

mutuals will fare in the competition for savings. Perhaps all that can be said is that, if the differential in the savings rate between the banks and the other two institutions shifts very much in favor of the former, net savings flows may be different from those currently anticipated.

THE IMMEDIATE OUTLOOK

The housing outlook for 1966, prior to the Federal Reserve Board action, was for a very modest improvement. Now, the general tightening in mortgage markets is constricting that outlook. This means a squeeze on builders and their ability to produce sellable housing units.

It will mean a further decline in federally assisted housing starts unless their interest rates are raised to a level with conventional rates. If not, the resulting payment of points on federally assisted mortgages will mean a hardship unless they are included as the "price" of money in appraisal of replacement cost.

In either event, the Federal Reserve Board action has put builders on the spot. They can still provide houses for the upper middle and high income groups. It is a reasonable assumption that these groups will be able and willing to pay the price of the increased costs as incurred by the builder in the increase in short-term as well as long-term credit. But builders will be less able to provide the housing most urgently needed—for medium and lower income groups—for these reasons:

First, the fact that they have to pay more for interim financing will increase the price of homes.

Second, working with the Government programs, they have no choice but to either absorb the cost of "points" or stop using these programs. Under current and foreseeable conditions, it would be next to impossible to take this out of profits. It would be tragic for the economy and families who depend on Government-assisted financing in housing should builders be forced further out of this market.

EXHIBIT I-B: NOTES ON HOUSING AND ECONOMIC SCENE, MARCH 1966

For the first time since the Korean war, there is talk of price and wage controls. The decision, of course, rests with the President and if it should be done, it will not be to his liking.

That this is a possibility is evident from comments of responsible people, mostly from outside of the administration. Within the administration, it was the Secretary of Labor who had the task of persuading labor to stay within the guideline as set by the Council of Economic Advisers. Labor's answer to his plea was: "We went with you in the last elections but we did not marry you." Labor is, in essence, saying that profits are high and they should have a share in them. The administration, on the other hand, is saying that it is essential to stay within the 3.2-percent increase in wages as set forth by the Council and that to exceed this is inflationary.

The talk about inflation and how to prevent it has been a major concern of most of the economists since the first of the year. But not until now, however, has a suggestion been made for price and wage control. Let us try to put the problem in a proper perspective.

At this time, there are probably only three indications of a possible inflation: First, is the increase in the index of industrial materials prices which went up 10 points from January 1965 to January 1966; the second is the increase of 3½ percent in wholesale prices. The third indication is the increase in some labor wages; namely, in the construction industry.

However, one must remember that most of the indicators are a reflection of the past and help little in examining the immediate future. What is happening now will only be reflected in much new data later on. President Johnson was well aware of this when he said to the economic symposium celebrating the 20th anniversary of the Employment Act: "We will need to watch unfolding events closely, and to remain flexible in our tax and other policies so that we can change quickly, if the need should arise."

The fact of the matter is that the price pressures in the past few months are real even though not always reflected in the economic data. This is a result of the economy working at record capacity, and unemployment being lowest in recent history. "What this really amounts to," said a high official in the Labor Department, "is that most of the people who are employable are now working." This, of course, puts a strain on the labor market. When companies compete