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96th Congress
1st Session

COMMITTEE PRINT

HOUSING COSTS AND INFLATION

Recommendations of the Florida Ad Hoc Advisory Committee on Housing Costs

PREPARED BY STAFF OF THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

JULY 1979

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LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C., July 9, 1979.

Hon. EDMUND S. MUSKIE,
Chairman, U.S. Senate Budget Committee,
Room 203 Carroll Arms,
Washington, D.C.

DEAR MR. CHAIRMAN: I am pleased to transmit for the use of the members of the Budget Committee and the rest of the Senate, the recommendations of the Florida Ad Hoc Advisory Committee on Housing Costs. I believe they make an important contribution to our efforts at reducing inflation.

These recommendations were developed over the last nine months in response to the recommendations of the national advisory task force appointed by the Department of Housing and Urban Development. After the Budget Committee held hearings on the HUD Task Force Report, I sponsored a conference of over five hundred interested Floridians—builders, developers, consumer representatives, environmentalists, realtors, bankers, State and local government officials—to consider the recommendations and their feasibility in Florida.

Over the last few years, we at the Senate Budget Committee have learned that while tight fiscal and monetary policy are necessary to restrain inflation, more extensive efforts are going to be necessary in critical areas like housing, food and energy.

One major component in reducing inflation will be to find creative ways to reduce unnecessary or expensive regulations without endangering basic health, safety or environmental quality. This will require the kind of cooperative undertaking represented by the Florida Ad Hoc Advisory Committee.

Several major themes run through these recommendations which should be considered by the Senate as part of regulatory reform.

First, the Federal Government ought not to be doing anything which State and local governments are already doing. We should experiment with allowing Federal agencies to accept State and local reviews that meet Federal standards.

Second, we need uniformity of regulations across agencies. The role of the Regulatory Council and the Council on Wage and Price Stability need to be strengthened to require them to dig into the existing base of regulations to eliminate waste and duplication.

Third, the "sunset" principle needs to be applied to regulations as well as legislative authorization.

Fourth, the Federal Government ought to encourage new, innovative ways to do business. Current procedures tend to encourage stagnation. Innovation is particularly important to improve energy efficiency.

Finally, we need a redirection of Federal effort away from encouraging maximum standards, toward encouraging minimal standards. Thirty or forty years ago it was necessary for the Federal Government to lead the States and local governments to a more active role in protecting health, safety and environmental quality. All levels of government have grown to the point where we now need an effort to distinguish various ranges of regulation, and show what it costs to provide extra amenities.

I hope that we will all be able to benefit from the many specific recommendations in this report as we proceed through this session of Congress. The more that we are able to adopt, the better will be our response to the long-term problem of inflation of housing costs.

Sincerely,

LAWTON CHILES.

MEMBERS OF THE FLORIDA AD HOC ADVISORY COMMITTEE ON HOUSING COSTS

Subcommittee on Building and Technology

JACK DEMETREE, *Chairman*
Demetree Builders
Jacksonville

Subcommittee on Land Supply and Development

DAVID DOHENY, *Chairman*
General Development Corporation
Miami

Subcommittee on Financing, Money Markets and Marketing

JAMES J. HEAGERTY, *Chairman*
First City Federal Savings and Loan Association
Bradenton

DAN ABERNATHY
Bair, Abernathy & Associates
Auburndale

JOHN ADAMS
U.S. Corps of Engineers
Jacksonville

R. JEFF ANDREWS
Bureau of Condominiums
Tallahassee

JAY ARDIZZONE
City of New Port Richey
New Port Richey

RUSSELL G. BARAKAT
Broward County Housing Authority
Fort Lauderdale

BRIAN BIBEAU
Mahoney, Hadlow & Adams,
Tallahassee

TOM BLANTON
Florida Planning & Zoning Assn.
Orlando

GEORGE BOONE
Security First Federal Savings & Loan Assn.
Daytona Beach

JOHN C. BOTTCHER
Dept. of Environmental Reg.
Tallahassee

JOHN BRENNAN
Brennan & Brennan
Lakeland

WILLIAM BURKE
GAC Properties, Inc.
Coral Gables

ARCHIE CARR
Florida Audubon Society
Maitland

RICHARD CHAMBERS
Florida A&M University
Tallahassee

CORALIE CHRONISTER
Treasury Coast Regional Planning Council
Stuart

JOYCE D. COHEN
Community Development Dept.
Daytona Beach

ROGER W. CONNER
James T. Bannes Mortgage Co.
Clearwater

J. C. COLLIER, Jr.
Florida Power & Light Co.
Miami

Andrew E. DANN
Tallahassee

ROLAND H. EASTWOOD
Southwest Florida Regional Planning Council
Fort Myers

D. C. EDWARDS
Edwards Builders
Largo

ROBERT ELROD
Windemere

JOHN FECHT
Florida Federal Savings & Loan Assn.
Lakeland

ED FERNALD
Florida State University
Tallahassee

FRED GOODROW
City of Largo
Largo

NAN GORDON
Palatka Housing Authority
Palatka

ROBERT GRACE
State Energy Department
Tallahassee

MARGARET HARRISON
Florida Defenders of the Environment
Orlando

STANLEY I. HAND
Florida Concrete and Products Associates, Inc.
Winter Park

KINNEY S. HARLEY
Florida Home Builders Assn.
Tallahassee

REMAR M. HARVIN
City of Belle Glade Community Development Dept.
Belle Glade

JOAN HEGGEN
Secretary of Community Affairs
Tallahassee

BERTIL HEIMER
U.S. Corps of Engineers
Jacksonville

MICHAEL HIGHTOWER
Farmers Home Administration
Gainesville

THOMAS P. HOOLIHAN
Seago Group, Inc.
Fort Myers

WADE HOPPING
Mahoney, Hadlow & Adams
Tallahassee

ROBERT A. HUGLI
Florida Mobile Home & Recreational Vehicle Assn.
Tallahassee

STANLEY J. KMET
Florida Council on Economic Education.
Tampa

MURRAY KOSTAMO
National Forest Products Assn.
Orlando

FRED LAW
Assn. of Minority Contractors
Jacksonville

CHARLES LEE
Florida Audobon Society
Maitland

CHARLES W. LENNON
Mechanical Contractors Assn.
Miami

ADELE LEVESQUE
Fort Lauderdale

TIM LYNCH
Dept. of Environmental Reg.
Tallahassee

DALLAS MARSHALL
Seminole Builders, Inc.
Tallahassee

JOHN MASON
Veterans Administration
Jacksonville

RICHARD R. MASON
City Gas Company of Florida
Hialeah

GERALD MCHALE
Seago Group, Inc.
Fort Myers

LEONARD MILLER
Pembroke Pines

C. HARRISON NEWMAN
First Federal Savings & Loan Assn. of Delray Beach
Delray Beach

WILLIAM G. OLIVER
Dade County Commissioner, and Carpenters' Union of Miami
Miami

WILLIAM PARTINGTON
Florida Conservation Foundation, Inc.
Winter Park

TOM PETCOFF
Summit Consulting, Inc.
Lakeland

FRANK REED
Environmental Protection Agency
Atlanta, Ga.

JANE ROBINSON
Department of Agriculture and Consumer Services
Tallahassee

EVERETT ROTHSCHILD
Department of HUD
Jacksonville

O. O. SCROGGIN, III
Scroggin Structures, Inc.
Mary Esther

JON SHEBEL
Associated Industries of Florida
Tallahassee

JOHN SIDOR
Office of the Governor
Tallahassee

RAYMOND C. SITTIG
Florida League of Cities, Inc.
Tallahassee

STAN SNODGRASS
Suncrest Homes of Florida
Lakeland

GEORGE P. STAHLMAN
Polk County Board of County Commissioners
Bartow

VON STARKEY
Kissimmee

ROBERT M. TAYLOR
Mariner Properties, Inc.
Sanibel

ALLEN THOMAS
Florida Assn. of Plumbing, Heating & Cooling Contractors
Maitland

JOHN THOMAS
State Assn. of County Commissioners
Tallahassee

PAUL THOMPSON
State Association of County Commissioners
Tallahassee

PAUL THOMPSON
Florida Home Builders Assn.
Tallahassee

RUDY THORNBERRY
Sikes Corp.
Lakeland

J. E. TINSLEY
Florida Council on Economic Education
Tampa

KEN VAN ASSENDERP
Tallahassee

PAT WASSON
Orlando

WILLIAM F. WESCOTT
Wescott Associates
Miami

ALTON WHITE
City Hall
Tampa

RON WHITFIELD
Farmers Home Administration
Gainesville

ROGER WILLIAMS
GAC Properties, Inc.
Coral Gables

EVELYN WILSON
Tampa

SCOTT D. WILSON
Tampa Bay Reg. Planning Council
St. Petersburg

DON WISDOM
GAC Properties
Coral Gables

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INTRODUCTION

Inflation is the No. 1 economic issue facing the United States, and housing costs are both a victim and a cause of inflation. Housing is a victim, since its costs are driven by the prices of land, materials, labor, and money. Housing is also a partial cause of inflation, since it accounts for over a third of the average family's budget. Unnecessary increases in housing costs can thus drive up wages and prices in the entire economy.

At the urging of Senator Chiles, the Senate Budget Committee has taken the lead in exploring the complex issues of inflation and housing costs. The committee has commissioned studies and held several major hearings. The administration also responded by appointing an advisory task force to the Department of Housing and Urban Development. That task force has issued a detailed set of findings and recommendations which are being considered by the administration and by Congress.

CONFERENCE ON HOUSING COSTS

Last October, Senator Chiles sponsored a statewide conference on housing costs in Tampa, Fla., to review the HUD Task Force Report and consider how well they would work in the State of Florida. That conference was attended by about 500 people representing a broad range of interests: Builders, developers, consumers, banking and thrift institutions, environmentalists, realtors, labor groups, and local, State, and Federal Government officials. The large attendance and spirited discussion highlighted the importance of the issue of housing costs.

One outcome of the October conference was a request to Senator Chiles to appoint a representative advisory committee to provide a detailed set of recommendations and develop a plan of action.

RECOMMENDATIONS

After several meetings in both subcommittee and full committee, the Ad Hoc Committee on Housing Costs has made a full set of recommendations. They are presented here for the consideration of the Senate Budget Committee, the Congress, and the public as a starting point to unravel the spiral of inflation in one major sector of the economy.

The Senate Budget Committee has learned that there are no easy answers to the problem of inflation. Federal fiscal and monetary policy must both be tightened to avoid adding to inflation. The American public has demanded a balanced budget and Congress is responding. But a broader approach is necessary to wind down the interlocked causes of inflation in the same way the buildup occurred, section by section in the economy. Federal policies ranging from regulation to forest management affect housing costs, and they must all be considered together. State and local governments must also play a crucial role.

RECOMMENDATIONS TO SENATOR CHILES AND THE BUDGET COMMITTEE OF THE FLORIDA AD HOC ADVISORY COMMITTEE ON HOUSING COSTS

Many of these recommendations were developed in review of the final report of the Task Force on Housing Costs appointed by the Department of Housing and Urban Development. Readers are referred to that report (HUD-S-313(2), May 1978) for background discussion and research findings.

[NOTE.—Areas of disagreement between the Florida Committee and the national task force have been highlighted.]

LAND SUPPLY

HUD should act now to:

(A) Develop and promulgate brief, clear, minimal standards for the residential elements of local land-use regulations. These standards should be advisory in nature, not mandatory, and should be designed to assist in easily identifying land-use controls having cost-increasing and exclusionary effects which are clearly contrary to Federal Housing and community development policies.

(1) While some variations may be appropriate among communities of differing degrees of urbanization, such standards should require in the text of zoning ordinances or related development controls (as opposed to requiring it in the map) the following.

(*a*) A minimum lot size for single-family detached houses which is at least as small in square feet as has been used typically for small-lot development in the relevant market area.

(*b*) Provision for housing at a density commonly associated with row houses or garden apartments.

(*c*) Interior dwelling size requirements which are no greater than those in the State health, building or housing code.

(*d*) Elimination of requirements for garages.

The above requirements are not exhaustive. Resulting HUD standards should be confined to those aspects of land-use regulation that are very straightforward and easily interpreted.

The committee supported the above recommendations provided that the guidelines and standards are only of an advisory nature. *In line with this, the committee strongly rejected recommendation A(2) of the HUD Task Force Report (below) since it would represent a major intrusion of Federal regulation into State and local responsibilities:*

(2) The primary burden of administering these standards should be on HUD staff. HUD should notify applicants for community development block grant funds that such standards exist and will be used by HUD in monitoring performance under the program. The standards should leave little room for argument. If a problem arises, however, its resolution should not hold up approval.

(B) Sponsor, in cooperation with Florida government agencies at the State, regional, county and local levels, conferences to focus the attention of elected and top appointed government officials on the cost of land-development regulation. These conferences should discuss ways to provide an adequate supply of developable land, set reasonable

standards for site development, distribute the burden of public facilities costs equitably, and manage the regulatory process efficiently. The States should be encouraged to examine the effects of their respective enabling statues and regulatory mechanisms on the cost of housing.

(C) Undertake a phased intergovernmental effort as outlined in the introduction to this chapter to advise, assist and encourage local governments in the provision of an adequate supply of land for housing development. This effort should include the following elements:

(1) Immediate development and dissemination by HUD, after appropriate research, of information and advisory guidelines on:

(*a*) The following four aspects of local land-use regulations as they affect the supply of developable land.

(i) The variety of types and densities of housing which should be provided for in the text of zoning ordinances or other land-use regulatory mechanisms.

(ii) The amount of vacant land which should be developable at any time for different types and densities of housing by virtue of designation on a zoning map or other geographic delineation.

(iii) The relative locational characteristics and other qualitative characteristics of land which should be developable for various types and densities of housing, including such considerations as distribution throughout the community; proximity to existing or planned facilities; and environmental suitability of the site. (Existing HUD criteria may be used.)

(iv) The characteristics of the process which local governments should use to make land developable under land-use regulations for various types and densities of housing.

(*b*) Planning for facilities to support an adequate supply of developable land (including coordination with regional sewer and water planning under EPA's section 208 program) in locations where the demand exists, and monitoring and interpreting trends in land prices, locational choices of developers, type and quality of product, and industry characteristics.

(2) Development by substate regional councils of regional standards based on the advisory guidelines called for above but sensitive to local conditions. Regional councils should then make periodic findings as to the extent to which each municipality meets the standards. The setting of such standards and the findings of compliance or noncompliance should be required of all regional agency recipients of grants under the HUD 701 comprehensive planning assistance program. Where there is no appropriate

multijurisdictional regional council, counties, or States should be encouraged to develop the standards. If the standards developed and adopted by a regional body (or county or State) address the principal issues stressed in the advisory information and guidelines developed by HUD, they should be presumed by HUD to be legitimate.

(3) *The committee is opposed to withholding of urban development funds by HUD or other agencies to force local zoning and development codes into compliance with the advisory guidelines.* While the committee does not support an extension of Federal regulation into these areas, it does not intend to remove the current requirements for utilizing Federal urban development funds in accordance with their intended national purposes.

(D) Encourage local governments to use community development block grant funds to acquire, in advance, sites for subsidized housing for the purpose of reducing the cost of such housing. Sites should be made available to private developers of subsidized housing as well as public authorities. If the law of any State impedes this practice, HUD should seek change or clarification of the relevant law.

(E) Assist cities in the development of passed-over or surplus land by taking the following actions:

(1) Make resources available to central cities to redevelop under-utilized land for new or expanded residential communities. Funds will be required to overcome environmental or social detractions in these areas, to subsidize the price of housing to attract middle-income persons and to limit the risks of housing developers in these areas. A redefined title VII new communities program could be used as a vehicle to accomplish this effort, as could community development block grants and urban development action grants.

(2) Undertake research into alternative means to encourage and possibly require that land serviced at public expense and designated for residential use be made available for development. The research could focus on taxing policies, penalty payments, use of eminent domain powers and any other appropriate public action. With regard to taxing powers, local governments hould be encouraged to assess vacant, passed-over sites at the required percentage of full market value.

(3) Develop a program to assure that information on surplus property suitable for low- and moderate-income family housing is made available to appropriate governmental and private groups in a timely fashion to enable them to secure the necessary financing and the HUD commitment which will allow them to obtain the property. The Federal law should be amended to permit the transfer of surplus property on the same basis as is now provided for parks, airports, and educational uses.

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(F) *EPA Water Quality Programs*

Senator Chiles should act to:

(1) Review the status and effect of the 201 and 208 programs in Florida, with specific respect to the status of the planning to date, the necessity of meeting existing time limitations and the appropriateness of current EPA actions to force local compliance with national EPA programs.

(2) Encourage EPA to consider flexible standards tailored to Florida's specific environmental and planning requirements, considering alternative means of wastewater treatment such as septic tanks or other less capital intensive energy technology where appropriate.

(G) *Flood Insurance Programs*

Senator Chiles should act to:

Investigate the advisability of deferring implementation of the flood insurance program in upland areas of coastal communities in Florida until appropriate elevation using additional technical data and in conjunction with local planning can be established. National standards should be modified to take Florida's topography and local flood characteristics into account.

(H) *Duplication of Federal and State Regulations*

Senator Chiles should act to:

Encourage HUD to accept State registrations under the Interstate Land Sales Act as long as State requirements are at least as stringent as Federal requirements.

ENERGY AND DEVELOPMENT

Senator Chiles should act to:

(A) Encourage the creation of a task force, comprised of representatives from HUD, State and local governments, and industry to investigate the possibility of establishing an evaluation program to examine net energy costs of alternative housing development forms.

(B) Encourage, with the proper incentives, energy efficient building forms, both spatial and structural.

(C) Develop through the education system (such as community colleges) an energy efficiency education program for the general public and local land use decisionmakers, with particular attention to Florida's needs.

(D) Suggest that Federal agencies should encourage the use of water saving toilets and showers and similar devices using existing technologies.

LAND DEVELOPMENT

HUD should act now to:

(A) Undertake a phased intergovernmental effort to advise, assist, and encourage local governments to address the problems of high site development costs. This effort should include the following elements:

(1) The immediate development and dissemination by HUD of information and advisory guidelines for use by local governments in setting requirements, fees and charges relating to site development. This material should contain:

(*a*) Specific minimum requirements for the protection of basic health, safety, and environmental quality. Additional information should show the cost of amenities beyond these minimum requirements. Performance standards should be encouraged where explicit criteria exist and where their implementation would facilitate substitution of materials and innovative design without contributing to procedural delays and undue local staff discretion.

(*b*) Criteria for those requirements, costs, fees and charges which may fairly be charged to the new home buyer or renter (via costs passed on by the developer) versus those which should be borne by the community at large through taxes or other forms of governmental revenue. These guidelines should reflect the following policy:

(i) The consumer of new housing should be required to bear no more than the cost of site improvements internal to the site which can be justified as necessary to protect the basic health, safety, and property of future residents of the site, protect environmental quality of the community and insure that only normal maintenance will be required over the generally accepted economic life of streets or utilities to be dedicated to the government.

(ii) The community at large should bear the cost of: Governmental requirements which are of a standard higher than the minimums specified by HUD to protect health, safety, property, air and water quality, and assure reasonable maintenance costs.

(iii) *The committee was not able to reach agreement on the particular facilities whose costs should be borne by the community at large, and thus does not endorse recommendations (2) (b) and (c) of the HUD Task Force Report relating to sewer lines, schools, parks, libraries, and fire stations.*

(2) Investigation by HUD of Federal programmatic issues affecting site-development costs, for example, HUD minimum property standards and EPA policies for funding sewer collectors.

(3) Development by substate regional councils of regional standards for local requirements, fees, and charges related to site development. Such standards should be based on the HUD advisory guidelines and be sensitive to local conditions. Regional councils should then make periodic findings as to the extent to which each municipality meets the standards. The setting of standards and findings of compliance should be required of all regional councils receiving funds from the HUD comprehensive planning assistance (701) program.

(4) In addition to developing information and guidelines, HUD should develop model systems for allocating costs of capital infrastructure and community services among new and existing residents.

(5) *The committee is opposed to withholding of urban development funds by HUD or other agencies to force local zoning and development codes into compliance with the advisory guidelines.* While the committee does not support an extension of Federal regulation into these areas, it does not intend to remove the current requirements for utilizing Federal urban development funds in accordance with their intended national purposes.

(B) Encourage recipients of community development block grants to use such funds to provide internal infrastructure and other community facilities for housing developments serving families of low- and moderate-income. If the law of any State impedes this practice, HUD should seek change or clarification of the relevant law.

(C) Work to remove legal impediments to the use by communities of locally raised revenue to provide internal infrastructure and other community facilities for housing developments serving families of low- and moderate-income.

(D) Develop and publish guidelines on ways local governments can facilitate and encourage cost-effective site planning without imposing counterbalancing costs of procedural delay and administrative burdens. HUD should also review its own standards and practices with the objective of facilitating and encouraging cost-effective site planning.

(E) *Minority and Low-Income Programs*

Senator Chiles should act to:

Review with HUD and other Federal agencies existing Federal housing programs for low- and moderate-income groups, with particular emphasis on how to promote greater private sector participation and greater interaction by State and local agencies. While utilizing such new programs as urban development action grants, care should be taken to avoid double subsidies where land is acquired with public funds.

(F) *The Process of Governmental Review and Approval*

In addition to its following modifications of the task force recommendations concerning HUD actions, *the committee believes Senator Chiles should act to improve agency responsiveness:*

(1) Try to get HUD and EPA to create "ombudsmen" or other quick-response mechanisms to get around processing logjams.

(2) Require periodic "sunset" review at the Federal agency level with respect to the adequacy of programs affecting land supply and development which may be duplicatory or unnecessary.

(3) Inquire of EPA as to the necessity of existing duplication between EPA and Florida Department of Environmental Regulation with respect to (1) National Pollution Discharge Elimination System permits; (2) Air Quality New Source Performance Standards.

The Committee believes that HUD should act now to:

(1) Undertake a phased intergovernmental effort, as outlined in the introduction to this chapter, to advise, assist, and encourage local governments to address the problems of procedural delay and their related costs. This effort should include the following efforts:

(*a*) The development and dissemination by HUD of information and advisory guidelines for use by local governments in rationalizing and streamlining regulatory procedures. This activity should include:

(i) Research, carried out by HUD, to clearly define and analyze procedural problems related to land development by type, source and context of problem, cost impact, and potential for ameliorative action. The core approach to this research should be case studies of the processing histories of actual developments which are representative of national experience.

(ii) Draft advisory guidelines, developed by HUD, for the local review and approval process as it relates to land development.

(*b*) Investigation by HUD of Federal programmatic issues affecting the governmental review and approval process.

(*c*) Development by substate regional councils of regional standards for local and regional review programs. Such standards should be sensitive to local conditions and should be based on the HUD guidelines. Regional councils should then make periodic findings of the extent to which each municipality meets the standards. The setting of standards and findings of compliance should be required of all regional councils receiving funds under the HUD 701 program.

(*d*) *The committee is opposed to withholding of urban development funds by HUD or other agencies to force local zoning and development codes into compliance with the advisory guidelines.* While the committee does not support an extension of Federal regulation into these areas, it does not intend to remove the current requirements for utilizing Federal urban development funds in accordance with their intended national purposes.

(2) Adopt new recommendations on the "thresholds" for a full environmental impact statement—the number of housing units in a project above which a full environmental impact statement is automatically required. The new regulations should be based on the concept that the threshold should vary with the population of the urban area or the county in which the project is located. Thus, counties with a resident population of over 1 million would have a much higher threshold (perhaps 2,000 units) than counties with only 50,000 residents (for which the existing 500-unit threshold might be retained). Also, to discourage so-called leapfrogging, higher thresholds in more populous counties might only apply within a perimeter of a certain distance (perhaps 2 miles) from the edge of the "urbanized area" as delineated according to Census Bureau criteria.

Although recommendations (3) and (4), below, were approved, it was suggested that consideration be given to expanding the recommendation to include the U.S. Environmental Protection Agency and the Corps of Engineers.

(3) Urge the Council on Environmental Quality to take the lead in having uniform procedures and standards for environmental reviews adopted by the three Federal housing agencies: HUD, the Veterans' Administration, and the Farmers Home Administration. Each of the agencies should agree to accept prior reviews by the others.

(4) Join with the Veterans' Administration and the Farmers Home Administration to establish uniform policies and procedures with regard to those aspects of subdivision analysis not covered under environmental reviews, so that processing by one agency will be fully acceptable to the others. The Congress should require a single set of regulations for the three agencies within a specified period of time.

(5) Cooperate, to the maximum extent possible, with State and local governments to avoid duplication and delay in environmental and site-design reviews of all relevant housing and land development programs.

To this end, HUD should:

(*a*) Urge the Council on Environmental Quality to propose an amendment to the National Environmental Policy Act—NEPA—permitting HUD and other Federal agencies to accept, for the purposes of NEPA, environmental reviews prepared by State agencies which follow standards and procedures concurred in by the Federal Government.

(*b*) As an interim measure, pending the amendment of NEPA, join with other Federal housing agencies to prepare and publish guidelines for field staff and State and local officials on ways to facilitate the joint, Federal-State or Federal-local preparation of environmental impact statements, the sharing of information, the holding of joint hearings, and other methods of curtailing wasteful intergovernmental duplication and delay in environmental reviews. HUD should actively invite State and local governments to participate in such cooperative efforts. Joint preparation of an environmental impact statement with a State or local agency would only be acceptable provided the Federal agency is involved in such essential phases as identifying critical issues, determining analytical methods, specifying data, and interpretation.

(*c*) Disseminate guidelines and procedures whereby HUD can accept an environmental review prepared by a local government in conjunction with a project financed in part under the community development block grant program. This should be done pursuant to Title I of the Housing and Community Development Act of 1974 whereby the Secretary of HUD delegates to the block grant recipient her responsibility for reviewing the environmental impact of projects assisted with block grant funds. If a housing project has been adequately reviewed (according to the guidelines) under this procedure, HUD should not have to duplicate the effort when it receives a request to subsidize the project.

(*d*) Encourage local governments and regional agencies to prepare an "areawide EIS"—an environmental review of expected development in a large area, such as a central business district, an entire municipality, a growth corridor, or an entire metropolitan area. If HUD were a partner in the process and issued the areawide EIS itself, environmental reviews of large housing projects within the area could be done at a much less time-consuming level of clearance than a full EIS. If HUD were not a partner and if the areawide EIS were not issued by HUD or another Federal agency, under existing law, an EIS would still be required for large projects, but it could be done very quickly by using information from locally prepared areawide reviews.

(*e*) In consultation and cooperation with State agencies, develop and promulgate guidelines and procedures for certifying the standards, procedures, and capability of local governments for local review of proposed subdivisions; and, after

certifying a local government, eliminate all affected subdivision-analysis and environmental-review requirements for that jurisdiction. Such certification procedures should be followed by the Veterans' Administration and the Farmers Home Administration as well as HUD.

(6) Cooperate to the fullest extent possible with developers who may wish to prepare an environmental review either jointly with HUD or independently. Issue guidance material explaining how such efforts by developers can be most effective in eliminating procedural delay. This guidance material should be similar in content to that prepared for cooperative efforts with State and local governments but should be directed at developers.

(7) Amend regulations to eliminate the requirement that environmental assessments be conducted for single-family mortgage insurance applications in existing subdivisions, that is, subdivisions with streets and utilities already in place. Normal underwriting procedures are adequate in such situations. Minor deficiencies in, for example, streets or storm drainage in a subdivision for which a local government has accepted internal infrastructure for maintenance, can simply be reflected in lower HUD valuations.

(8) Develop standard documents and formats to speed up the preparation of EIS's. This could save up to 30 working days in preparing a full EIS.

(9) Take the necessary action to make trained staff or adequate contract funds available to field offices to assure that when an EIS is necessary, it is done promptly.

(10) Establish guidelines for optimal environmental processing in field offices, monitor processing times, and identify and eliminate bottlenecks.

(11) Join with the National Science Foundation or other appropriate entities to conduct research designed to evaluate the benefits and costs of environmental reviews of those Federal actions directly affecting housing costs, establish better guidelines on differentiating between significant and trivial issues, and generally devise better ways to achieve the purpose of NEPA. One objective should be to experiment with different formats to determine how simple they can be without resulting in serious deficiencies.

(12) Accelerate HUD processing of subdivisions by maintaining current lists of developers with demonstrated capabilities and waiving certain reviews of qualifications for such developers. Once a developer has successfully completed the HUD process, he should not have to establish his credibility again unless he has not followed through on his commitment. The purpose of this recommendation is to reduce paperwork. It is not intended in any way to exclude participation in HUD programs by any builder or developer or to favor anyone. Such lists must be updated frequently. They must be published and be subject to challenge and prompt review.

(13) Identify one or more affirmative action plans as acceptable in an immediate neighborhood marketing area and allow developers and builders working in that area to adopt such a plan. The objective should be to reduce the frequency with which a developer/builder must develop a new plan and obtain HUD approval.

BUILDING AND TECHNOLOGY

(A) State and Local Building Code Requirements and Administration

(1) Local governments too often circumvent basic building standards through zoning or other ordinances, thus driving up costs to consumers.

(2) All standard writing bodies, code writing bodies, standard interpreting, and code interpreting bodies should have substantial representation from consumer interests in addition to industry related fields.

(3) Support certification of inspectors, officials, and administrators, and encourage those persons to be paid at levels commensurate with their associated private professional counterparts.

(4) National standards are unrealistic for:

(*a*) Energy codes; perhaps this area should be left to the State.

(*b*) Federal flood insurance as it relates to the building requirements for "the one hundred year flood."

(*c*) The committee opposes a national consumer protection agency but recognizes the need for this type of protection and recommends a local authority but no higher than a State level regulatory agency.

(5) All code requirements should be consistent and should be performance in addition to standard oriented.

(6) Building permit revenues must be used to run building departments and not to raise the general fund revenues. This should be enforced by whatever means necessary, legislative or administrative.

(B) HUD Minimum Property Standards and Procedures

(1) Establish mechanisms to insure similar content, enforcement, and reciprocity of MPS by FHA, Farmers Home Administration, and the Veterans' Administration.

(2) MPS requirements should be reviewed at least every 3 years and with the right of appeal on requirements at any time. Board members should include industry, consumer groups, and other affected interests.

(3) Eliminate the MPS requirements where a local, nationally recognized code is adopted and properly enforced.

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(4) Restrict fees and charges for utilities (particularly water and sewer) to the level necessary to support, expand or maintain services to the new development. Fees and charges should relate to costs internal to the development and should neither subsidize existing users nor pay for community-wide services which are external to the development. (See the Land Development recommendations for a fuller treatment of this issue.)

(5) To insure timely processing of mortgage loan applications, Federal agencies (FHA, FmHA, VA) should establish procedures whereby an application will be deemed approved if no ruling is received within 10 days of official deadline.

(C) Support for New Technology and Building Codes

(1) Implement section 2 of the Housing Act of 1949, as amended, by consolidating present HUD offices into a major office of new technology and codes policy, using existing HUD personnel.

(2) Sponsor, guide, and coordinate departmental building codes policy, and identify needed basic codes related research.

(3) Encourage programs by private enterprise through which worthy new technology, methods, and materials can be fostered.

(4) Work with codes organizations, et cetera, to assure that new technology and codes policy are recognized by other Government agencies that regulate housing, construction, conservation, and rehabilitation.

(5) Work aggressively to have the private sector explore ways of determining and adapting worthy new technology, methods, and materials, and other techniques from commercial and industrial sectors, in housing construction, energy conservation, and rehabilitation; devise a program for promoting the use of such innovations by the American building and renovation industry; and work with the National Institute of Building Sciences, Federal agencies, State officials, and private organizations to legitimize the use of new technology and innovations through the country.

(6) Encourage voluntary acceptance of proven housing technology, methods, materials at all levels based on satisfactory testing and experience. Program should demonstrate lower costs without sacrificing sound standards and performance with regard to the health and safety of the consumer.

(7) Encourage builders to use HUD 233 program and ask that HUD simplify the procedure for approval.

(8) Support added research by private sector for demonstration of improved techniques for small-scale and large-scale housing rehabilitation—particular emphasis on developing low-cost means and procedures for housing rehabilitation, condition analysis and cost-estimating.

(9) The committee recommends that all the above items—1 through 8—be accomplished by readjustment of priorities and existing HUD personnel, rather than increasing total staff.

(D) Materials and Labor Costs

(1) A high priority should be given to continued monitoring by Council of Wage and Price Stability of price trends in critical building materials. Antitrust prosecutions should be undertaken by appropriate authorities in cases of obvious artificially induced shortages, inflated prices or price fixing.

(2) Work with the Forest Service and the Bureau of Land Management, within the framework of comprehensive programs of renewable resource planning, to insure a perpetual and, where possible, increasing supply of timber for lumber and wood products. Among the actions that should be taken to increase the long-term supply of timber are:

(*a*) Evaluation of the effect of current harvest level policies;

(*b*) Full funding and staffing of Federal resource programs consistent with applicable environmental and economic objectives;

(*c*) Encouragement of greater production from presently undermanaged private timberlands;

(*d*) Oppose Federal RARE II locking up available timberlands and return these lands to multiple use.

(3) Cooperate with DOL in study to analyze HUD/DOL data-sharing arrangement to insure the wage-rate determinations properly reflect housing industry wage payments.

(4) Abolish Occupational Safety and Health Administration, and return that responsibility to the States.

(5) Increase access of small business firms to housing construction and rehabilitation work, particularly those that employ large numbers of younger minority or disadvantaged workers.

(6) The cost of workman's compensation and unemployment insurance has become far too expensive and oppressive. All effort should be expended to reduce cost of all phases of business insurance through the private sector.

(E) Operating and Maintenance Costs

(1) Encourage use of materials and techniques which will reduce the short- and long-term operation and maintenance costs, and this factor should be considered as a saving in mortgage credit determinations.

(2) Support the private sector in its continuing program to eliminate from subdivision requirements "nice but not necessary" features relating to such items as excessive street widths, mandatory sidewalks, excessive lot widths, et cetera, that reflect in consumer's cost to purchase home.

FINANCING, MONEY MARKETS AND MARKETING

Overview

(A) National Monetary Policy's Impact on Housing Costs

We submit that the economic welfare of our Nation has a direct and crucial relationship to a healthy housing industry. We specifically cite growth in the gross national product, higher employment and victory over inflation as possible favorable consequences if this relationship is properly managed. We point out that management of this relationship is to date either nonexistent or ineffective. To manage the relationship between our national economy and a healthy housing industry is to set up and institutionalize a formal and continuing dialog and flow of information between the industry, the administration, executive agencies of the Federal Government, and the Congress. Such dialog would have to be based upon an understanding of the following realities which heretofore have not been managed well:

(1) A healthy housing industry requires at least a stabilized, if not a reasonably constant flow of funds.

(2) Such a stable money flow generates lower interest rates, lower unit costs, more employment and higher productivity.

(3) An unstable or erratic money supply results in a lag time during which the housing industry adjusts.

(4) This lag time results in higher costs, fueled inflation, decreased productivity and less employment, all of which are unacceptable.

(5) That increased money supply without increased industrial productivity, including production and housing, is one cause of inflation, in part because the resulting imbalance induces lower productivity and higher costs.

Accordingly, the Ad Hoc Committee on Housing Costs recommends:

(a) Establishment of a continuing formal and institutionalized management system based on dialog and information flow between the Congress, the Chairman of the Federal Reserve Board, the Federal Home Loan Bank Board, and the Cabinet, including the Department of Housing and Urban Development (HUD).

(b) HUD should be an active supplier of facts and information concerning the impact of national monetary policy on housing and the impact of a healthy housing industry on a deflationary national economic policy.

(B) Tax Policy

The fundamental question is: What Federal tax policy can be identified as having a favorable impact on housing costs?

We believe the major thrust of tax policy is to offer incentives. To that end we identify, in order of designated importance, the following guidelines and specific tax incentives:

(1) Overall tax incentive guideline. No tax policy should negatively impact upon that certain anti-inflationary monetary policy we have set forth in section 1 of this report.

(2) Specific tax incentives in order of importance to housing costs:

(a) Incentives designed to encourage innovative development and use of materials and technologies constituting an increase in the "state of the art," reducing costs of component parts or completed housing units.

(b) Incentives in the form of tax deductions for downpayments toward purchase and ownership of homes subject to a maximum absolute limit determined by the total cost of the housing unit so as not to produce a "windfall" to purchasers of more expensive homes.

(c) Incentives to mobilize funds from nontraditional investors such as insurance companies and retirement funds into the housing industry through such procedures as a mortgage interest tax credit.

(d) Incentives designed to encourage savings, primarily by individual savers.

[NOTE.—We also noted that Federal regulatory law and policy tends to produce State and local fees, assessments and taxes which tend to be passed to the consumer in the form of higher unit costs.]

(C) Regulations

This subject is treated in great detail in another section. However, we deem it important to identify our deep concern about the adverse impact of Federal regulations upon financing, money markets, and marketing.

Our concern is twofold, dealing with a statement of basic principles and a list of specific suggestions for improvement.

Basic principles: We find that Federal regulations increase the cost of housing. The following principles are set forth, therefore, as a fundamental package of guidelines designed to reduce regulatory costs:

(1) Loan processing must be streamlined;

(2) Government employees must be better trained;

(3) The flow of facts, data and technical information between Government and private industry should be greatly improved;

(4) Duplication, proliferation, and fragmentation of functions performed by regulatory agencies should be eliminated.

(5) The committee acknowledges and applauds that the law requires consideration of economic impact prior to enacting new laws and we encourage its full spirited use.

(6) Use of State regulations if they adequately meet minimum requirements or standards of Federal law as long as enforcement is not lost and a means of objective determination be established.

[NOTE.—Specific suggestions for improvement based upon these principles are included in the full report.]

(D) Special Housing Needs

The committee is unable to reach any specific recommendations. We do believe that incentives to the private sector should be actively pursued by HUD and the Congress to at least have some special programs that are or should be available. We are not able, however, to suggest any approaches to specific special housing needs. We suggest a more specialized group of private and public sector experts could render assistance.

(E) Consumer Protection; Marketing and Settlement Costs

We believe that time and money would be wasted in trying to develop a national recordation system.

Concerning consumer protection laws, it is now offered that some of them appear actually to work to the detriment of the consumer. Therefore, alternatives to regulations such as bonding or litigation should be seriously investigated. Also, the Congress should reassess the need for some laws in the first place. A specific example is RESPA which has required compliance primarily from those who already comply with disclosure.

(F) Government's Role in Housing

We believe we need a reassessment of the role of Government and business in meeting housing needs, ranging from financial assistance, regulation, planning incentives, advice and pin-pointing neglected needs. We suggest the Congress ask the Federal agencies such as EPA, FHLBB, HUD, VA, et cetera, to respond to the issue of their present and future role in housing. Government agencies should assess their role in housing as to management and regulation by exception. For example, can financial assistance actually result in administrative control of business decisions? Also, private organizations should be asked to pinpoint their responsibilities and roles in the various functions and procedures used in housing. Finally, both private and public management should be asked to be specific about innovative methods by which quality housing can be supplied by mutual and shared management functions, for example, in the use of special purpose taxing districts blending public and private expertise as to financing, planning, regulations, construction and so on. Similarly, the respective roles of Government and industry can be identified as to financing and managing the use of existing and future energy sources used in building and maintaining housing units.

Details of Committee's Recommendations on Financing and Money Markets

(A) National Monetary Policy's Impact on Housing Costs

(1) The HUD task force recommended that research underway at the Joint Center for Urban Study should be examined and expanded, and additional studies should be initiated to test the thesis that holding housing starts reasonably constant nonetheless enables other economic goals to be obtained while lowering the costs of housing to the consumer. The task force stated that the Secretary of HUD should be a forceful and effective advocate at the Cabinet level for HUD to play a major advisory role within the Administration with respect to setting national monetary policies that includes stabilizing the housing sector among national economic goals. The Ad Hoc Committee on Housing Costs agreed there should be a formal and continuing dialog between the housing industry, the Administration, agencies of the Federal Government, and the U.S. Congress.

(2) The HUD task force stated the private secondary mortgage market is in the process of considerable expansion. This activity could be encouraged and the Government's financial institutions (FNMA, FHLMC, GNMA, FHLBB) could reinforce the counter-cyclical activities of the private secondary market. The committee took the position that the secondary money market should remain strong and that these financial institutions should reinforce the counter-cyclical activities of the private secondary market, but the *panel was in opposition to any major expansion.* The committee also felt that State housing finance agencies should be encouraged to enter the secondary mortgage market.

(3) The HUD task force stated that altered financial institutional regulations are justified as this approach assumes that the basic cause of cyclical instability in the mortgage and credit market is the inability of thrift institutions to compete for funds when short-term interest rates go up. Thus, Congress has been considering reforms that would allow the thrifts to diversify their assets and liability structure, so that the asset and liability maturities would match. The lending powers of the thrift institutions could be expanded to include construction loans, community development loans, commercial paper and some corporate debt, while expanded services could include checking accounts and consumer loans. Consideration has also been given to the elimination of the regulation Q ceiling on the interest rates for passbook accounts. The committee agreed that financial institutions should retain their current powers under which they are regulated to do business by the Federal Government. *The committee also agreed that regulation Q should be maintained as opposed to the task force's recommendation that it should be eliminated.*

(4) The HUD report stated that thrift institutions rely on short-term liabilities as their major source of funds for long-term, fixed-interest-rate investments, but they often cannot earn a return that allows them to be competitive with other short-term market instruments. To alleviate this problem, the long-term, fixed-interest

standard mortgage could be supplemented by one that allows a maturity, interest rate, and/or outstanding principle to adjust in response to changes in the costs of funds. Possibilities include Canadian rollover variable rate and graduated payment mortgages. The ad hoc committee favored the concept of alternate mortgage instruments such as the variable rate, reverse annuity, graduated payments, et cetera, because they seem to provide the financial institutions with the flexibility they need during tight money market situations and periods of high interest rates.

(5) The HUD report stated that the most effective method to expand and stabilize the source of funds available for housing is to increase the participation of pension funds and life insurance companies in the residential mortgage market. Thrift institutions must compete for household savings on a continued basis, but the net flow of pension funds and life insurance reserves comes in on a contractual basis and is therefore more stable. The Federal Government could also use tax incentives and modified regulations to increase the funds these institutions apply to the mortgage market. The committee agreed that the influx of funds from insurance companies and pension funds would be advantageous to the housing market. However, the committee chose to separate from the question the issue of tax incentives in the following comments. It was remarked during the committee meeting that the only reason that some life insurance companies are now coming into the housing market is because the interest rate is substantially higher than what it has been in recent months, as previously the insurance companies, and pension funds, historically placed their reserve funds in investments that give them the highest return for their money.

Tax Policy and Incentives

On the issue of tax incentives the HUD report stated it would take no position with respect to the appropriateness of using tax incentives and tax subsidies. But since the Internal Revenue Code contains them, the HUD task force believes they should be studied. It would be useful for HUD to examine the effect of local property taxation upon the housing consumer and to take appropriate action to inform localities and the general public of the results of such an examination. The impact of taxation upon housing investors and owners, through incentives and subsidies, also should be studied. The following comments by the committee on this issue will cover various recommendations for tax incentives; however, it should be noted that the committee did take opposition to any part that HUD may play regarding the issue of local taxation. A priority listing of the following tax incentives, as agreed to by the committee, is included in the overview.

Tax Incentives for Potential Homeowners, Lending Institutions, Construction Industry

(1) The provision of meaningful tax incentives to savers would increase the supply of funds available for home mortgages. Tax incentives should be given the potential buyer so that he will save for the downpayment for his future residence.

(2) The possibility of making the downpayment on a home deductible should be considered. A downpayment tax credit should be limited to low- and moderate-income groups, as defined by an area's median income.

(3) Limit tax-free revenue issues for funding mortgages should be limited to low- and moderate-income families in the $10,000 to $15,000 range.

(4) Incentives for lending institutions should allow for the renegotiation of due-on-sale loans. An analysis should be made as to what effect the elimination of the assumption provision would have, and the impact on present mortgage rates. Due-on-sale would be an incentive for lenders to lower their interest rates.

(5) Tax incentives for construction and supply companies should improve the depreciation allowance in reference to the replacement costs of particular items. In other words, the depreciation allowance should possibly be tied to the cost of replacement to provide an economic balance.

(6) Tax incentives should be considered for the purchase of high-rise homes. Comments were made that this particular concept is new and that possibly a sociologist should discuss all the ramifications involved in vertical housing, as the homeowner is going to have to be convinced to go to this particular type of housing as opposed to the current view of single family detached houses. There was also strong support on the committee that the "American dream" of everyone owning a home on his own lot, be carefully studied in lieu of rising costs for construction, limited availability of land, energy shortages, et cetera.

(7) Building firms should be given tax breaks for providing special housing needs.

(8) A study should be made on the State sales tax as a way of reducing certain items that go into the construction of a home.

(9) The tax incentive should be used for individuals that sell property for home construction, as opposed to the sale of property for speculation.

(10) The tax policies as they affect financial institutions in light of the Nation's housing goals should be looked at very closely since they provide the bulk of mortgage funds and they now pay almost twice the effective rate that commercial banks do.

(B) National Tax Policies Impact on the Money Market

The Committee was of the general opinion that HUD's involvement in representing the housing industry's interest in tax policy has not been especially productive, as the industry itself is fully capable of presenting its position to the appropriate agencies of the Federal Government. This position is not meant to exclude HUD participation, but was simply an observation.

(C) Unstable Money Supply

The ad hoc Committee unanimously agreed that they were in favor of the Government moving to stabilize money flow to the housing industry, but they did not want the Government's involvement in the establishment of interest rates, as this should be left to the marketplace. The question was then raised just how do you stabilize the money supply, and from this question came several points that have already been covered previously in this report, or will be covered later on. Already discussed have been tax incentives for savers and bringing new money into the mortgage market through insurance companies and pension funds.

(D) Costly Loan Processing Requirements and Delays

(1) The Committee agreed that there should be no expansion of HUD offices for the processing of applications, but the panel expressed a very deep concern that current procedures be streamlined. It was also strongly felt that positions vacant now in Florida FHA offices should be filled immediately with competent individuals. The ad hoc Committee also made it clear that streamlining current programs did not place them in the position of opposing expansionary programs, but the Committee stressed that streamlining was a top priority.

(2) The ad hoc Committee agreed that the standardization of the different types of forms now used by FHA, VA, Farmers Home Administration, et cetera, need to be looked into very closely.

(3) The Committee also took the position that HUD did not react swiftly enough to changing economic conditions, and the group said that when a crisis situation was developing the agency did not have the ability to move staff into those areas that were critical. A HUD representative reported on some efforts already underway to rectify this situation.

(4) The committee favors FHA remaining under HUD, rather than acting as a separate agency.

(5) The committee agreed that a number of serious problems face the construction industry, and the following recommendations were made:

(a) The entire problem of duplication by the various levels of government in the construction of a home, such as building codes, inspection, surveys, forms, and so forth, should be studied.

(b) Code reform is an absolute necessity in order that the most expensive brand names are not required in the construction of a facility, as performance standards should be used and not brand names.

(c) A committee needs to be formed to study and cut down on the number of local regulations, such as providing streets and curbs in rural developments, as items of this type drive the price of the home up.

(d) A breakdown of housing costs construction should be made and then selected items can be zeroed in so as to find ways to hold the costs down.

(e) A committee should be set up at the Washington, D.C., level, not necessarily by HUD, to study form duplication.

(f) In order to conduct a more worthwhile study, hard-line data is absolutely necessary and the National Homebuilders Association has this information as well as having already looked at all the studies that have been made on housing costs.

(g) Going back to performance standards, native building materials should be used whenever possible as when these materials are used, transportation costs are minimal.

(h) Use standard MTC application forms (Freddie Mac forms) for FHA insured loans.

(E) Financing Special Housing Needs

The committee, after lengthy discussion, reached the conclusion that special housing needs had to be met, but they stopped short of endorsing major expansion in this area as indicated in the HUD report. The committee felt since this was a specialized area, that a more indepth study should be made by private and public sources with the necessary expertise. The panel felt it did not have the qualifications to make specific recommendations in this area. One of the recommendations in the HUD report was that FHA statutes should be modified to permit the option of 35-year, no downpayment mortgage loans for single family home purchases. The ad hoc committee agreed that the 35-year mortgage should be allowed.

(F) Consumer Protection—Marketing, Settlement, and Transaction Costs

(1) *The committee did not agree with the HUD Task Force Report that a national recordation system should be developed.* The panel felt this was not a feasible program to pursue at this time. The question was raised as to how HUD can be more effective in dealing with the public, and the general comment expressed by HUD representatives was that the agency needs more input when regulations are proposed in the Federal Register.

(2) The ad hoc committee was in total agreement that there should be a forceful application of laws that are fair and reasonable as they relate to the sales practices of the housing industry.

(3) The committee was also in total opposition to any regulations that would provide procedures to reduce settlement costs. Several areas of settlement costs were discussed to include attorney costs in the areas where title research had been performed previously, yet attorney fees were identical. It was recommended that perhaps the Florida Bar Association should be approached as to ways to reduce these costs when no additional work is required. Other areas that were discussed included the examination of title charges, and surveys that are required and need continuous updating. The panel was in opposition to any regulations that would be applied by HUD against real estate brokers. The ad hoc committee said there should be a monitoring procedure by the Florida Real Estate Board.

(4) *The committee is opposed to the further implementation of the Real Estate Settlement Procedures Act and is in favor of letting the marketplace dictate the settlement price.* The ad hoc committee expanded this thinking with the following thoughts:

(a) The committee favors the spirit of the act.

(b) A study should be made to determine the costs of the act and the impact it has on settlement costs.

(c) On any violations of the Real Estate Settlement Procedures Act, sentiment was expressed that these should be criminal violations and the wrongdoers punished.

(d) The entire problem of settlement costs needs to be studied by an outside group.

GENERAL COMMENTS BY THE AD HOC COMMITTEE

(A) The pricing of housing is not only a legislative problem as it is tied to the overall inflationary spiral that we are now experiencing. A look at all spending by the Congress is absolutely necessary.

(B) The ad hoc committee took the position that a balanced budget should be mandated, except in time of war, and that the Senator should do everything within his authority to end deficit spending by the Federal Government.

(C) Another area that needs to be looked into closely by the Federal Government is the amount of funds and purposes of overseas programs. What inducements can be made to bring some of these funds back into the United States in order to reduce our balance of payments and to bring more funds into the housing industry?

(D) The commentary was made that the United States is not doing a good job at all in helping U.S. citizens export overseas as there is a bad need for housing. The U.S. housing industry has the technical ability, but we are ineffective when it comes to how to use this expertise overseas when compared to the aid that other countries are giving their residents in exporting goods into the United States.

(E) The feeling was expressed that the continuation of the deregulation of the trucking industry should be encouraged as transportation costs play a major part in the overall construction of a home. In addition, the ICC, the FTC, and economists should also participate in any future panel discussions on housing costs.

(F) Utilities should be encouraged to use less expensive types of energy, such as coal and nuclear energy.

(G) The overall processing time of loans should be decreased from the time contracts are drawn up to the closing. Many times interest rates will go up in between and the purchaser ends up paying more through higher interest rates.

(H) HUD should consider automatic approval for FHA insurance in all cases of federally insured institutions.

(I) All local governments should look into the possibility of giving away redevelopment land for housing needs. If the land is sold at no cost or a very nominal cost to the buyer, then this reduces the overall costs of the homes since the property is relatively free.

(J) The counties should also look at expanding county financed housing agencies, especially in reference to the new law allowing revenue bonds which are tax free. Further exploration of the revenue bond concept is needed.

(K) The Senator should look at the tax free bond concept from a tax standpoint and support the concept of the proceeds earmarked to low- and moderate-income groups.

(L) One issue that was raised and was of considerable interest, is the proper role of Government in the building industry. What is private industry's role as well? Each have management policies and rules, and there needs to be a proper blending to determine which does what best in given situations. In other words, use the best abilities of both. Examples were given on taxing districts that use governmental services to get the financing off the ground, then private industry moved in to develop the project. When both Government and private industry work hand in hand, they utilize their abilities in the proper areas, the general public benefits.

(M) Local government should also look into the possibility of acquiring State land, acquired through the Murphy Act, as this land could be purchased from the State at a nominal price and be used for low-income housing by local housing authorities.

(N) Realistic energy plans should be drawn up for the housing industry so as to preclude expensive equipment that drives the cost of the house up and greatly increases operating costs.

REMARKS OF SENATOR LAWTON M. CHILES

To Final Meeting of Florida Ad Hoc Advisory Committee on Housing Costs, Tampa, Fla., April 16, 1979

I am pleased to see you all here and receive your detailed recommendations on how to follow through on a plan of action to reduce housing costs.

When we started this process last October, I said that we needed a dual strategy to combat inflation. We need to stabilize Federal economic policy and get Federal spending under control. That will keep excess demand from driving up prices. But we also need detailed strategies to work with particular problem areas, the "inflation hot-spots" of food, energy, medical care, and housing.

Let me start by talking about fiscal policy, since I have just emerged from two intensive weeks at the Senate Budget Committee markup of the fiscal year 1980 budget.

I can tell you that arguing over how much of the taxpayers' money should be spent on each of thousands of programs is almost as harrowing as paying your own taxes. The answers and the impacts on inflation are not always obvious. Let me give you one example that relates directly to the work of this committee. The President proposed to reduce the budget for reforestation of Federal lands by $100 million. Beyond the implications for conservation, I also began to ask what that implied for housing costs. It turns out, quite reasonably, that under the Forest Management Act, the rate of timber harvest is tied to the rate of reforestation. A cutback of spending in this area would, therefore, have reduced the timber harvest, driving up the price of timber and the cost of housing. We therefore added back the money in order to assure an adequate supply of lumber for housing.

FEDERAL DEFICIT

While I am sure you would all like to hear a 5-hour speech on all the details of the Federal budget, I'll restrain myself and talk about the grand totals, which is what really counts for economic policy. The first big piece of news is that for next year we came within the President's target of a $29 billion deficit, and we did it the hard way. Our staff experts and outside economists told us that the President's economic assumptions were too optimistic, particularly that he underestimated inflation. The Congressional Budget Office calculated that if he had used our economic assumptions, the President's budget policies would have produced a deficit of $41 billion. To get down to $29 billion, we had to make an extra $12 billion of program cuts. Believe me, $12 billion is a lot of belt tightening. Overall, we provided no new growth and actually reduced spending $5 billion from current law levels. While we cut a few major items, we mostly trimmed out large numbers of small items through all parts of the budget.

FIVE-YEAR BUDGETING APPROACH

The second big piece of news is that in order to obtain a commitment to a balanced budget, we adopted a five-year budgeting approach. Our budget will be balanced by fiscal 1981, two years from now. If our spending limits remain in effect, we will be able to give a $50 billion tax cut in 1982, a $75 billion cut in 1983, and a $100 billion cut in 1984. Under my proposal, which the committee adopted, the spending restraint comes first, then the tax cut. The tax cut is a reward to offset the pressures to spend, but we would not want to risk a tax cut that would produce a deficit. The formula we adopted will limit Federal spending growth to one percent a year (over inflation) and steadily reduce outlays as a percent of gross national product. This approach not only provides a balanced budget, but insures that it will not be balanced by letting inflation drive up taxes.

Of course, the Senate resolution is only the first step in the process. We will have to hold off any attempts on the floor of the Senate to add back spending. We will have to get through conference with the House, which adopted $5 billion more spending in 1980, and did not move to multiyear budgeting. They do not yet have our commitment to a balanced budget by 1981.

After the budget resolution is adopted, we will have to use it as pressure on the various committees of Congress to reduce spending. Our budget resolution provides, in total, $35 billion less spending authority than the authorizing committees requested. Cutting below current law levels means that we will have to do more than head off excessive new spending proposals. We will have to convince authorizing committees to reform many existing programs. It will not be easy, but I believe the new mood of the country is sufficiently understood in Congress to make it possible. I certainly intend to devote my efforts over the coming months to see that the ceilings of the budget resolution are adhered to, so that a balanced Federal budget will become a reality instead of just a goal.

MONETARY POLICY

While a responsible Federal fiscal policy can avoid aggravating inflation, we need innovative ways to wind down the wage-price spiral. I am pleased that so many of the ad hoc committee's recommendations are in this spirit of new directions and new answers. The problem of monetary policy in the current economic conditions is a good case in point. Your recommendations correctly point out that uneven flows of money add to housing costs. When interest rates get pushed up by both inflation and tight monetary policy, they push down the rate of housing construction. But even that downturn is inflationary, since losing half a million starts in 1979 just increases the demand in 1980. Half a million extra buyers will drive up prices.

EFFECT OF INTEREST RATES ON INFLATION

In the short term, higher interest rates pass on as higher construction costs and higher monthly carrying costs. It is estimated that a full one percent of the upturn in inflation since the fall is due to higher

mortgage interest costs. But we can't just print money to keep interest rates down. We now import such a large amount of products from foreign countries—everything from oil to television sets—that a drop in the international value of the dollar raises the price of imports, and that spins back through the economy as inflation.

One thing that I have tried to do in Congress is to establish an "inflation scorekeeping" system to keep track of all these complex relationships. At my urging, the Budget Committee has instructed the Congressional Budget Office to set up a unit which will produce an "inflation impact statement" on all major legislation. Their initial statements range from farm price supports, to decontrol of oil, to the effect of payroll taxes. My hope is, that as the system matures, we will be able to post a box-score for the Congress each week, the way we do for spending, to tell whether its legislative actions are producing a net increase or decrease of inflation.

With any luck, the first decreases will come from enacting the legislative portion of some of the recommendations you have presented today.

I am not going to read your own detailed recommentations back to you. Rather, I would like to summarize what seem to be some of the major themes that emerged across the subcommittees, and talk with you a bit about how to translate them into action.

A three-pronged approach seems to have emerged.

REDUCE REGULATIONS

First, we need a concerted effort here in Florida for local and State officials to work with private industry and consumers to reduce local regulations that drive up housing costs. Such critical questions as who bears the costs of utilities and infrastructure can only be resolved in each local situation, through a consultative process. Now that we also have those recommendations to work with, I hope that the Governor and I will be able to come up with a joint plan of action to improve the consultative process. Joan Heggen, the commissioner of community affairs, has been a member of this group, and I am confident that we will continue our close working relationship.

Second, you have made many specific recommendations about the ways that Federal agencies do business—and what they ought not to do. These range from examining the water and sewer planning process of the Environmental Protection Agency, to speeding up HUD's paperwork. I will attempt to see that these administrative changes are carried out through consultation with the agencies and, if necessary, through action on appropriations bills.

REFORMING FEDERAL REGULATION

Third, we need a general approach to reforming Federal regulation. The Governmental Affairs Committee, of which I am a member, will be considering regulatory reform legislation this spring. The major themes that run through your recommendations suggest to me the basis of a more effective approach to regulatory reform than any that have yet been put forward.

AVOID DUPLICATION

Theme No. 1, which runs through all the sections, is that the Federal Government ought not to be doing anything which State and local governments are already doing.

As I read your recommendations, this does not constitute any attempt to roll back necessary safeguards to consumers or the environment. Rather you want to avoid duplication which wastes time and money. I can, therefore, see the first principle of the Regulatory Reform Act being a requirement that every Federal agency examine its regulations and create a process by which it can accept State or local reviews if they meet Federal standards. This could cover environmental impact, building standards, and credit reviews as you recommend. And it could also cover other areas like education of the handicapped, where the State of Florida is as advanced as the Federal Government, but local boards have to meet both Federal and State regulations.

UNIFORMITY OF REGULATIONS ACROSS AGENCIES

Theme No. 2 is developing uniformity of regulations across agencies. I already pushed this a step ahead last year in my amendment to require standard forms for HUD, VA, and Farmers Home. You have recommended uniform standards for environmental reviews by various agencies, and I intend to push that legislatively. Again, this ought to be expanded to a Government-wide initiative. The President created, by executive order, a regulatory council to avoid duplication among agencies. The roles of the Regulatory Council and of the Council on Wages and Prices need to be strengthened legislatively. We need to require that they go beyond avoiding duplication in new regulations. They should have to dig into existing regulations of all sorts to eliminate duplication. The President requires a semi-annual calendar of regulations so that the public can see what is being considered by the agencies and prepare responses. We need to make an acceptable statement of impacts on cost, paperwork, local and State costs and anticipated benefits an absolute precondition for being published in the calendar.

SUNSET LEGISLATION

A third theme is broad application of the sunset principle by which agencies go out of existence automatically after 5 years unless it is proven that they need to be continued. You have suggested applying sunset to regulations such as model building codes, so that outmoded practices do not get locked in place forever. You even suggested a total review of the Federal role in housing and how it relates to private industry. That kind of total review would be required every bill is now under consideration in the Government Affairs Committee, and I intend to push hard for its passage in this session.

ENCOURAGE NEW WAYS OF DOING BUSINESS

Theme No. 4 follows right from No. 3. You suggest that in many different ways the Federal Government ought to be encouraging new, innovative ways of doing business. Just as sunset ought to keep old

programs from outliving their need, so Federal regulations should not encourage outmoded production practices by private industry. You suggest research and dissemination of information on innovative building technology. Performance standards should replace detailed prescription in everything from Federal procurement to environmental quality. In the area of finance, adding the option of new alternative mortgage instruments can reduce costs for certain borrowers and lenders. There are many more innovations in your recommendations and many more you will each keep coming up with after you leave this session. I could therefore, see a major provision to both sunset and regulatory reform bills, which requires an evaluation of how well each agency's regulations are designed to encourage innovation.

ENERGY CONSERVATION

Nowhere is innovation more important than energy conservation. In various places you recommend studies or actions on improving the energy efficiency of housing and development. The country has finally come to recognize that the energy crisis really exists. The generalization I would make from your recommendations is that in addition to specific energy programs, our sunset reviews of all Federal programs and regulations ought to include energy impacts as well as economic effects.

MINIMUM STANDARDS, NOT MAXIMUM

The fifth theme is that we need a redirection of Federal efforts away from encouraging maximum standards toward minimal standards.

Thirty or 40 years ago, all levels of Government were much smaller and did much less. In that situation it made sense to encourage maximum efforts in certain critical areas of health and safety. But those days are past. Government is now large and continually grows larger. All the incentives are for higher and higher standards. What we now need is to step back and say, "here is the minimum you need to protect basic health, safety, and environmental quality. Anything else you add on is nice but not necessary, and here is what it will cost." Translating this lesson again into legislative terms, I would see a provision that all Federal regulations provide for a range of efforts, indicating the mimimum necessary, and the maximum point beyond which costs become excessive and inflationary.

Finally, it is clear that you want the Federal role to be one of education and consultation, not of coercion. You firmly rejected all proposals to use Federal funding as a lever on local action. I think all Federal grant programs ought to be reexamined in this light.

REVENUE SHARING

We had an interesting debate at the budget committee meeting last week. One side proposed increasing the funds for revenue sharing in place of categorical grants, so as to reduce paperwork and coercion. The other side argued that while that was the direction we ought to be going, no group that was interested in particular funding priorities like housing, sewers, or highways would give up their designated funds and compete for revenue sharing. The result would be an expansion of the present situation of general and categorical grants side by side.

I think the time has now come for a reexamination of Federal grant programs. Federal aid to State and local governments now exceeds $80 billion a year. That is one-sixth of the Federal budget, and one quarter of all State and local spending. The money leaves the local taxpayer, comes to Washington, and then goes back as a grant with strings attached. I believe that kind of loss of control over spending is part of the reason we have such a new mood in the country. Not only the amount of Federal spending is out of control, but also the decisions are being made more in Washington and less in the local community.

Now that Congress is ready to respond by balancing the budget I think we can begin to push for reexamination of the whole grant system.

I want to thank you all once again for coming here and for giving your time to attend the subcommittee meetings and produce such a thorough set of recommendations.

REMARKS OF MR. JAY JANIS

Undersecretary, U.S. Department of Housing and Urban Development

Florida Housing Conference, October 13, 1978

I could not begin this address without acknowledging the significant contribution which has been made by your distinguished Senator, Lawton Chiles, in attempting to solve the problem of escalating housing costs. I was privileged in July to appear before his subcommittee to testify on this very subject. Those hearings made a distinct contribution to knowledge in this field, and were in the best tradition of legislative factfinding.

Senator Chiles also is a great contributor in general to the fight against inflation from his key positions on the Appropriations, the Budget, and Governmental Affairs Committees. He is a champion of fiscal restraint and has a deep understanding of the effect it has on restraining inflation.

He also has a deep concern for the fact that spiraling housing costs continue to erode our efforts to house the poor and disadvantaged, making that great 1949 promise of a "decent home in a suitable living environment" for every American more and more difficult to fulfill.

WAGE AND PRICE GUIDELINES

Later I want to tell you in some detail what I think are some of the greatest contributors to housing cost escalation, what I think can be done about them, and some things we at HUD are doing about them. But first I want to urge all of you—builders, lenders, realtors, labor representatives, Government officials—to support President Carter's efforts to control inflation by adhering to the wage and price guidelines. I think all of you, on close examination of the President's programs will see that it is both fair and logical. It asks labor and management to exercise restraint for the sake of all, and more importantly to take a look at what they're doing and how they're doing it, and to increase productivity and efficiency.

The President in return has promised to:

—Ask Congress for tax compensation to complying workers if costs rise above 7 percent,
—To trim the Federal deficit by another $10 billion in the next fiscal year,
—To cut Federal employment substantially, and
—To minimize costs imposed on production by various Federal regulations.

This package constitutes a mutual pact between business, labor, and the Federal Government. Again I urge your support as a vital step in checking inflation generally and the inflation in housing specifically.

Since I'm in Florida, I'd like to indulge a little in today's great national pastime, nostalgia. Back when I was something of a kid in the 1950's and started in the housing business in Florida, I thought it was a pretty tough way to make a living. Then and now, you had to be careful about your market judgments; watch your purchasing, financing, and contracting p's and q's; be careful not to get overextended; and learn to deal with a few tough local and FHA bureaucrats.

It was, and is, a business of a lot of detail and risks. But I knew fairly well what my materials cost would be—and that they would be there when I needed them! And I found that I could adhere to a strict 45-day production cycle on each house, muddle through, make a decent profit, and that was about it. I guess you builders, at least, recognize that things have changed a little.

Somewhere along the line, our world got a lot more complicated in many ways and the homebuilding industry didn't escape those complications. This not only has made all our lives less serene, but has added greatly to housing costs, helping inflate the price of shelter far faster than most other costs and faster than incomes have risen.

NEW LAWS AND REGULATIONS

In recognition of our environmental problems, several major new laws or regulations affecting our industry have been passed in the past decade: the National Environmental Protection Act (NEPA), the Clean Air Act, the Clean Water Act of 1977, the Coastal Zone Management Act, and regulations on dredge and fill, and the A–95 review, just to name a few.

At the State and local level, we have had sewer moratoria, restrictive zoning, numerically controlled growth formulas, and a host of other impediments and bars to housing production. Whether needed or desirable, or unneeded and undesirable, these recent phenomena have contributed substantially to housing costs.

INFLATION AND HOUSING

This brings me directly to what I think are three particular inflationary forces operating on housing:

—First, the cost of regulation of the housing industry—it has become staggering. It is manifest in excessive codes, in policies that require feeder streets to be built to standards that would accommodate high speed 18-wheelers, and in many other ways that I don't have to tell you about. A recent Rutgers University study estimates that as much as 20 percent of the cost of a home is due to regulations—some necessary, some probably unnecessary. This is what you might call the hidden tax on housing.

—Second is the cost of cyclicality—which has resulted historically from the impact on the building industry of monetary policy actions taken to boost or slow the economy. The side effects of this have been little appreciated, and it has been such an easy device to turn to that the temptation to use it seems to be overwhelming. Costs and inefficiencies result from the effects that it has on such things as suppliers' inability to

plan rationally for the future, the constant wringing out of middle-level management in the housing industry itself, and the depletion of the skilled labor market. We are developing evidence that shows that these artificially induced cycles have hurt our economy far more than they have helped it, and from this we will plan for rational alternatives.

—Third, the cost of indifference—the "what the hell, pass it on" psychology. All of us—builder, banker, laborer, manufacturer, and government at all levels—just keep passing the increases along to the consumer. But how long can families continue to pay inflated costs for housing, far beyond the increase in their income? How long can they pay 30 to 35 percent, or even higher percentages of their incomes for housing?

This third point really is at the heart of what President Carter's voluntary plan is all about. Sharpen your pencils, think about what you're doing, find ways to do it cheaper and better, and exercise a little restraint. Don't assume that just passing along can be absorbed forever.

ENVIRONMENTAL COMMITMENTS

Of course, there are limits to what HUD can do directly about these problems, but we have an obligation to do what we can. It starts with cleaning up our own act, setting an example, and encouraging certain trends. For instance, there is no way that any level of government can back away from our national environmental commitments, yet we can carry out these obligations more efficiently.

Here are some things we've done:

—We are close to issuing new regulations raising the thresholds for full environmental impact statements.

—We have new budget flexibility for assisting offices with EIS workload problems.

—We are working with other agencies, VA, Farmers Home, and the Council on Environmental Quality, to establish uniform approaches to environmental and subdivision analysis.

ACTIONS TAKEN TO IMPROVE EFFICIENCY

The following are examples of some other actions taken to reduce redtape and improve efficiency:

—We have successfully tested a plan of eliminating dual subdivision and environmental analysis in the FHA programs where local governments demonstrate sufficient capacity to perform such analysis.

—We have reduced the number of inspections on a new home from four to just one when builders are operating under an insured warranty program of the type sponsored by the National Association of Home Builders.

—We are beginning to waive minimum property standards where local codes and code administration are sufficient to protect the home buyer.

—We have restored line authority to the Assistant Secretary/FHA Commissioner and reduced the layers of administration in the field.

—We have contracted with the National Institute of Building Sciences for a nationwide study of building codes to lay the groundwork for nationally recognized consensus codes and standards.

—We have set aside $500,000 for research for a cost-benefit study on land use and environmental regulations, and on the impact of monetary and tax policies on housing.

—We have analyzed the vexing problem of escalating land and land development costs and shortly will convene a national conference of State and local officials to address the problems contributing to this escalation.

None of these internal changes have been easy.

President Carter pledged in his campaign to revive HUD and the FHA as part of his general pledge to bring more efficiency to government. We all came into office at HUD buoyed by that pledge, but found that the task was something like the unscrambling of an egg.

The results of 8 years of mismanagement, demoralization, and program cutbacks faced us. But now FHA activity is up, and we are working within explicit processing guidelines for timely and efficient delivery of services. We exceeded our section 8 low income starts goal for the last fiscal year and are bringing more efficiency into that processing system.

"FUTURES" MARKET IN HOUSING

I would like to digress a moment to talk about another problem contributing to demand-pull inflation in housing and one which may have other serious implications. That is the number of people playing a highly leveraged "futures" market in housing.

We see it in such recent phenomena as the auctioning and raffling of houses in California.

We see it encouraged by story after story in newspapers about buying housing as an investment hedge against inflation. There was even a story encouraging people to borrow from a bank, allegedly for a vacation, so that the funds could be used to make the downpayment on a house.

We see evidence of it in the ever-rising portion of income people are putting into housing.

A recent study by the United States League of Savings Associations showed that last year over half of all first-time homebuyers were two-income families. It is estimated that one-third of the 1977 homebuyers studied could not have bought their homes without a second income. Nearly two-fifths of all purchasers discarded the old rule of thumb of not exceeding 25 percent of income on housing.

That rule was exceeded by three-fourths of purchasers with incomes under $15,000 and by half the purchasers with incomes between $15,000 and $20,000. Almost 30 percent of first-time purchasers made downpayments of 10 percent or less on their homes.

To the extent that this trend represents frenzy buying and amateur futures-playing, it is both inflationary and dangerous. A lot of people could get hurt in a recession. Markets do get overbuilt; demand does slacken; economic slowdowns do occur.

But perhaps more importantly, it creates a psychology of not wanting inflation to stop or slow down.

As President Carter said in his inflation message on October 24:

> In the last 10 years, in our attempts to protect ourselves against inflation we have developed attitudes and habits that keep [it] going once it has begun . . . It is like a crowd standing up at a football stadium. No one is willing to be the first to sit down.

It seems to me it is incumbent on all of us at this time to "sit down" together, and to do everything we can to restrain this trend. And I call particularly on the media, on lenders, and on builders in this regard to do what they can to restrain housing speculation. Plain and simple, for many, housing is becoming an investment rather than a necessary commodity. The desire for speculation is replacing the need for shelter—and in the long run, this is unhealthy both for the housing industry and for the housing consumer.

I think there is little doubt that next year will see some economic restraints on housing production. Interest rates are up against usury ceilings in some States; rising costs and interest rates will disqualify more buyers.

Congress provided funding sufficient for 215,000 assisted housing starts in the current fiscal year, including 170,000 section 8 low-income rental starts. Through improved processing, we expect to accelerate section 8 production.

UNSUBSIDIZED RENTAL HOUSING

What concerns me is another casualty of housing cost inflation—unsubsidized rental housing production. It continues to be strangled in a numbers bind and inhibited for other reasons. With far too few exceptions, the cost of production makes new units uncompetitive. Vacancy rates are at alltime lows—in itself an inflationary factor. It will require the best thinking of all of us to solve this problem, because we can expect strong underlying demand for multifamily, rental, and condominium units in the next decade. I have seen recent data to the effect that the annual rate of rental absorption is declining. But this rate traditionally fluctuates and varies greatly from market to market. The need and demand will continue, for several reasons:

—The 65-and-over age group will increase by nearly 5 million and account for a larger share of the population between now and 1988;

—No significant reduction in the proportion of lower income families is expected, and these are predominantly renters;

—Changing lifestyles, in terms of later marriage and smaller families, add a strong, new demand factor for smaller and multifamily units, including rental accommodations.

The shape of future housing demand in no way indicates a reduced need for single-family owner-occupied homes. Between now and 1984, almost 25 million people will reach age 25, which may be considered the threshold stage for marrying, starting families, and seeking more permanent housing arrangements. In a prior comparable period—1969 through 1974—the number was less than 20 million.

In spite if the many societal changes that we have seen in recent years, they will be like us in their aspirations. Most will marry and have children; most will aspire to education and good jobs and seek

the identity and security of a home; all will need and deserve good housing in one form or another.

IMPACT OF HOUSING COSTS ON PROSPECTIVE HOMEBUYERS

The impact of housing costs on these prospective home buyers is dramatic. The NAHB estimates that for every $1,000 increase in the cost of a home, an average of 700,000 families are priced out of the homebuying market. A 1 percent mortage interest rate increase from 9 percent to 10 percent eliminates 2.9 million families who could otherwise qualify for a mortage to purchase a median price home.

To be ready to provide "decent housing in a suitable environment" for them, we must have vision, and start preparing now. Suppliers must develop the confidence to gear up to meet strong demand; the homebuilders must develop the production capacity; Federal Government policies must be geared to promote stable money supplies and provide effective alternatives to housing the poor and disadvantaged; and local and State government policies must be geared to promote sensible and sound growth.

URBAN REVITALIZATION

The expansion of the housing stock needed to meet those future needs must be done through a balanced approach or more efficiently producing new units and conserving and revitalizing the vast existing stock within our cities. President Carter's urban policy calls for just that. To combat housing inflation, to conserve resources, and to efficiently house all our citizens, we cannot pursue the inefficient approaches of the past of rapid expansion of the suburbs at the neglect of our inner cities. But it should be clearly understood that this is a balanced policy designed primarily to foster urban revitalization but not to stop or prevent expansion or growth outside of the inner cities.

We need to make up for past neglect. The expansion of population and the demographic changes of the post-World War II era—changes in family living styles and preferences and other market forces—led to the explosion of the suburbs. Unfortunately, this was accompanied by too little concern for what would happen to the cities and to the people that were left behind.

This was the fault of government at all levels.

We hope to put an end to Federal policies that discriminate against the cities, but we will continue to support the much needed production of housing in all areas of the Nation.

We want to encourage the private sector which responded so well to the challenges of the 1950's and the 1960's, to respond now to the new challenges of the late 1970's and the 1980's in rebuilding our cities.

COOPERATION AT ALL LEVELS NEEDED

We want to work in a constructive and flexible spirit with State and local governments to that end and to reduce impediments to housing production and in particular to find efficient ways to produce for the poor and disadvantaged.

The partnership of private industry, government at all levels, and the people of the neighborhoods themselves, has been and will continue to be the combination that makes this country great.

In return for your cooperation, we pledge the following:

—We will find more ways of bringing stability to the mortgage money markets.
—All of you will have a more efficient and responsive Department of Housing and Urban Development to deal with.
—You will have a Department on your side in trying to reduce unnecessary redtape and regulation at every level.
—You will have an administration dedicated to more efficient government and to controlling inflation.

I look forward to a continuing fruitful partnership between the public and private sector, and I am proud and happy to have been invited here to Florida by our great Senator, Lawton Chiles, to address you today.

Thank you.

[From HUD News, U.S. Department of Housing and Urban Development, Nov. 22, 1978]

HUD SECRETARY TAKES ACTION TO CUT HOUSING COSTS

Secretary Patricia Roberts Harris of the Department of Housing and Urban Development announced today significant actions on 87 recommendations of the Task Force on Housing Costs she created earlier this year to battle skyrocketing housing costs and their inflationary impact on the economy.

In major action, Secretary Harris named William J. White, General Manager of HUD's New Community Development Corporation, Special Coordinator for Housing Costs. In this capacity, he will serve as Chairman of the HUD Housing Costs Committee comprised of eight senior departmental executives, charged by the Secretary to carry out the task force recommendations for cutting or stemming the cost of housing to the American consumer.

"With the machinery now in place through the Housing Costs Committee, we will continue the task of uprooting program and administrative impediments to affordable housing and proceed with the nationwide program I announced last June to cut costs and prevent inflation from depriving Americans of their right to homeownership," Secretary Harris said. "We confidently expect full support from other levels of Government and continued enthusiasm and cooperation from business, industry, labor and the general public."

NATIONAL CONFERENCE ON CONTROLLING HOUSING COSTS

Secretary Harris also announced that HUD, in conjunction with the Urban Land Institute, will sponsor a National Conference on Controlling Housing Costs Through Improved Land Use Practices, on February 25–27, 1979, at the L'Enfant Plaza Hotel, Washington, D.C. The conference will explore ways to lower housing costs through cooperative efforts at the Federal, State and local level to achieve more efficient land use practices.

Commenting on the actions taken by Mrs. Harris, HUD Under Secretary Jay Janis said, "We want to work in a constructive and flexible spirit with State and local governments to reduce impediments to housing production."

The final report of the Task Force on Housing Costs, chaired by White, was released by the Secretary at a press conference last June. Containing 150 cost-cutting recommendations for departmental action, the report cited overregulation of land planning and development activities, outmoded building codes and construction practices, and the high cost of financing as principal contributors to the soaring cost of housing.

After reviewing the task force's final report, an internal working group on housing costs, also chaired by White, suggested to the Secretary in September that 44 recommendations can be implemented in the near future, and noted that 43 others are now being carried out. The working group urged continued study and discussion of other major issues raised in the report.

In her announcement today, the Secretary noted three recommendations that are underway. They are: (1) a study of ways to reduce procedural delays and uncertainty in the administration of housing development regulations, (2) an analysis of opportunities for urban "infill"—using vacant or underused land already serviced with transportation and utilities—and mechanisms for encouraging it, and (3) a comprehensive, nationwide analysis of the costs of housing development regulation. "We will make public at the earliest possible date any research findings which offer any significant improvements in development standards and cost savings," the Secretary said.

As Special Coordinator for Housing Costs and Chairman of the HUD Housing Costs Committee, Mr. White will coordinate the work of the Assistant Secretaries for Housing; Community Planning and Development; Policy Development and Research; Neighborhood, Voluntary Associations and Consumer Protection; and Fair Housing and Equal Opportunity; and of HUD's General Counsel and the President of the Government National Mortgage Association (GNMA).

Housing cost-cutting recommendations under implementation are in the categories of land planning and development; building and technology; and finance and marketing.

Here are the recommendations:

For Implementation in the Near Future

Land Planning and Development

Encourage substate regional bodies or States to develop regional standards for land use and development, and encourage comprehensive planning (701) grantees voluntarily to set standards and monitor local compliance with them.

Encourage use of community development block grant (CDBG) funds for local acquisition of sites for future subsidized housing construction.

Encourage use of surplus land by cities for residential use.

Encourage substate regional councils voluntarily to develop regional standards for local site development requirements, fees, and charges under the comprehensive planning program.

Encourage use of CDBG funds to provide infrastructure for assisted lower income housing developments.

Encourage substate regional councils voluntarily to develop regional standards for local and regional review processes under the comprehensive planning program.

Develop uniform procedures with Veterans Administration (VA) and Farmers Home Administration (FmHA) for nonenvironmental aspects of subdivision analyses.

HUD to accept, for National Environmental Protection Act purposes, environmental reviews by State agencies which follow standards and procedures with Federal concurrence.

Develop guidelines for coordination of environmental impact statement (EIS's) by Federal housing agencies to facilitate joint, Federal-State or Federal-local preparation of EIS's.

Allow developers to prepare EIS's jointly with HUD or independently.

Eliminate requirements for EIS's in existing subdivisions when legally possible.

Assure prompt completion of EIS reviews by HUD staff in field offices.

BUILDING AND TECHNOLOGY

Promote consistency of requirements and procedures among model building codes, and encourage States and localities to adopt and update model codes; and

—Support the cooperative preparation of a revised one- and two-family dwelling code.
—Offer 701 funding for administrative costs of mandatory State code systems that use the revised one- and two-family dwelling code and an updated model multiple dwelling code for statewide use.
—Offer 701 funding for code systems that train, certify and license code administrators, technicians, and inspectors, and that administer codes in a consistent and rapid manner.
—Support basic research into life and property safety requirements, costs, and benefits in building codes.
—Study and eliminate unjustified cost-increasing requirements, costs and benefits in building codes.
—Study and eliminate unjustified cost-increasing requirements of model building codes through cooperative process.
—Support codes organization accreditation and codes personnel certification.
—Support development and promulgation of single-family and multifamily rehabilitation codes through cooperative process, and offer 701 funding for their voluntary adoption by States and localities.

Join FTC in investigating whether contractor licensing practices restrain trade and unnecessarily add to housing costs.

Amend HUD regulations to allow qualified HUD representatives to participate in model codes and standards development.

Revise HUD underwriting rules and procedures to foster low-priced housing, including the use of self-help methods.

Coordinate minimum property standards with a revised one- and two-family dwelling code and with consensus requirements for multifamily dwellings.

Include national consensus requirements for single-family and multifamily rehabilitation in minimum property standards for all housing programs.

Coordinate acceptance of minimum property standards with FmHA and VA.

Examine completed new construction as a means of revising the minimum property standards to eliminate unnecessary cost-increasing requirements.

Consider whether to encourage no-frills housing in terms of size, amenity levels, and marketability.

Support continued monitoring by Council on Wage and Price Stability of price trends in critical building materials.

Work with Forest Service and Bureau of Land Management to insure an increased supply of timber for lumber and wood products in a manner consistent with national environmental objectives.

Ask the FTC to study pricing of housing-related materials fixtures and appliances to determine if trade practices are causing increased housing costs to the consumer.

Cooperate with Department of Labor to assure proper wage-rate determinations.

Finance and Marketing

Urge a review of monetary policies as related to the housing sector and shelter costs, and continue forceful advocacy within the administration and through meetings with the Federal Reserve Board and the Federal Home Loan Bank Board of national monetary policies that include stabilizing the housing sector among national economic goals.

Urge a review of national tax policy emphasizing stability and predictability of tax treatment of housing finance, create an internal tax policy coordinating mechanism, review property taxation's impact upon housing costs, and continue forceful advocacy of housing-sensitive national tax policy.

Support revised national monetary, tax, and fiscal policies to increase the amount of housing-related funds, stabilize the flow of such funds, and reduce the cost of financing.

Work with other Federal agencies regulating the lending industry with respect to redlining.

Support the development of an efficient land and property title recordation system for permissive adoption by all States and jurisdictions.

Support Justice Department and FTC efforts to enforce laws relating to illegal real estate sales and marketing practices.

Negotiate with attorneys and real estate brokers for lower fees for professional services in the sale of HUD-acquired properties.

Accelerate current research pursuant to the Real Estate Settlement Procedures Act.

Work with the FTC to examine real estate brokerage practices.

Support RESPA-type research on "lender pay" and "seller pay" procedures as they may possibly impact upon real estate closing costs.

Housing Cost Program Implementation

Create and lead a nationwide housing cost program to stablize and if possible reduce the consumer's housing costs with cooperative involvement of other Federal, State and local government agencies, and of business, industry, labor, and the general public.

Set and achieve departmental management targets in terms of appropriately revised goals and objectives with respect to the implementation of housing cost initiatives.

Implementation in Progress

Land Planning and Development

Analyze opportunities for urban "infill"—using vacant or underused land already serviced with transportation and utilities—and mechanisms to encourage it.

Publish new thresholds for full environmental impact statements.

Urge the Council on Environmental Quality to promote uniform environmental procedures for reviews by HUD, VA, and FmHA.

Publish guidelines and procedures for HUD acceptance of EIS's prepared by localities in conjunction with projects financed under CDBG.

Encourage localities and regional bodies to prepare areawide EIS's for expected development in large areas.

Publish guidelines and procedures for HUD acceptance of local EIS reviews of proposed subdivisions without further HUD environmental reviews.

Provide standard documents and formats to speed the preparation of EIS's.

Provide guidelines for expeditious field office environmental processing.

Building and Technology

Conduct comprehensive, nationwide analysis of the costs of housing development regulations.

Join other Federal agencies and the National Institute for Building Sciences in encouraging the use of nationally recognized model codes and standards procedures for the rapid review and approval of new technology, methods, and materials in housing.

Encourage housing conservation and rehabilitation by professionals, owners and other occupants, and special nonprofit organizations.

Revise minimum property standards to make energy conservation requirements cost beneficial in terms of initial capital cost, amount of downpayment, and life cycle cost.

Encourage informed and competent self-help construction and rehabilitation of single-family and multifamily housing through amendments of design, inspection, and other review requirements.

Remove unjustifiable cost-increasing technical and design requirements from the minimum property standards.

Use outside architects and engineers to certify that single-family or mutifamily plans, drawings, and specifications meet HUD's minimum property standards and requirements.

Reduce duplicate HUD inspections in projects developed with homeowners warranty inspections.

Authorize types of housing that permit greater density, land-cost savings, utility savings, and energy conservation in planned unit developments.

Adapt and promote the use of worthy new technology, methods, and materials in housing construction, conservation, and rehabilitation.

Expand funding for modest increases in research and demonstrations of worthy new housing technology, methods, and materials.

Encourage voluntary acceptance of proven new housing technology, methods, and materials at all levels of government.

Provide 701 funding incentives for building code procedures for worthy new or conventional housing technology, methods, and materials.

Increase the access of minority and small business firms to HUD housing construction and rehabilitation activities under CDBG and UDAG programs.

Reduce procedural delays and uncertainty in the administration of housing development regulations.

Finance and Marketing

Promote expeditious field office processing and review of applications for loan insurance, financing, and assistance by making various administrative and staffing changes; and

—Provide additional computer terminals to technical underwriting staff in field offices.
—Publish an index to HUD materials.
—Develop model application submissions.

Simplify processing and underwriting requirements and implement changes; and

—Change methods for calculating professional fees.
—Introduce special fast-track processing for sophisticated developers.
—Use a general certification form for compliance.
—Simplify previous participation procedures.
—Issue reasonable and workable guidelines for noninsured section 8 approvals.
—Provide preapplication field review of project drawings by inexperienced architects.
—Encourage VA acceptance of FHA commitments.
—Develop and support acceptance of uniform mortgage and loan processing instruments and forms by all public and private lenders.
—Modify insured loan rehabilitation processing.
—Eliminate permission-to-occupy procedure and accept certificates of occupancy where issued.
—Consider deeper section 235 subsidies and consider implementing section 106(a)(2) counseling to home buyers.
—Modify multifamily cost certification procedures for nonprofit and for-profit firms.
—Encourage combined or consolidated interim and permanent financing for single-family construction and rehabilitation, and eliminate professionals' fee featherbedding.

Evaluate the impact of existing State usury legislation upon housing costs to the consumer.

Housing Cost Program Implementation

Create an implementation mechanism at a senior departmental level to provide policy guidance and oversight for the nationwide housing cost program and to implement housing cost recommendations.

STATEMENT OF SENATOR LAWTON M. CHILES

To Conference on "Housing Costs: Cause and Cures", Tampa, Fla., October 13, 1978

HOUSING COSTS AND INFLATION

Inflation is the biggest economic problem facing the country right now. We all feel it in both our working lives and our personal lives. Every major survey of consumers and businessmen shows that they both perceive inflation as the number one national problem. Some people have maintained that if we just keep worrying about improving employment and productivity then inflation will go down by itself. It just won't work that way.

INFLATION HURTS ECONOMIC GROWTH AND EMPLOYMENT

All the expert testimony we have had at the Senate Budget Committee, whether from liberal or conservative economists, says that we cannot keep up the present high rates of inflation for long without triggering another recession.

High rates of inflation undermine consumer confidence and cause people to hold off on any nonessential expenditures while they try to afford higher prices for the basic things they cannot do without. Inflation drives up interest rates as lenders worry what money will be worth when it is returned to them, regardless of what the Federal Reserve Board does to monetary policy. High rates of inflation cause businessmen to wait before investing in new production facilities, because they cannot tell what either their costs or profits will turn out to be a few years down the road. When you look at the whole picture, you see that inflation hurts economic growth and employment.

INCREASING HOUSING COSTS AND INFLATION

Housing is both a victim of inflation and a cause of inflation. That is the way the spiral works in our economy. Housing costs have gone up in response to higher interest rates, Government regulations, fuel costs, and the price of wood, cement, and other materials. At the same time, the average American spends about 30 percent of his after-tax income for housing, more than any other item. For the first-time buyer of a new home, that average goes up to 40 percent of disposable income. With so much of his family budget going up, the housing consumer has to try to recoup by pressing for higher wages, and so the spiral builds and builds. What we are all looking for are ways to turn the spiral back down. I have asked you all here to this conference to discuss what the causes of increased housing costs are and what we can do in a practical way to reduce them.

The Senate Budget Committee has played a leading role in the housing cost area. Two years ago, when the housing price problem was beginning to build up, I asked the Congressional Budget Office to analyze what was causing the increase and what could be done about it. Their study demonstrated that present Federal policies are inadequate to deal with housing costs because they focus mostly on mortgage markets. They try to help out borrowers after the costs have already gone up. While:

—The financing costs affected by Federal monetary policy accounted for 18 percent of the average sales price increase from 1970 to 1974;
—Land costs contributed 23 percent; and
—Materials accounted for 25 percent.

DIVERSE POLICIES AFFECT NATIONAL ECONOMIC PROBLEM

We therefore decided that we needed a broader examination of how various Federal policies are affecting the costs of land and building materials as well as the cost of money. Since these costs are affected by several Federal agencies acting under the oversight of different congressional committees, the Budget Committee has a unique role in seeing how the combination of these diverse policies affects a national economic problem.

Following the Budget Committee hearings on this study, the U.S. Department of Housing and Urban Development appointed a nationwide task force of experts to recommend actions to reduce housing costs. As soon as that task force report came out I requested a hearing of the Senate Budget Committee to explore its recommendations.

Mr. Jay Janis, the Undersecretary of HUD, will be our luncheon speaker and will tell us what the Department proposes to do in response to the task force's recommendations.

The reason I called this conference is so that you people who are going to have to live with whatever comes out, and who will make it succeed or fail, will have a chance to go through the recommendations and say what you think will work here in Florida.

I will then be able to go back to Congress for the new session and try to take whatever action is necessary on the legislative side. HUD staff is also here to listen to your comments on the administrative side and take that wisdom back to Washington.

While we may not agree with all the specific recommendations, I think that in general the task force took a comprehensive and innovative approach, and I hope it will be a springboard for prompt action by Congress and the administration. If we are going to make inroads of inflation, we will have to open our minds to making major changes in the way Government does business, and really dig into problem areas like housing.

NATIONAL COMMITMENT TO REDUCE INFLATION

I hope this conference on housing costs will be the first step in a concerted effort to reduce inflation in the entire economy. The President is correct in saying that we need a national commitment to reduce inflation.

Government certainly has to take the lead by eliminating the budget deficit, by tightening up on spending and reducing the burden of

regulations. But everyone has to pitch in. A full 80 percent of all jobs and salaries are in the private sector and 80 percent of the Nation's buying and selling is in the private sector. None of us wants to see that private sector put under mandatory wage and price controls. I think the President has to go through each of the steps he has taken—jawboning, cutting budgets, and setting voluntary guidelines—to try to avoid mandatory controls.

We all lived through those controls before, and found that they caused all kinds of distortions and inequities in the economy. My fear is that unless people are willing to make the voluntary wage and price guidelines work, the President will be forced to move to mandatory controls. If we can come up with creative solutions, like some of the recommendations in this housing task force report, then we can hopefully avoid mandatory controls. The other threat, of course, is that if inflation is not controlled, the Federal Reserve will have to slam on the monetary brakes and throw the housing market into another tailspin.

We saw that in last week's action which was designed to protect the international position of the dollar, the Federal Reserve increased interest rates a full percentage point, which means home mortgages will go over 11 percent. Most people are projecting that will reduce starts from over 2 million down to about 1.6. I hope it is not even worse. But this seems to be the price we have to pay for not taking strong action against inflation a year ago.

REDUCE BURDEN OF EXCESSIVE FEDERAL REGULATIONS

Some of the President's anti-inflation proposals are obviously good and can go into effect right away without congressional action. A key area is reducing the burden of excessive Federal Regulations that are driving up costs in all kinds of business. While many regulations are well intended to protect public health and safety, in many cases the regulators have made them so detailed and time consuming that they drive up costs. The housing task force report documents areas where builders and developers have to go through the same review several times for different Federal agencies or for local, State, and Federal Government. This is the kind of situation where we could reduce costs by eliminating the duplication, and not sacrifice any of our important goals for protecting the environment.

The President has proposed a Regulatory Review Council to screen all new proposed Federal regulations and avoid duplication, overlap, and excess costs of compliance. I hope we will be able to move in other areas the way we are talking about moving in housing today, and set up a mechanism to start removing some of the excessive regulations that are already in place.

CUT DEFICIT SPENDING TO REDUCE INFLATION

The most clear-cut step for reducing inflation is to reduce deficit spending by the Federal Government. I have made my top priority in the Senate my efforts to get the Federal Government on a long term path of fiscal responsibility. I believe the American people want to see a stable economy, without having taxes go up and down unpredicitably each year. We all want to see a national commitment and a workable plan to balance the Federal budget at the earliest possible date.

We took the lead in this at the Senate Budget Committee after our hearings on inflation convinced us it was time for a turnaround in Federal fiscal policy. The unemployment rate has come down from 9 percent to 6 percent, inflation has gone up, and we have to act accordingly. We therefore worked over the course of the year and cut the deficit down from the $61 billion the President proposed last January, down to $39 billion. It is still too high. But a $22 billion savings is a major accomplishment. To achieve it we had to take to the floor of the Senate and fight against all kinds of popular spending measures—a new public works program, an increase in housing assistance, several proposals for extra financial assistance to State and local governments, appropriations for public jobs. In other areas, like the highway bill, we were able to use the budget resolution to convince the authorizing committees to reduce their plans and report bills with more responsible funding levels. These are all important and popular programs, and we did not win all the battles, but it is necessary to set limits and try to hold them. So far, when Congress has gone over the budget resolution in one area, it has made it up by cutting other programs. There is a long way to go, but with the new pressure of public opinion supporting us, the congressional budget process is beginning to take hold.

MULTI-YEAR BUDGETING

The hardest thing to do is to get Congress to look 3 or 5 years down the road and see the impact of the actions it takes in 1 year. Government always seems to be a step behind, trying to cure last year's problem, when it ought to be looking ahead.

In my work on the Budget Committee for the last 4 years, it has become clear that we cannot exert major control over Federal spending on a 1-year-at-a-time basis. We have managed to hold off billions of dollars of new spending programs, but the existing programs are mostly locked in on a multiyear basis. Each year 75 percent of Federal outlays are determined by contracts or commitments made in the prior 3 years. The only way we are going to be able to cut into that growing base of Federal spending is to set 5-year limits and force Congress to trade off old programs for new ones in order to fit the limits.

If we set the limits tight enough, we can force the elimination of duplicative and wasteful programs. For several years, we at the Budget Committee have been trying to get Congress to look ahead by standing up and pointing out that we ought to reject a lot of spending programs that would cost three or four times as much in future years as they do in the first year. We lost some of the fights and won some, but at last I can report real concrete progress on getting a 5-year commitment to spending restraint.

BALANCED BUDGET BY 1982

When the Second Budget Resolution was considered this summer, I offered a proposal to cut another $5 billion in spending for 1979, and to set even tighter limits on spending for the years 1980 to 1983. My plan would produce a balanced budget by 1982. I believe we can still accomplish that goal.

Back in August, Congress was not ready for that kind of a commitment. By the time the tax bill was being considered, however, the public demand for lower spending and lower taxes was too strong for Congress to ignore. I joined with Senators Nunn, Bellmon, and Roth, and worked my spending restraint plan into the tax and spending reduction amendment which passed the Senate by a vote of 65 to 20. That amendment would have provided automatic tax cuts each year if the spending restraints and balanced budget by 1982 were met.

The tax bill which the President has signed into law contains a modified form of the tax and spending reduction amendment. The new law will say that it is the "National Policy" that:

—The Federal budget should be balanced no later than 1982, which is the earliest possible date under current economic forecasts;
—Federal outlays adjusted for inflation should not grow by more than 1 percent a year from 1979 to 1983;
—Federal spending should decline each year from its current rate of almost 22 percent of gross national product, down to 19 percent in 1983.

SPENDING AS A PERCENT OF GNP

Spending as a percent of gross national product (GNP) sounds like a technical way of describing the budget, but it is really the most important figure for the public to watch. Total numbers like $500 billion lose meaning as the economy grows, and one huge number sounds as bad as another big number. But if the Government is spending 22 percent of the GNP, then on the average, taxpayers have to pay 22 percent of their income in taxes in order to balance revenues with outlays. If we can cut that 22 percent down to 19 percent on the spending side, then we can cut taxes the same amount and still balance the budget by 1982.

The last time Federal spending was below 19 percent of GNP was 1966, so that shows you what a significant change this new national policy is. The impact is really clear when you look at it in dollars. Under current forecasts, our amendment would have allowed tax cuts of $66 billion by 1983, which averages out to almost $1,000 per taxpayer. It would require spending cuts of over $30 billion.

TAX CUTS POSSIBLE

Our amendment would have put those tax cuts into effect automatically each year if the spending restraints were met. The administration and the tax committees were afraid to commit themselves to such big cuts 5 years in advance, but they did establish the spending policy at exactly the levels we recommended each year, and promised to report legislation providing significant tax cuts if those conditions are met. For the first time the American people—consumers, businessmen, housewives, and farmers—can look ahead and have a pretty clear idea where the Government is going with fiscal policy and know when the budget is going to be balanced.

We can see the first direct effect of our amendment in the President's anti-inflation program, where he proposed to shift his goal to cut

Federal spending down to 21 percent of GNP forward from 1981 to 1980. That 21 percent in 1980 is the level we specified in our amendment. Now that we have those reduced spending levels written into law as a national policy, it is going to be really difficult for anyone to propose spending above that level. What we have managed to do, I think, is to set up the American taxpayer as a countervailing force to all the special groups that push to drive up spending.

The President has also proposed using tax rebates as an incentive to workers to cooperate with the voluntary wage plans. We want to keep our minds open to any creative new way to reduce inflation. But we are going to have to explore all the ins and outs of such a plan. Some initial estimates show that if inflation goes 2 percent over the guidelines, the rebates could cost as much as $20 billion, which would further fuel inflation. All the incentives and risks will have to be explored in detail.

I hope that we can begin that detailed exploration of anti-inflation strategies here at this conference on housing costs.

I am confident that if the country applies the same effort and diligence to fighting inflation that it has applied to finding new ways to spend money, then we are bound to find the right answer.

Thank you.

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