The point is that the industry and its bank system is in a position of negotiating from strength, not from crisis, contrary to 1966. Yet we have 1966's record fresh in our minds; more important, we have its analysis by the Nation's principal credit agencies before the Subcommittee on Housing and Urban Affairs of this committee in "A Study of Mortgage Credit" (90th Cong., first sess., May 22, 1967). That analysis strongly supports the position that we cannot afford the instability in the flows of mortgage funds and in the construction industry which characterized the periods of 1963–66, of 1956–57, and of 1959–60. Instability adds costs to housing, costs associated with moving economic resources into and out of construction every 3 or 4 years. The background music is one of builder bankruptcies, with the surviving builders marking up their homes $1,000 and $2,000 per year, and passing on land price increment plus 15 percent. New housing is pricing itself out of the market.

The construction industry was singled out by the Council of Economic Advisers for special attention in the 1968 Economic Report of the President because of its rapidly rising cost configuration (op. cit., p. 118). In the same report, the construction industry was called upon to increase its new housing output by one-third to meet private market demand and by 300,000 units for low and lower middle income families in the coming fiscal year (op. cit., pp. 151 and 152). In California and in many other States, the information within our office indicates that vacancies have plummeted below the normal level. Present levels of housing starts are so depressed that the new housing inventory is falling farther and farther behind new demand. By mid-1969, it is clear that many metropolitan areas widely distributed around the United States will suffer actual housing shortages. My estimate is that California has a production of up to 60,000 housing units per year short of demand.

Housing credit policy must be brought into relationship with general monetary policy because of its inhibiting effect. This committee's "Study of Mortgage Credit" indicates clearly that housing credit is most substantially affected by monetary policy, especially policy which leads to extreme tightness in money and capital markets. The lesson of 1966 is that our society cannot shackle Federal Reserve monetary policy with the expectation of a crack-the-whip effect on housing credit. It is clear that these flows are not insulated from other money and credit flows. Quite the contrary, changes in availability and cost of money have their maximum impacts on housing credit. Yet monetary policy is carrying the major burden of stabilizing the economy, and it is already shackled by balance of payments considerations. Prof. Jack Guttentag, of the University of Pennsylvania, testified (in "mortgage Credit") that Federal Reserve policy now affects housing so strongly because of the present dearth of "idle balances" in the economy. Whatever the reason, monetary policy today is in fact being exercised by the central bank with full awareness of its effect upon housing and housing credit.

The Federal Reserve-MIT econometric model was summarized in the January 1968 Federal Reserve Bulletin. That summary quantifies several policy variables in their relationship to housing. Mr. Frank de Leeuw and Edward Gramlich made the following comment after discussing the small effect of income changes on housing expenditures: "Yet there is a very sharp effect of interest rates. This effect reaches its peak of $2.8 billion six quarters after the interest rate change, and then gradually recedes * * *" (p. 20). On page 21, the effect of a 1-percent interest rate increase in cutting housing expenditures is immediate and substantial. Even by the third quarter after such an interest increase, housing expenditures are cut over $2 billion. We are presently witnessing just such an increase in interest rates as the "model" utilizes.

Monetary policy, therefore, in fact subsumes housing credit policy as it must if it is to be effective in minimizing economic fluctuations. That this is a financial fact of life in our time was attested to by Prof. Paul Samuelson at the recent American Bankers' Association meeting, as follows:

"* * * I am purposely defining monetary policy broadly to include attention to credit conditions as well as to the supply of money. I am thus explicitly rejecting the view that it should be concerned only with achieving some desired pattern of behavior in some defined magnitude of 'money,' such as currency plus demand deposits or the latter plus certain categories of time deposits * * *

"And hence the central bank, as an important and indispensable arm of the modern state, has a responsibility in conducting overall macroeconomic activities