

should be slightly stronger in the first half of the year, second-half activity should also advance significantly. This would be particularly likely should defense outlays rise more rapidly than anticipated in the fiscal 1969 Federal budget, a growing possibility in the light of recent developments in Vietnam and Korea.

The economy, in our opinion, therefore, will be strong enough to absorb a tax increase needed to restrain inflationary pressures and strengthen the dollar. Without such action, the Federal Reserve will be faced with a number of cruel and conflicting policy choices in 1968: It will have to facilitate the financing of yet another massive Treasury deficit, bear the major responsibility for containing inflation and an accelerating wage-price spiral, guard against the danger of a possible crisis of confidence in our balance of payments, and consider the effect of its actions on financial institutions and homebuilding. Given the necessity of balancing these conflicting goals, the probability is that all will suffer to greater or lesser degree, and that, as in 1966, housing will suffer more than most. A better balanced fiscal-monetary policy mix, on the other hand, would contribute significantly to an easing of all of these problems, and to the maintenance of a stronger, better balanced economy not only in 1968 but in subsequent years. It would lessen, moreover, the possibility that other, less palatable and more direct means of restraint might have to be implemented in the future.

THE NEED FOR LONGRUN STRUCTURAL CHANGE

While shortrun considerations point to the need for a better balanced fiscal-monetary policy mix, the fact remains that housing activity will be unduly vulnerable to cyclical developments in the economy until basic changes are effected in the Nation's home mortgage financing system. Although by far the most important in terms of dollar volume, the mortgage sector has increasingly become the stepchild of the capital markets. It is highly encouraging, therefore, that the President's and the Council's reports place so much emphasis upon the need to strengthen the channels of residential mortgage credit. Indeed, as outlined on pages 92-95 of the Council's report, the administration's approach to the problem of assuring an improved flow of residential mortgage credit is quite similar to the comprehensive tripart program outlined by the National Association of Mutual Savings Banks and included in "A Study of Mortgage Credit," published in May 1967 by the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking and Currency.¹

The administration correctly recognizes that there is no one quick and easy solution to the ills that periodically beset the residential mortgage market, and that a coordinated, multifaceted approach is required. The three basic elements of the similar programs outlined in the Council's report and by NAMSMB include:

- the strengthening of mortgage-oriented savings institutions;
- the development of new types of mortgage instruments to tap new, supplementary sources of mortgage funds; and
- the termination or relaxation of Federal and State interest rate ceilings on mortgage loans.

¹ "A Study of Mortgage Credit," Subcommittee on Housing and Urban Affairs, Committee on Banking and Currency, U.S. Senate, 90th Cong., 1st sess., May 22, 1967, pp. 289-301.