date is \$3.7 million. It would take an association with assets of close to \$400 million to handle independently an investment of this magnitude. Various pooling arrangements have

been worked out but there are procedural difficulties where the Agency for International Development has to work for a multiplicity of lenders on a single loan. Because of these difficulties, Jack Carter, who was then director of the Board's Office of International Home Finance, approached me with a suggestion that would permit any association, whatever its size, to participate in this program. The suggested solution had been worked out with the Board's International Development Committee composed of savings and loan managers, such as Oscar Kreutz, Ray Harold and your distinguished past president, John Stadtler.

Two questions were presented. One was whether the Federal Home Loan Bank of New York would be interested in making these investments with its own funds and selling participating interests to eligible associations. The second question was whether we would be willing to assist in explaining to appropriate congressional committees the wisdom of amending the Federal Home Loan Bank Act to permit a bank to engage in this activity. In each case, we gave an enthusiastic and affirmative answer.

The Housing and Urban Development Act of 1968 amended Section 12 of the Bank Act so as to authorize, subject to Board regulations, one or more of the regional banks to invest in AID-guaranteed loans and to sell participating interests to members of the Bank System. Even though we are about to enter this new area of activity, the committee report, explaining the amendment, makes clear that this in no way affects the right of an association to act independently without utilizing bank facilities.

AID officials, in order to minimize legal and administrative costs and because of the long-standing relationships with the Boston and New York Banks, have requested that these two district banks serve as pilots for the early stages of this new program. I should point out, however, that participating interest in loans purchased will be available to eligible associations wherever they may be located. Loans guaranteed by AID constitute commitments of the United States backed by its full faith and credit, both as to principal and interest. By statute, the interest rate may not be less than .5% above the prevailing FHA rate nor more than 1% above the rate permitted on FHA-insured mortgages. The current return to a United States investor is 7.25%. It is our intention to have the borrower, either directly or indirectly, pay actual legal and administrative costs so that any interest purchased by a savings and loan association will yield 7.25%, or such other rate as may be prevailing at the time the purchase is made.

WHY EXPORT HOUSING CAPITAL?

The question has frequently been presented as to whether we should be exporting housing capital when we continue to have a housing shortage at home. As one long involved in a small way with the development of savings institutions in Latin America, I have suggested these answers:

1. Congress, with the approval of the President and on rare occasions

without his approval, determines national policy objectives and this invariably involves a question of priorities. During a time when mortgage money was relatively tight, Congress authorized this limited investment. Moreover, by authorizing the Federal Home Loan Banks to purchase these loans, it sought to facilitate the flow of housing capital to those areas of the world where we have an interest.

2. This program seeks to establish a partnership between government and private institutions, as opposed to the use of tax dollars, to promote foreign policy objectives. As a sometimes unhappy taxpayer, I would heartily favor this approach, and unless I am badly mistaken, so would you.

3. The yield is quite attractive; the security is as good as a U.S. government obligation; and your acquisition and servicing costs are practically nil. Moreover, for reserve purposes, these loans fall within the same category as insured and guaranteed loans.

4. Finally—and I must confess great enthusiasm about this point—this program represents a step toward greater utilization of the Federal Home Loan Banks by their member institutions to promote common objectives.

FRAMEWORK FOR THE FUTURE

by JOHN E. HORNE, *Chairman*

Federal Home Loan Bank Board

Washington, D. C.



TO ESTABLISH A SETTING for my comments on the future, I shall first talk briefly about the past. As most of you remember, my service on the Board began in 1963. My colleagues of that time and our staff invested a fair amount of time in educating me about details of the Board and the business which I had not learned while working in the Senate, and with your League spokesmen, for more than 15 years before becoming a Board member. Several points became evident—for example, that the lending and investing authority of the

business should be modernized. In my first testimony before the Senate Banking and Currency Committee I urged authority be granted to make loans on mobile homes and home furnishings.

It also seemed advisable to unify the thrift business. The legislative and regulatory environment needed updating. It was apparent that the staff organization should be rearranged and procedures simplified. There was obvious need for more coordination and cooperation between the Washington office and the field staffs. This was especially so in regard to the district banks.

In fairness, I want to make clear that work on some of these desirable goals was under way when I became a Board member. Because of the foundation that had been laid, and the extra push that we all have made—the Board, the banks, our respective staffs, your League staff and many business leaders—considerable progress has been made since I assumed the chairmanship in 1965. This progress includes broadening of both the lending and the operating authority of associations and regulations to implement such authority.

Obviously it is not practical to name all the changes but they comprise expanded lending authority in the residential area, including the easing of certain loan-to-value ratios; a more liberal definition of residential loans, urban renewal lending and investment authority and serv-

ice corporations; liberalization of loans on commercial property and college housing; educational loans; mobile housing; international lending; and a series of amendments to regulations and policy statements clarifying or broadening the operations and procedures to be followed.

I should like to emphasize at least three fairly recent developments. In 1965 the Board initiated the use of savings certificates. In the beginning, many institutions resisted this development. Yet the record shows that this has become a major tool in attracting and holding savings. In fact, in metropolitan areas where competition has been the most severe it has proven to be the key to meeting that competition. At the suggestion of your organization, we modified and liberalized the plan on several occasions, with important changes coming earlier this year. These included paying the full rate on certificates quarterly.

A second development treats with mergers. The Board's policy statement is still erroneously regarded by some as an antimerger policy. This view just fails to recognize reality. Before the Board adopted the policy statement, the merger process was uncertain, complex and frequently very slow. Very few merger applications were being received. Since the adoption of the policy, merger applications have increased substantially and the overwhelming majority have been approved. They are processed in a reasonable time and applicants have a clearer idea of the probability of success.

The third development I want to mention is the service corporation. While the legislation on this point is somewhat obscure and the legislative history could make the provision almost unusable, the Board has developed a broad and flexible position. A policy statement and regulations have been issued and so I shall not elaborate further.

In the area of legislation, there has been one or more important acts each year since 1965. While almost annually legislation has added to the business' authority, none has contributed so much as the savings and loan provisions in the Housing and Urban Development Act of 1968. Merely to list all the provisions would require a speech. It does seem important though to stress the new law grants authority to receive savings in the form of deposits, the authority to issue long-term debt instruments, and a host of other changes including investment in certificates of deposit and repurchase agreements. These provisions are a direct outgrowth of very substantial work by the Board and its staff and your League staff to obtain modern legislation as characterized by the bill for federal savings institutions. Without such effort, the provisions of 1968 would not have been possible. Our joint efforts produced greatly desirable results.

Another important legislative achievement in 1968 was the passage of a new liquidity provision. Though this provision is yet to be implemented by regulations, it will be more flexible, more diversified and more relevant than the old provisions. It gives you far greater scope for investing your liquid assets and yet enhances the ability of the Board to require a more meaningful and usable mix. This legislation will, in my opinion, stand as a landmark in contributing to the well-being of your business.

Another legislative act of great significance, and one historically considered as unacceptable by a great many in your business, is that of rate control. To be completely candid, even the Board has had reservations about this type of authority in theory. While our progress as a people owes much to theory, there are situations which theory sometimes does not cover and from which theorists shrink. The realities of 1966, if not prior years, suggested the need for such legislation. The Board urged it strongly in April 1966, but it was not adopted until September. I told the House Banking Committee in April 1966 that failure to adopt the proposal would cost your business at least \$3 billion in savings. The record suggests that it probably cost more.

This is difficult legislation to administer, and some of you in certain states are understandably restive regarding the rules in effect. Yet, few would deny that it has prevented a continuing drain on your business. What is more, it has made possible the development of new instruments, of far greater competitiveness among institutions in terms of techniques available, and it has precluded or eliminated many competitive techniques of dubious economic value. The most recent extension makes explicit that the banking regulatory agencies have authority over advertising practices of commercial banks, and I believe we can now look forward to more meaningful restrictions on inappropriate advertising techniques used by some banks. Even without perfection this once much feared piece of legislation has already proven its value. I feel certain that the unrestricted rate differential once enjoyed by this business over banks will not reappear and that thus for the protection of your business dividend control should be made permanent on at least a standby basis rather than continuing to present a yearly hazard to stability.

IMPORTANT LEGISLATION: SUPERVISORY, HOLDING COMPANY, RECEIVERSHIP

Other deeply significant legislative actions include the Supervisory Act, the Holding Company Act and the Receivership Act. These measures were thought by a few to be intended for the Board's benefit but of no value to the business. This is a normal reaction. It is natural to be suspicious of or even opposed to legislation that is considered to be restrictive. Such an attitude, though, is not always correct.

The Supervisory Act gives the Board a tool to use in a way that protects your business. No large group is without the careless, the overly aggressive or even a few who deliberately perform injudiciously for personal gain. More damage can be done your business by a small minority than the overwhelming majority can correct by appropriate or even exemplary behavior. The Supervisory Act protects each of you and is applicable to the banking industry as well.

The Holding Company Act, signed early this year, also is a protection for the majority. History shows that no matter what the field of endeavor, holding companies can create problems unless appropriately supervised. Most of you supported this legislation and recognized the underlying public purpose to be served by it. In time, I believe that those who were opposed will recognize that this act protects them as

well as the business generally from practices which may be disruptive. On behalf of the Board I want to express appreciation to that large majority of holding companies that are cooperating with us in making the new law work fairly and effectively.

The Receivership Act is also a new law that will benefit the business as a whole. It had the strong endorsement of both nationwide leagues and of some state supervisors. It ends uncertainty, restricts or eliminates controversy, and protects the Federal Savings and Loan Insurance Corporation from undue delays and costs which could seriously impair it.

The legislative record of the recent years should be gratifying to all of us. It represents persistent efforts by a great many people. The Board and its staff are greatly indebted to many of you in the business, including officials of your League, for cooperation, amicable discussions of differences in points of view, and valuable assistance in those many instances in which your views and ours were the same. We at the Board sincerely express thanks for the frank but friendly efforts to find common ground. That we did not reach full agreement on all issues is only natural, but we always ended our discussions in a friendly and mutually respectful manner.

MORE FITTING FRAMEWORK CONSTRUCTED

In brief, what we have accomplished is the construction of a new and more fitting framework for business operation. Lending and investing authority has been broadened; the basis for more objective evaluation of association performance and preventive supervision has been set in motion; a more meaningful and relevant policy framework for the Federal Home Loan Bank advances has been developed. To an important extent, a platform for the future has been erected. We still need to add some planks and renew others from time to time, but the basic framework has been provided for an even more significant business in the decades ahead.

How can we use this platform to meet the needs of the future? A great deal depends on how well we recognize the problems we yet face and the possible shape of things to come.

The economic and financial environment of tomorrow will not be like that of yesterday. There will continue to be strong competition for savings. So many new demands for financing and so many new schemes for raising money have been devised that one wonders how the needs will be met and which needs will go unfilled.

We can expect that the way we manage funds at our disposal will be much more critical for success than in the past. We can look at the prospects for housing and see demand growing, but the increase in activity is not likely to yield the type of boom we had in the 1950s. While the demand for housing is expanding in relation to the total economy, I think it will be smaller than in the last major housing expansion. Its composition will be greatly different. More of it is likely to be in multiple dwellings, new towns or similar complexes, and in the inner city. These conditions all pose challenges to be mastered.

These forces require a significant reorientation. Your business should view the future as an era in which management will have to pursue with great intensity more flexible and conscious financial planning. A conscious strategy, reevaluated and modified frequently, will be necessary to cope with changing conditions. These factors are essential to building flexible institutions which produce a meaningful flow of income, a sound asset position and meet the needs of the community or area they serve.

In this connection, as I indicated earlier, the new liquidity arrangements offer a very promising avenue. The new provisions will permit the averaging of liquidity over a period of a month. Thus, you can be more flexible in your planning. What is even more important, the provision of a broader range of instruments will enable you to operate more effectively in the money and capital markets. No tool, no matter how good, is useful unless it is properly applied to the tasks at hand. A tool unused is no tool at all. A tool misused is a debit and not a credit. Thus the liquidity flexibility, like any other device, depends upon management for its ultimate success.

NEW INSTRUMENTS, NEW OPPORTUNITIES

Let us turn to the question of savings. Under the 1968 Housing and Urban Development Act, the Board can permit federal associations to accept deposits and pay interest. Earlier this month we proposed a regulation which would permit modification of charters. When the charter amendment regulation becomes final and federal associations amend their charters, they will be able to accept deposits and the present range of instruments can be referred to as deposits. The use of the interest terminology, however, must await the redefinition of the instruments.

Implementation of the use of the new instruments will be a more time-consuming process. Your League has a committee working on this question. Additionally, the Board's staff has already invested considerable effort in this project. Consultation between the League's committee and our staff will proceed promptly and the Board hopes that a package of instruments can be developed reasonably soon. Because of the complexities, however, the prospect is not for action before year-end. We want instruments that are modern, flexible and meaningful, and this will require more time than would less useful instruments.

In the meantime, we want your reaction to the proposed charter amendment now out on notice. We hope, too, that those of you who are operating under state charters will obtain enabling legislation which will permit you to follow a similar course.

The main point, however, is that the new instruments will open up opportunities for attracting savings, and in fact will require rethinking of how you do so. The questions of cost of funds, stability of savings, and competition with other institutions may need to be resolved more on an individual association basis. Following the herd instinct may not be the wisest course.

So much has been achieved in the way of legislation in recent years that some may conclude the record should be closed. I do not agree.

There is still room to broaden your lending and investing authority. However, I do suggest that a reassessment of what is needed be undertaken before we proceed further.

KEEP WORKING ON UNIFYING THRIFT INSTITUTIONS

I should like to leave two further thoughts with you on the question of legislation. First, the effort to unify the thrift institutions should not in my opinion be dropped. There is much to be gained from amalgamating the savings banks and the savings and loan business. In unity there is strength, and I believe firmly that the thrift industry is more likely to thrive and become stronger if the two parts act more in unison than if each goes its separate way.

This leads to my second thought—the thrift industry should remain primarily related to the housing market. That is the rationale for your existence. While broader lending and investing authority is desirable, you would in the long run do yourselves a disservice if you sever or greatly modify your link to the mortgage market. As the Board has worked with you for diversification, our purpose has been to broaden your base and to give you the flexibility necessary to avoid total reliance on a single market and thereby impair the development of your business in an ever changing environment.

I am aware that some people whose judgment I respect very much argue that there is less and less need for a specialty business, for the thrift business, and that savings banks and associations should become commercial banks. The economy may some day reach that stage, but I do not think we are there now. Moreover, I believe there is room and need for both kinds of institutions if we set ourselves to the task of making both serve the nation's welfare in their most logical and meaningful manner.

IMPROVE HOUSING FOR LOW-INCOME GROUPS

In connection with your role in the housing market, permit me to stress again the importance of your business taking an active role in improving the housing situation for low-income groups, particularly in the center city. Many programs are already in operation, including the regular FHA and VA programs. In addition, the 221(d)(3) program and several others also offer an opportunity for real aid to the underprivileged. The Housing Act of 1968, which provides great improvements for your business, has as its primary focus encouraging home ownership and improving rental opportunities for the lower income groups. I commend you for the leadership you have given already and urge you to make full use of the new housing provisions.

These programs are now, or will be, on a basis which reflects the government's recognition of the need for aid to the underprivileged while providing the lender with adequate protection and income. We cannot talk or think about the future without determining to correct the housing conditions of those in slum neighborhoods. This task requires everyone who has any role, however small, to do his utmost to bring about change in this area. May I remind you that in this connection the

service corporation concept can be a very effective instrument. The Board has already approved two service corporations for this purpose. The world as well as our own people is watching to see how we perform. We must demonstrate that our know-how includes more than just lending to those who are fortunate.

As I stated earlier, you and we have built a new foundation upon which to face a new world. What is now essential is a more imaginative utilization of our joint accomplishments toward solving the problems that do now and will continue to confront us.

BOARD STRIVES FOR BETTER EXAMINATION, SUPERVISION

At the Board, as you know, we are striving to develop better techniques of examination and supervision. The authority we have is sufficiently flexible to permit us to do a great deal more to prevent problems or correct them in the early stages. We want to move toward setting broad and clear guidelines, and then follow them more on a case basis. The philosophy of supervision has been a matter of long standing debate. I think it would be unwise to follow either extreme of detailed regulations for every point or no regulations at all.

In developing regulations for investment, lending and savings, we hope to look at the broad outlines of the problem. We need to provide not too lenient, but flexible, tools. This is our aim and more and more we are governed by its implications.

In essence, the future will require each of us to change many of our practices. As the Board and staff endeavor to advance your cause in a way to give maximum service and protection to the public well-being, I hope you will bear in mind that we have to consider what effect our decision will generate on a nationwide basis. It is literally impossible to reach conclusions that please everyone.

Many have said that the past always looks easier than the present or the future, but who among us would like to return to the 1930s or even the 1940s? It is not always true that yesterday was golden and tomorrow is bleak. A great deal depends on how we react to the challenges we face. If we regard a challenge as an opportunity and work toward improving our position, the rewards can be enormous. Observe your own business if you doubt that. The era we are entering is one of some doubt, but it is also one of challenge and opportunity and more than ever before your business and the Board have adequate means to cope with the future. I believe we will use them well and when another tomorrow comes, we will be able to look back with satisfaction on what we have wrought.

THE OUTLOOK FOR THE SAVINGS AND LOAN BUSINESS

by JAMES C. DOWNS JR., *Chairman of the Board*

Real Estate Research Corporation

Chicago, Ill.



OVER THE YEARS we have developed a format for determining the outlook for the savings and loan business. It is a rather simple one which consists of an attempt to answer a series of questions in three general areas. The first concerns consumers. How many are there going to be? How much money will they have? What will they do with it? How much will they save? Where will they save it?

The second general area is money. What will be the level of demand for money? What price will it command? What will it be worth?

The third area is real estate. What will be the status of its markets? What will be the trend of its prices, values and rents? How will it be financed?

When we ask ourselves how many consumers there are going to be in the future, we are bearish on the long-range population explosion outlook because we think it is going to prove to be a fizzle. The birth rate has dropped steadily since 1956. In my opinion it will drop below the depression rate within three years. As we look at the outlook for the savings and loan business in the next year, we know that a tremendously large number of people are going to come into adulthood and this is an adult-dealing business. The simple fact about numbers is that there will be more consumers in the year ahead, particularly in urban areas, than ever before.

How much money and purchasing power will they have? Personal income will wind up this year at over \$700 billion. This is not only more money than was ever before distributed to individuals in the United States but it is being distributed at a rate, and people's purchasing power is going up at a rate, that we ourselves do not realize.

Almost everyone is underestimating the purchasing power of people

today. As it dawns on people who sell things to other people who have money that their purchasing power is going up very rapidly, our whole economic system is going through a process of upgrading. This is happening in the department stores, in the automobile business, in housing. Before World War II the term "family room" was not in the dictionary. All a family room is is a living room for children. Today's consumer wants two living rooms—one for himself and his wife and his guests, and one for his children and their guests.

In housing there is a tremendous increase in the number of baths. Many insurance companies and many financial agencies will not finance a one-bathroom house. The latest thing in housing is to have a "his" and "her" bath for each master bedroom.

PURCHASING POWER RISING

The purchasing power of people is going up at an unprecedented rate. What they do with this money in the year ahead is almost as important to you as how much money they are going to have.

The rate of spending versus savings in the country changes. The flow changes. At some times people want to spend more money than they do at other times. This is not necessarily related to how much money they are making. For example: In 1966 and 1967 the wage, employment and income trend was going up but the spending trend was not going up. As a matter of fact, you benefited from an unprecedented rate of savings up to 7.5% of disposable income.

The reason was that people's attitudes did not favor spending even though their incomes were at record highs. Their attitudes were affected by the amount of publicity in 1966 and 1967 about money shortages, about the problems of the U. S. in its monetary situation, about the fact that we were queasy about the dollar. We wondered what was going to happen to gold. People were apprehensive and they did not spend. Instead they saved.

Today they have reduced that rate of saving; they are spending more than ever before. In the third quarter of this year—as a matter of fact for all of the most recent weeks—retail sales have been up 10%, 11%, 12%. That is a fantastic gain over a year ago. You have noticed this in your savings institutions. As director of a department store and director of a bank, I need go to only one place to find out what is happening in spending and saving. If I go to the bank and savings are up, I do not have to go to the department store to find out that sales are not good. These things go in waves. What is going to happen to that wave in the first quarter of 1969? In my opinion, the rate of savings will begin to pick up from its present level.

People are going to be thinking about taxes. We are going to have a new government. The mood of that new government and the mood of the people in this recent election was conservative. Add the Wallace and the Nixon vote and you find that 57% of the people voted for what they hoped would be a conservative program. They, too, will adopt the mien of the conservatism under which they hope the government will operate.

If peace comes, people are going to feel concerned. In response to the possibility of peace, the stock market, in my opinion, is bullish; but the average person does not feel bullish about peace. He feels that with peace coming closer, his job may be threatened.

OVER-SPENDING WILL LEVEL OFF

Incomes will go up for consumers. Their present euphoria reflected in over-spending will begin to level off. You will get some benefit and some measurable effect of that in 1969.

What are the people going to do with these savings? It seems to me that savings competition will change significantly in the coming year. The biggest competitive force ahead which should be of concern to you and might, incidentally, also be of concern to banks is the fact that insurance companies all over the United States are gearing themselves up to stage a great drive to sell mutual funds to consumers.

Down in Phoenix, Ariz., Prudential Life Insurance Company—which sells more life insurance than any other company at the present moment—is setting up a major organization to sell mutual fund certificates to ordinary people who are called on by salesmen of ordinary life insurance.

They are not the only ones. An analysis of the business news today reveals insurance company after insurance company either buying mutual funds, gearing themselves up to sell mutual funds, or somehow getting into this business of direct approach to the consumer for savings. In my opinion, this is the number one coming competitive thrust—one about which something will need to be done as time goes along.

What about the demand for money? When the income surtax went on, interest rates began to slough off because people thought, "That income tax will put a curb on the economy, a curb on spending, a curb on borrowing, a curb on demand for money." Only a few weeks was that sort of feeling evident in the money markets. Now the money markets have turned around and in corporate securities, at least within the last few weeks, interest rates have about hit the previous highs which were recorded for some securities in May.

REASONS FOR DEMAND FOR MONEY

We predicted in our service that interest rates would not go down and would not stay down if they did. We predicted this for four reasons which we see as causing the present demand for money. The four reasons are these:

1. Vietnam. All of us hope and pray this morning as we meet here that the meetings in Paris will somehow or other produce peace. Yet as we listened to our news broadcast this morning we found that there were a great number of violations of the DMZ. There is no real factual reason that you or I can find this morning that indicates peace in Vietnam. We hope there is going to be peace in Vietnam; Mr. Johnson hopes there is going to be peace in Vietnam; Mr. Nixon hopes there is going to be peace in Vietnam, but there is no reason to believe it. If you are making a hard-line business forecast, you have to decide that

the expenditures made by the United States in 1969 on account of Vietnam are going to be the biggest expenditures we have ever made in that war.

2. Consumer credit. Strangely enough, consumer credit goes up when income goes up. You might assume that if a man got a \$100 a month raise, he would save more money, he would borrow less and that the time payment debt in the United States would go down; but it works the other way.

A man who gets a \$100 a month raise is driving an Impala Chevrolet. He immediately goes down and buys an Olds '98. Or he immediately goes to the store and gets a color television set which he has been wanting for the last four years. Or if he goes home and says to his wife, "I got a \$100 raise," she says, "Let's move."

What increased income does in the United States is to stimulate borrowing and to stimulate spending.

3. Plant expansion. The government has announced that industry and business as a whole are planning to increase their expenditures next year by 8% over this year's record expenditures for new plant and equipment.

4. Demand for money on the part of state and local government. Many bond issues were defeated in this last election but there were a fantastic number that passed, and in my opinion those that were defeated were only delayed. Let me just illustrate this by one example.

In the state of California there was a proposition at a quarter of a billion dollars for university buildings or school buildings of one kind or another at the higher education level. This was turned down by the people of the state, not because they do not believe in education but because they were tired of the way the students and the faculties were acting. The students and the faculties are going to change but they are still going to need the money. As history proves in these bond issue elections, they will go back to the people next fall or next spring and they will pass the proposition. They will be in the money market for a quarter of a billion dollars.

Add those four things together—none of which I can see reversing—and you see a continued high level of demand for money. When you have that high level of demand for money, you are going to have a high price for money. In my opinion, we are going to see a continuation of high interest rates—high compared to anything that we have been used to up until the last year.

WHAT WILL MONEY BE WORTH?

How much is this money going to be worth? We have operated on a cyclic theory, as you know. We have always gone up to a peak of prosperity and down to the abyss of a depression and back to normal and up to a peak of prosperity. On the rise we always borrow heavily. We have always expanded credit just as we are doing now. When we had a fall, we handled that credit by default. We foreclosed everybody out. We defaulted all those debts.

Let me say first that we do not have the political fortitude in the

United States to have a depression. We have enough of a revolutionary sentiment in this country with a very low employment rate. If we had an 8%, a 9%, a 10% unemployment rate, I for one doubt that this government could stand. I think everybody knows it.

How are we going to handle debt from now on? We are going to pay it off with inflation. I say that inflation has been the handmaiden of the savings and loan business. I know many people in the savings and loan field who do not believe that. I know many more people who suspect it is true but do not want to believe it. Let me illustrate this.

A man bought a house from you in 1936 with a modest down payment. Every year for 20 years after that that house went up 5% in price. Many savings and loans were bailed out by that inflation.

You had a short period of sharp deflation in the savings and loan business beginning at about the end of 1965 and ending at about the middle of 1967. What happened to the business? It got in trouble. Deflation you cannot take. Inflation is a drug to a society. We are hooked on it, but we are hooked only a little.

We are complaining because we had a 4.3% inflation in the last year. My company is at the moment making an economic survey of the city of Sao Paulo, Brazil, which has had a 40% annual inflation for 10 years—40% per year. You know what the prime mortgage rate is? 36%.

I do not advocate this. I am not an advocate. I am a forecaster—that is my business. What I say is that whereas we do not know as yet whether Mr. Nixon's government is going to opt for price stability vis-a-vis full employment, I would wager that basically it is going to take a little compromise on the full employment but it is also going to expect—because it has been built into the system now with three-year contracts with most major labor unions with raises next year, raises the year after next—to opt for a modest, mild inflation.

I do not like inflation as a theoretical economic proposition, but we have to design our economy either for the young or for the old. If you are going to design an economy for the old it had better be very stable as far as purchasing power is concerned so that their social security checks and their pension checks will always have the same purchasing power. That is not the way it is going to be. This economy and this society and this political structure are going to be designed increasingly for the young. The young want the opportunity of the inflation that pays off for smart people and you—5,700 of you—are a living testimonial to the fact that inflation has paid off in business, as long as it is kept in reasonable bounds.

What about real estate? The real estate markets of the United States today are stronger than they have been in 30 years. Occupancy in most good areas of most cities is 100%. I can go back in your town and go to the best neighborhoods and find nothing vacant. Nothing. The demand is increasing faster than the supply. New jobs are being created faster than we are creating housing units. New demand for office space is being created faster than we are creating office space. New demand for hotel/motel rooms is being created faster than we are creating hotel/motel rooms. We have not had this level of demand since the

years in the middle of World War II.

In consequence, values are going up faster than prices. Let me illustrate. A man bought a house for \$28,500 in 1963. In 1964, in the late part of the year, his neighbor who had just about the same kind of house had to take \$27,500 in order to sell it. This man in 1968 gets transferred some place. He says to his wife, "You better go down and list this with the realtor." She says, "What will we ask for it?" He figures like everybody else so the asking price is 10% more than they have in it. He says, "Ask for \$30,500." She walks into the real estate office at 10:20 in the morning and says, with some little trepidation, "I'd like to list my house for \$30,500." He writes it down. She goes shopping. When she gets back home, there is a man waiting with his wife at her front door. He looks at the house, says, "I'll take it." Do you know why? Because it is worth \$32,500. He knows it. The buyer knows it, but you the seller do not know it. You the savings and loan business do not know it, and your appraisers will not find it out for six months. They do not find out that prices are going up, or down, for six months.

This value trend has put your portfolios in the best position they have been in in 20 years.

Rents are doing the same thing. Values are going up faster than prices. This operates in the rental field as well.

How are we going to finance this real estate? High money prices? Who is going to finance it? I think the lowest third of the housing spectrum is going to be financed by the government. You are not going to do it; you are not going into the ghettos, into the poor areas, and finance housing. You may do some on a token basis. The life insurance industry is in for a billion dollars. Incidentally, I might add that they are interested in insured loans for their billion dollars. I do not discount their effort but let us identify it for what it is.

The facts are that you are going to stay out of that market. Single-family houses are going to be financed by your business alone. The insurance field is out of that. Everyone else is out of it.

The income property field has an interesting thing going now—this sort of "piece of the action" business. Who gets a piece of the action? I am going to build an office building. I have a partner. I go to my partner and say, "Look, I have a full loan, I mean a 100% loan, but we have to give them a 50% piece of the action." My partner says, "What do you mean 'give them 50%'? Can't you get by with 25%?" I say, "Tom, let's get this straight. We are not giving them any of the action. They are giving us 50% of the action."

In other words, nobody that is going to put up a real equity on a building is going to give anybody a piece of the action. If I am going to build an apartment building and I have 25% of the equity and I come to anybody, I am going to give him nothing.

For years banks, insurance companies and you people made full loans. I am talking about 100% loans. All you got was the opportunity for a default. You did not get any piece of the action. You did not get anything.

In my opinion, we are going to have to change. I think you are going to be able to own real estate. I think that instead of your giving the piece, developers are going to give you a piece of the action. You will reward the entrepreneur who puts the deal together by giving him some kind of piece of the action. It just does not make sense for the man who puts up no money to own control of property. It just does not make sense and it is not going to keep on.

Let me take one quick look at the real estate market other than that. It is going to stay strong. We are going to have difficulty in building as much space as this society needs over the next three years, which means that the price and value trend is going to keep on going up and that we will not be able to build as much as we think we need.

Finally, let me conclude with this. In spite of everything you may say about the present situation and the savings and loan business, this business is doing a better job today than it ever did before. Let me say why. Classically and historically, you have always had a bigger margin over banks than you are getting. On the average you are now getting the lowest margin over banks as to interest rate that this business ever has had. The reason you are able to get by with that lower margin is that you have raised the sights of the public's appraisal of savings and loan institutions. You have done that deservedly in most cases by having more sophisticated management; you have done it by having better quarters; you have done it by having more satisfactory services and broader services; but do not fool yourselves, your business is doing the best job vis-a-vis the competition it ever did.

WHAT ABOUT MUTUAL FUND COMPETITION?

What about the problems ahead in this question of equity financing through mutual funds? People today over-estimate the economic sophistication of the public. It was found out pretty clearly that a great percentage of the public does not like a savings certificate even with a half-point more interest. People today want a passbook. This is why the "golden passbook" was invented. People are not sophisticated enough, generally speaking, to support the purchase of stock-oriented investments. In my opinion, this competition is not going to get too great, at least in the next year, which is the year I am forecasting.

It seems to me, as we consider the outlook for this business in the next year, it is lush but it has problems. We are going to be dealing in the strongest economy in real estate that we have had since the '20s. We started a real estate stock index three years ago. That stock index was at 100 in October 1965. It went down along with the market to 75.2 in October 1966. Last month it was 297.6. The fastest rising group on the stock market is the real estate stocks.

There is a new posture of real estate—a new belief in it. Sophisticated corporations are in it. Major corporations are buying land and buildings today. ALCOA owns Century City. The airlines are all going in it. The railroads are all going in it. The security behind your savings was never any better, and in the last 20 years it was never as good as it is today.

THE UNITED STATES AND WORLD AFFAIRS

by WALTER CRONKITE

CBS News Correspondent

New York, N. Y.



NONE OF THE THREE principal candidates for President in last week's election was exactly happy with the results, I think. Nixon was happiest, of course, but he did not win with the margin with which he hoped to win and would have liked, nor did he carry a Republican Congress along with him. Humphrey might have been encouraged by the fact that he got a larger share of the vote than was certainly indicated just before the election, but he still lost. Wallace, it seems to me, found almost no comfort at all in

the returns. He did get 10 million votes and that is more than any third party candidate in our history has received. On the other hand, many more people voted this year than have ever voted before.

Governor Wallace's percentage—which is what is important—did not come to anything like a record. As a matter of fact, his share of the national vote was just a little over 13% which is the third best of any third party effort in this century. Teddy Roosevelt's Bull Moose Progressives got 27% in 1912; Bob La Follette's Progressives got 17% in 1924. A greater blow to Wallace was the fact that he did not do better than he did outside the South. He won less than 10% of the vote in the rest of the nation—quite a bit less. For those who thought the Wallace program represented racism, raw prejudice and negativism and were therefore alarmed by it, there was comfort in reading the figures of where that less than 10% came from. It came from no single block of the citizenry that might be considered a fertile hotbed for future exploitation by extreme rightwing dissidents or demagogues or fanatics. In scarcely any group was there a much larger Wallace percentage than in any other. His highest percentage—around 13% to 15%—and we are speaking now of that outside the South—came from rural America, and his lowest percentage came from the Negro pre-

cinets of the large cities.

In all the other categories that we classified and tabulated at CBS—large cities, small cities, suburban areas, small towns, high income, low income, blue collar—Wallace's percentage was fairly uniform at the 7% to 9% level. This would seem to indicate that his support came from all areas of the population but in equally small portions throughout and from about the same proportion of the population which is usually ultraconservative and subject to the appeal of somewhat unusual political banners.

'WHERE DID THEY ALL GO?'

Our reporters who were in Montgomery—Wallace's headquarters—when those returns came in, Tuesday night and Wednesday morning, say that the former governor walked around continually repeating to his friends: "Where did they all go? There were more than 9 million people out there at my rallies. Where did they all go? We had more bumper stickers out than that."

He was asking a good question. Until the dramatic turnaround in the polls a fortnight or so before the election, he had up to 20% and in some places 25% of the vote. Some figures indicated he might get as high as 30% of the labor vote. None of those figures was realized, of course. Analysis suggests there were several reasons.

As far as the labor vote goes, it seems quite clear that the massive propaganda effort put on by organized labor pointing out to the working man Wallace's record in the past had serious impact.

By failing to put forth a positive program, Wallace began to lose some of those supporters who emotionally climbed on his bandwagon in the early days of the campaign. The addition of Curtis Le May to his ticket also frightened off some who disagreed quite definitely with the general's nuclear policy.

Far more likely, though, as the most important factor in reducing his vote, was the fact that he simply did not have the organization to get out the vote. This has been the bane of all third party movements. They rarely have an organization that can go down into the precinct level where, as any politician knows, the vote must be dragged out on election day.

This lack of organization in depth also is the reason that third parties rarely return in strength four years later. Third party movements historically have been the result of a single issue or a single individual with great grass roots support at a single point in time. For the organization to continue it must have not only a broader base of issues and a farm club of potential candidates in lesser offices, but it must have also a national organization right down to that precinct level.

ODDS AGAINST WALLACE PARTY

It is fairly possible that George Wallace's American Independent Party might establish itself as a national party by 1972 but if it does, it will have to overcome overwhelming odds. It proved it could overcome tremendous odds just by getting on the ballot in all 50 states, by

smashing down barriers erected a long time ago to prevent just such a third party movement. By getting a fair proportion of the vote this year, it will almost automatically qualify for the ballot in most of the states in 1972. The party will need money but it has been indicated that it has some very affluent friends.

If George Wallace can subjugate his own personal ambitions for the greater good of his philosophy—a doubtful proposition—he might very well concentrate on the South in the immediate future, hoping that his political heirs might eventually build on the reasonably solid base that he established down there this year.

Southern congressmen are quaking in their boots, I suspect, for fear he may do just that. If he does he would start by putting them in one of the worst squeezes they have yet faced. He could choose to go after congressional and Senate seats in the South in 1970. The mere threat that his party might put up a candidate against some of the long entrenched Democrats and even some of the newer Republicans might well force them to consider renouncing their present party loyalties and going over to the American Independent Party. That would be particularly true in those congressional districts through the South that gave Wallace's party a majority of their vote in this last election.

Here Wallace has the potential for giving continuing trouble to the two-party system despite last week's defeat. By electing his own congressmen, or even by threatening to, Wallace now will be influential among that block of Southern lawmakers who frequently do hold the balance of power on Capitol Hill.

Strom Thurmond saw this as a danger to the just emerging Republican Party in the South and that is why he campaigned so hard against Wallace. Even if Wallace restricts his campaign to another drive for the presidency in 1972, and even if he limits that drive to the South, he could conceivably gain that balance of power in the electoral college which was his principal design this year. If he had won those three states where he came out second and had added just one other that Nixon carried, he could have denied Mr. Nixon a clear electoral college majority and put the election into the House of Representatives—or at least given himself considerable bargaining power in the electoral college itself.

PEOPLE READY FOR ELECTORAL REFORM

Probably Wallace will not have a chance to play that electoral college game in 1972. He may have lost his last chance to gain through a presidential campaign a third party balance of power and to create in the United States the sort of splinter politics that has been so disastrous to one nation after another around the world. It seems clear that coming as close as we did to a major constitutional crisis this year, the people of the United States are ready for the electoral college reform over which Congress has been dawdling for 125 years.

Certainly the Democratic party is not dead, nor even critically ill. It won for its presidential candidate almost as many votes as the Republican candidate got and elected enough members to continue control of

the Senate and the House. This is the first time in our modern history that a party has done that to a presidential candidate winning his first term.

The predicted final dissolution of the Democratic coalition that had controlled the federal government in most elections since the 1930s did not happen. The low-to-middle income voters, labor union members, more recent immigrant groups, the Negroes, the Mexican-Americans, the Jews remained loyal to the party.

The South, which had been a part of that coalition, was lost, and thus was the election lost. Humphrey was the first Democratic presidential candidate of this century to win only a single southern state. So wide has grown the chasm in this country between the minority groups on which the Democrats must depend for their strength in the North and the East that it seems unlikely they will be able to put back together the old coalition. That raises the question as to where the South goes in the future and where the Democrats go for the additional strength they are going to need for future victories.

Here again Wallace plays an important role. If he can build on his American Independent Party in the South, he might hold out for some time against the Republicans. On the other hand, if he does not, the Republicans might solidify their gains in the South as shown this year by the large Nixon vote, and continue the coalition Nixon put together of a solid South, Middle and Far West, leaving the Democrats with only the industrial North and Great Lakes states.

Note again how that block of high population density states would perhaps influence the Democrats to take a longer look at electoral reform this year than they have in the past. The South again seems to hold a balance of power. The Democrats can seek southern votes and endanger their minority support elsewhere or they can abandon the South and hope to broaden the base of their appeal with farm or natural resource programs that would be attractive to the Far West and the Middle West.

Meanwhile, the Republicans have the opposite side of that problem. They can look to holding their traditional areas of the Middle West and Far West and strengthening their hold on the South while extending a little their new gains in the northeastern states. This clearly could provide a formula for success for some years to come. They can be considerably heartened by the fact that Richard Nixon was the first successful Republican contender in 40 years to be closely identified with the party organization.

NIXON: MAN WITH DETERMINATION, POLITICAL SAVVY

Eisenhower's victories followed by Nixon's defeat in 1960 had raised the possibility that the Republicans might not have the basic political appeal to win a presidential victory unless their candidate possessed some special nonpolitical appeal of his own. Nixon lacked that special nonpolitical appeal. What he had was dogged determination and the political savvy and organization behind him to put together a brilliant political machine, which now becomes the Republicans' property.

These qualities should stand him and the country in good stead in the months and years to come. He does start out with two strikes against him: He does not have a mandate and he does not have a Congress dominated by his own party.

He knows that less than half the voting population was for him and, what is more important, the voting population knows that. There was no majority endorsement of the Nixon program. This can inhibit a politician, as leader. If he wants to get reelected, he must so conduct his office to seek that majority next time. Nobody likes to squeak in as narrowly as did Mr. Nixon this year.

The other strike against Nixon is that he did not carry Congress with him. Of these two factors, the first is likely to affect President Nixon's program far more than the second as he seeks to win that togetherness which he feels is essential to unite the country. As he put it, he is going to have to tailor his program to please all segments of the population including those which, vote analysis indicates, gave him virtually no support—labor and minorities, particularly the Negroes.

He has said himself that he will bring all elements of the population into his government including, he noted rather magnanimously, Democrats. Nixon is going to consider that his top priority job on the domestic front will be to establish a working relationship with the Negro community. This is going to be no easy task. He deliberately ignored that segment of the population in his campaign. He and his advisers coldly calculated that there were more votes to be gained by avoiding a confrontation with the black population—a confrontation which would have forced him into a position that might have offended either the independents on whom he depended or the South upon whom he depended even more.

His government of "togetherness" demands that he make immediate overtures to the Negroes. The problem is that, rightfully feeling that they were left out of the campaign, they are going to consider that his attempts to woo them now come a little too late. With their new found passion for independence, they are likely to look with suspicion on any Negroes Nixon brings into his cabinet or into a high level advisory capacity.

This is the great misfortune of the disenchanted in America today. With a radicalism previously unknown in our time they are rejecting all approaches as insincere attempts at accommodation. They compound the irrationality by interpreting such approaches as weakness on the part of the white establishment in the face of black power, or in the face of student power.

HOW TO ESTABLISH COMMUNICATION?

Nixon's problem in a sense is the problem of all of us—to establish communication with this increasingly vociferous, albeit minority, portion of our population. As utterly frustrating as it seems to be, Nixon knows that it is his task, and perhaps it will prove to be his greatest challenge on the domestic level. How he meets that test will be a measure for the rest of us as to how cool and sincere is this man whose temperament

and integrity have so often been questioned by his detractors.

As to that other group to whom Richard Nixon virtually had no appeal according to our election survey—organized labor—Nixon's problems are not quite so great. Labor has a way of accommodating itself to any regime and bases its support or antagonism quite logically on pure self-interest. Nixon has the good fortune of a honeymoon period with labor in that none of the basic industrial contracts are up for negotiation next year. Barring unforeseen circumstances, therefore, he is not likely to have to face the problem of a Taft-Hartley injunction or other drastic steps which labor considers anti-labor.

His difficulties with labor are likely to come in the more esoteric areas of inflation control, tax reform, wage-price regulations or guidelines, and reallocation of funds saved in case we get peace in Vietnam. Indeed it is in these areas that Nixon is likely to depart the farthest from the Democratic administrations that have preceded him. Even here the departures are likely to be more in degree than in philosophy. Nixon is not as much a traditionalist conservative in the matter of financial policy as many believe.

USE FEDERAL BUDGET TO BALANCE BUSINESS CYCLE

He believes in the use of the federal budget to balance the business cycle. He believes in checking inflation by braking the economy through federal action. He appreciates that this increases unemployment and he understands that this could drastically exacerbate the problem of the ghettos, both black and white. So his problem will be how hard to apply the brakes.

His principal economic adviser has been Maurice H. Stans who may well be the next Secretary of the Treasury. Maurice Stans was President Eisenhower's budget director; he worked on Nixon's fund-raising campaigns when many others were ducking the man they thought was a sure loser. Nixon owes a great deal to Stans.

Stans however is definitely and unquestionably a conservative. He is prepared, for instance, to accept high unemployment to balance the nation's economy. He stated so. Here again is a measure of the new President's dilemma. He may very well like to have Stans in the Treasury. He owes him much and Nixon is a man who pays his political debts. On the other hand, he does have this conviction that he must win the confidence of all the people. He knows that the appointment of a noted financial conservative like Stans may ring the alarm bells in the liberal firehouses across the nation.

You may find Mr. Nixon turning to more liberal financial advisers for top cabinet posts such as David Rockefeller, the chairman of the board of Chase Manhattan; or Dr. Arthur Burns of Columbia University, former chairman of the President's Council of Economic Advisers under Eisenhower; or Dr. Paul V. McCracken, University of Michigan, who also was in the Eisenhower economic council. The names have all been bruited about.

One problem which his fiscal experts must face is the desperate financial straits of the states and the cities. As did the other candidates,

Nixon promised a sympathetic ear to various plans for transferring more federal funds to the states to save them from disaster and to stem the rising tide of duplicate and triplicate taxes on income and purchases, one of the principal sources of the population's discontent.

Nixon is believed to favor the plan of one-time White House economist Walter Heller of giving the states federal funds without strings. Here he is likely to run afoul again of Negro-liberal sentiment which is opposed to giving Alabama or Mississippi or some other states blanket federal aid.

It might be worthy of note that various bond issues totaling more than \$9 billion were on the ballots in various communities across the nation last Tuesday. Of these 55% were rejected, which indicates the extent of the property owners' revolt and the difficulty of local communities in meeting their financial problems.

Most financial experts doubt seriously that President-elect Nixon will be able to drop the 10% income tax surcharge which expires next July 1. He has said that he would like to, but any move to return federal income tax revenues to the states would for one thing certainly mitigate against that. Since Mr. Nixon also has said he is in favor of expanding many expensive federal programs, there are bets in Washington that the best he will be able to do will be to reduce the surcharge by a percent or two, and even that seems unlikely.

Of all Nixon's appointments I suppose the most important in these days will be Secretary of State, and as with the other speculations I have given you, this is just that. I think that Nixon himself will be his own best foreign policy adviser. He never ceases to surprise and amaze me with the breadth and the scope of his knowledge of foreign affairs. He has studied hard and done both his home work and his field work.

NO RADICAL DEPARTURE IN FOREIGN POLICY

Here again in foreign policy I see no radical departures from the past. Basically I think he will continue the American policy of resistance to communist expansion whether it be Soviet or Chinese or Cuban—whether it is in Asia, Europe, Africa or South America. I think he will seek increased aid to Israel and perhaps increased foreign aid over the drastic reductions of the last Congress—which may be a surprise to some—particularly for the countries of Southeast Asia.

While maintaining a formidable U. S. military presence in the Western Pacific, he will turn away from new commitments and alliances which would involve automatic military response to a limited communist aggression.

Now that the election is passed, I feel certain he will recommend speedy passage of the treaty banning the spread of nuclear weapons. I think he rather regrets that he called for a slowdown in the passage of that treaty as a wrist slap to Russia after the invasion of Czechoslovakia.

More than anything, I believe Mr. Nixon sincerely believes we must have rapprochement with the Soviet Union. He has said that he favors an increase in our strategic military power in order that he may deal with the Russians from strength. There is genuine philosophic disagree-

ment in his own camp as to whether this is the way to deal with the Russians—whether the mutual suspicions that have grown over the years can indeed be dissipated by such a policy in which we hold a grenade in one hand while extending friendship with the other. Regardless of the technique, the will for resumed dealings with the Kremlin is there.

The Vietnamese War already has presented Mr. Nixon with his first major decision, even before he stands on the Capitol steps and takes the oath of office. In effect, the moment his election was certain the Vietnamese peace ball really was in his court. President Johnson had lost most of his options, and they now were President-elect Nixon's. This accounts for the urgency of the conference at the White House just last Monday. This problem would not wait.

The problem is this: The refusal of South Vietnam's government to go along with the four-sided peace talks in Paris has created a real crisis. The United States clearly is in a position to pressure President Thieu and his government to drop their opposition and to send a delegation to Paris. Such is our power in Saigon that we are even in a position if we so choose to depose President Thieu and put someone else at the head of government.

Washington is reluctant to exercise such blatant tactics, of course. Such a step would hand to the world communist propaganda mills the charge of American imperialism. Also there is a fear that Thieu actually represents the feelings of most of the South Vietnamese intellectuals and that it might be difficult to find leaders to head a coup and to form a new government.

At any rate, at this juncture Washington studies the possibility but is reluctant to tell the Saigon government to send a delegation to Paris "or else." The present administration could make such threats stick with Saigon only if it had the concurrence of the incoming administration. Mr. Thieu can hope that the new administration would not support any hard line toward his government and that all he has to do is defy Mr. Johnson and wait for Mr. Nixon—a short period of barely two months. He has already stalled through a week. Mr. Thieu's stalling tactics toward Paris have indicated that this is definitely his intention.

The public statements of Mr. Johnson and Mr. Nixon on the White House steps after their meeting indicate certainly that the President-elect had taken the first statesmanlike step of his new administration. He said that until January 20 the present administration's foreign policy was his foreign policy. This was a clear warning that Mr. Thieu, or his enemies in Hanoi for that matter, could not hope to profit by waiting until Mr. Nixon gets into office.

At any rate, Nixon has faced the dilemma of politics and conscience. "Is it better," he must ask himself and his advisers, "to let this administration secure the peace if it can but by so doing set down the terms which the Nixon government is going to have to live with, or is it better to risk the present progress by delaying the peace so that I can set those terms myself after coming into office?" This, incidentally, would give the Republicans credit for winning the peace.

These are decisions which Nixon must even now be making, on just one of thousands of issues that demand immediate answers. Can you imagine—he paid \$20 million for the job.

The 91st Congress is not going to look very much different from the 90th Congress. After all, barely six seats in both the Senate and the House changed parties. The 90th Congress was a conservative Congress. I do not see why Mr. Nixon should have great difficulty getting along with the Congress.

Furthermore, Mr. Nixon's policies are not drastic. Compare him with a liberal coming into the White House with a vast program of social progress, of turnaround in foreign policy objectives, coming in and seeking the approval of Congress for such a drastic policy. President Nixon does not have anything like that. His policies will be far more to consolidate the gains that the country has been making, to give better administration to those programs which have been pushed through in recent years and which are in considerable trouble, perhaps to amend them to some small degree to gain that better administration. I do not believe he will turn the clock back.

He will seek better administration of the regulatory agencies of this nation which have fallen into considerable disrepair. He will do that by the appointment of people of like minds. I do not think he will get into trouble with his appointments requiring congressional approval.

I find it very sad that we did not have debates this year between the presidential candidates, even though Congress had passed the legislation permitting a suspension of Section 315 so that the networks could put the debates on, and even though offers were made to buy the time by Vice President Humphrey and later by George Wallace.

I think that the people have a right to demand that the greatest communications medium the world has ever known—television—be used to bring the candidates face to face with the people. They would not have to debate. Time could be arranged so that one would have a half hour and the other would have a half hour on several evenings during the campaign so that we could judge them side by side.

I made a note this year that not only in the presidential race but in six important senatorial races there were challenges to debate. I watched how those races came out. Three of those who refused to debate lost and three of those who refused to debate won.

FIRST JOB: UNITE THE NATION

We have put temporarily behind us one of the strangest elections in our history. President-elect Nixon has said his first job will be to try to unite the nation. There is no one including Richard Nixon who can say whether he can do that job—whether he is the one who can restore the hope of the American spirit to all our people, black and white and rich and poor. There is one thing that should be abundantly clear—the President-elect, whether it was Nixon, Humphrey or Wallace or the candidate of the Prohibition Party—could not do that job alone. It is up to all of us, whatever our color or political persuasion, to give the new man a chance.

WHAT'S DOWN THE ROAD?

by the HON. EVERETT MCKINLEY DIRKSEN

United States Senator

Pekin, Ill.



THE VEXATIOUS PROBLEMS facing us today go back a long way as far as sources and origins are concerned. In fact the first one goes back 50 years. To understand the forces which have had such tremendous impact upon our economy and well-being, we have to go back that far. In 1917 a man was sealed in a railroad car in Switzerland, transported from Switzerland across Germany, across Poland and into Russia. His real name was Vladimir Ulyanov. His was the brain that sparked the revolution and incited the assassination of Czar Alexander and the czarina and the czar's family. He sparked the revolutionary virus that was to have such tremendous impact on the world.

You would not know him as Vladimir Ulyanov. He lies in state today in Red Square and the world thinks of him as Nikolai Lenin. The ideological force that was born in Russia and converted her to the Union of Soviet Socialist Republics has been expanding into all the corners of the earth. While it began with perhaps 150 million people, today there are doubtless over a billion people in the world who, either voluntarily or by compulsion and by coercion, march under the Red banner of the hammer and sickle. That is one force.

The other force came into existence in July of 1945. We imported all the scientists, all the gifted people we could get; we concealed money in appropriation bills—and I was a party to that proceeding. These people finally translated all those cryptic symbols from the blackboard to a container and placed it on a platform 150 feet high near Alamogordo, N. M. and then pushed a trigger which ignited the substance. You could see the intensity of that illumination for 150 miles. That was the pre-dawn morning when the atomic age was born. It was only a month later that this substance was put in a cylinder nine feet long and loaded on a transport plane headed to Japan. The first cylinder was

dropped on Hiroshima, a town of 400,000 people. Of these 140,000 were killed instantly. Only 65,000 escaped mayhem and damage. Even today, they are dying in Hiroshima as a result of the bomb that was dropped in August 1945. The same thing took place in Nagasaki and eight days later the Japanese sued for peace. That was the other force.

RED IDEOLOGY PLUS ATOMIC FORCE EQUALS FEAR

Couple the Red ideology with this frightful atomic force and you have what causes the curse of fear to spread all through the world. It is little wonder that 80 small, undeveloped nations have quickly rushed to put their signatures on the new multilateral nuclear treaty. These little countries that have neither the substance nor the talent to develop nuclear power are only too anxious to get the major, developed powers to relieve mankind of this ghastly fear that is ever present.

To indicate what is necessary to maintain our security intact, our budget for the instant fiscal year which ends on the 30th of June 1969 allocates \$76 billion for security and defense purposes. That is the impact of making certain that our security is intact in a feverish and turbulent world.

Why do the leaders of the Red ideology want to liquidate us? Because they fear the force of freedom. That is why they moved in on Czechoslovakia. Dubcek, the prime minister, had permitted the Czechoslovakian press greater liberty than it had ever exercised before. Word was received from Moscow that the editors of the 60 major newspapers had to be jailed for preaching the gospel of freedom. Dubcek refused and shortly thereafter the planes, the troops, the tanks moved in. They do not dare let the contagion of freedom get very close to them. That is why they are watching Tito and keeping an eye on Rumania. They want no advances in the domain of freedom because it is inimical to the ideology of **communism**.

PROBLEMS LIE AHEAD IN FOREIGN TRADE

One other problem I should like to mention is what looms ahead of us in the field of foreign trade. The vice president of U. S. Steel was in my office the other day saying that it is now estimated that steel imports for 1969 will probably reach 18 or 19 million tons. It is estimated now that Germany, Japan, the Soviet Union, Sweden and Italy are building a steel capacity which will aggregate 80 million tons. The excess capacity is directed to the one and only market available for steel in such quantities—the United States. This is going to be a problem.

Textiles are also a problem. We thought that perhaps voluntary quotas could be established but I am not sure. The Senate passed a quota provision in relation to textiles and may do so again. I rather imagine that some of these countries may voluntarily enter into an arrangement so that they do not skim the cream off the American market—that they leave a fair share for the American workers. Of course the Soviet Union cannot move into our market but it can move into all other markets and that is almost equally important. This is going to be a problem.

On the question of foreign aid, this last year we reduced the amount of foreign aid to the lowest it has been in the last 20 years. This all began some 23 years ago and \$150 billion of our money has been expended on foreign aid. Have we gotten our money's worth? We have resurrected the industry of Germany and Japan and other areas, and now they are using their modern plants to manufacture and to move into the American market with greater efficiency and lower wage rates. That is an amazing thing, to say the least.

When we come together on the third of January, we shall be looking hard at the whole foreign aid program.

DEFENSE COMES FIRST

I ought to say a word about weapons inventory. Some of my friends are expecting to have all kinds of money to spend on the domestic front as soon as we get out of Vietnam. This is not so. The former Director of the Budget, Charles Schultze, analyzed what would happen if the war stopped today. First, there would be the logistical problem of bringing our gear back. This is going to take time. Next there would be the problem of bringing our troops back. This will also take time. Then we would have to plug the gaps in our weapons inventory. After this there would be less than \$5 billion to spend on the domestic front. If there is that much, it would probably just about offset the deficit in the next fiscal year. If we have any great ideas about all the money we are going to have to spend when the war is over, it is not going to be there. Defense comes first.

Let us take a look at this budget picture. The United States Senate—including members of both parties—feuded with the President for six months. We wanted a reduction in the spending budget and we could not bring the administration to it. Finally the surtax came up. We said, "All right, Mr. President, we'll give you a 10% surtax." This is not an income tax but a tax on top of your present income tax. It is expected to yield a little over \$11 billion. The administration had to have it because of the astronomical deficit—close to \$30 billion. The amount of this deficit did not appear in the press until the 30th of July—30 days after the fiscal year closed. There it was. We had spent \$25.4 billion more than we took in.

We have to find \$25.4 billion somewhere. Uncle Sam has to pay his bills to maintain his credit. We call up the world's greatest printing plant down on 14th Street—the Bureau of Printing and Engraving—and ask them to dash off \$25 billion in bills, Treasury notes, general obligation bonds, E Bonds, A Bonds, F Bonds—anything that is an evidence of debt. We have to sell these bonds. Where do you think they are sold? To banks, to mutual funds, to savings and loan associations, to insurance companies, to individuals. Where do you think they get the money to buy them? From the depositors, from the savers. You lucky people. You not only owe that public debt. You own it.

It is amazing how little attention we pay to that public debt. It will be up to \$400 billion before we know it—200 million people with a \$400 billion debt—\$2,000 for every man, woman and child. The monthly in-

terest on your public debt is presently about \$1.4 billion. We have to appropriate for it every year and it has to come out of taxes. The budget problem facing the new President will not be an easy one.

Two years ago I looked at the status of the Civil Service Retirement Fund. When this fund was established, 3.5% was taken from the salaries of the federal employees and 3.5% added to that from the federal Treasury. This money was to be invested and the interest to go into the fund also. If this were done soundly and actuarially, every obligation could be liquidated at any time. When I checked I found that the government owes the Civil Service Retirement Fund roughly \$42 billion. How do you keep a fund actuarially sound? How do you keep social security sound? Unless we are very careful to adjust and to balance benefits and taxes, we are headed for trouble.

To make sure that you will be of good cheer when you go back home, I say three things to you: First, there has been the demise of some liberals who love to spend money no matter where they get it. The second note is that as these problems come up, we are going to face them resolutely and we are going to solve them one way or another because we always have. This was brought to mind when I read an interesting book called "The Merry-go-round Breaks Down" containing parts of editorials written in the American press in the depression of 1837, the depression of 1857, the black Friday depression of 1873, the depression of 1897, the depression of 1907 and the depression of 1929. The same sentiment was uttered in every one of those distorted periods—"The days of the Republic are numbered." But we are still around.

So, thirdly, we can be sure there will always be an America.

There have been 91 Congresses in the history of the Republic. God grant that there will be an unending succession of Congresses continuing under a Constitution in the framework of a government enobled by the first words in the Preamble—"We the people." Ours is the one government on the face of the earth that really belongs to the people who have the power and the authority to exercise control by selecting for public office individuals they think will discharge their responsibilities. In that faith and to it I for one will commit myself and I think the people of our country will do likewise.

If there is a greater way to serve this land than through the savings and loan business, frankly I do not know what it is.