

program to build 6 million new housing units "for low- and middle-income families" over the next 10 years. The fact is that housing has become so expensive that many families with moderate incomes have been priced right out of the market, while many more have had to settle for smaller, less adequate, quarters than they actually needed.

There are numerous causes of our failure to produce houses in the numbers needed and at reasonable prices. They include the depredations of land speculators, obsolescent local building codes, and obsolete technology in the construction industry. But a major cause of the shortage of decent housing is the *devastating effect of gross monetary policy upon the housing market*.

Housing is perhaps the classic example of the defects of the blunt instrument approach. The money managers are motivated to tighten the money supply and to raise interest rates by what they consider an excess of aggregate demand. But tight money and high interest rates do not operate evenhandedly upon all components of the aggregate. Home construction is the most vulnerable victim.

The enormous backlog of unfilled needs for housing is without question attributable in large part to efforts to regulate total demand in the economy by raising interest rates and restricting the supply of credit. These actions periodically plunge housing starts to recession and even depression levels—both by restricting the availability and by raising the cost of credit. The impact of what may seem like small increases in interest rates upon the cost of housing is often not fully appreciated. A family which can afford to pay only \$100 per month in principal and interest payments, for example, could finance a 30-year mortgage of approximately \$15,670 at the present FHA maximum interest rate of 6½ percent (including insurance premium). Raise the interest rate to 8 percent, and the same monthly payment will finance a mortgage of only \$13,510—over \$2,100 less.

It is no coincidence that the rising interest rates of the past 2 years (and the monetary crunch of 1966) have been accompanied by a sharp decline in private housing starts from the levels of the preceding 3 years.

Yet, despite the urgent national need for housing, indiscriminate use of the tight money and high interest brakes is still widely regarded as an appropriate instrument of economic policy.

OTHER DISTORTIONS AND IMBALANCES

Other distortions and imbalances, not only in the economy as such but in the whole fabric of our national society, have resulted from our failure to recognize that the structure of demand is important as well as the volume of demand. This is true both of the balance between private and public demand, and of the composition of demand within each sector. It may be that the spending of \$100,000 on a luxury yacht will in the long run create as many jobs as if the same amount were spent on a new school addition, or diverted by taxation to raise the incomes of the poor, but the value to society will be far different. The expenditure of some billions of dollars to put a man on the moon or land a ship on Mars may have the same effect on the national budget and on the volume of total demand as using the same money to help remodel our