

Richard Nixon Presidential Library
White House Special Files Collection
Folder List

<u>Box Number</u>	<u>Folder Number</u>	<u>Document Date</u>	<u>Document Type</u>	<u>Document Description</u>
17	9	05/28/1968	Report	US Foreign and Export Policies for the Agricultural Sector in the Congressional Record- Extension of Remarks. 2 pgs.
17	9	05/28/1968	Report	Trade Expansion Act of 1968- Message from the President. 3 pgs.
17	9	06/14/1968	Newspaper	"\$2-\$3 Billion '68 US Deficit Sighted" by Emma Doran in the Journal of Commerce. 2 pgs. Not scanned.
17	9	1968	Book	Presidential Measures on Balance of Payments Controls by Gottfried Haberler and Thomas Willett from the American Enterprise Institute for Public Policy. 63 pgs. Only cover scanned.
17	9	11/12/1968	Newspaper	"The Growing Empire of US Banking Abroad- The Idea Is to Go Where the Unrestricted Money Is" in an unknown newspaper. 2 pgs. Not scanned.
17	9	11/1968	Other Document	Pages from an unknown source concerning consumer investment in housing. 6 pgs.

<u>Box Number</u>	<u>Folder Number</u>	<u>Document Date</u>	<u>Document Type</u>	<u>Document Description</u>
17	9	11/08/1968	Report	Capital Flows in the US Balance of Payments Since 1965 by Andrew Brimmer. 29 pgs.
17	9	10/22/1968	Memo	Memo from Ken Khachigian to Key Issues Committee concerning housing. 5 pgs.
17	9	10/16/1968	Report	Private Home Ownership- Solving the Crisis of the Cities. 6 pgs with writing.
17	9	10/16/1968	Memo	Memo from Mr. Colson to Mr. Kachigan. Private Home Ownership- Solving the Crisis of the Cities. 4 pgs.
17	9	n.d.	Report	Meeting the Challenge of Urban Housing. 4 pgs with writing.
17	9	n.d.	Report	New Leadership to Rebuild the Ghettos. 7 pgs.
17	9	n.d.	Report	Rebuilding the Ghettos through Private Home Ownership. 6 pgs.

B97 Trade

Marty is not concerned that the subdividing of resorts will curtail the business, even though this means the cabins become individually owned and are occupied for but a few weeks each season. "These resorts (those subdivided) are the types tourists don't want."

Too many resort owners, Marty said, "operate thinking that, when we get the people, we will give them something. . . . You've got to have something to get the people."

Marty disagrees with the northwoods businessmen who are critical of the camping boom.

"Some families pay more for a camper (in rental) than they would pay for a good cottage. They are good for the economy."

He is critical of the resorts which put out brochures with photos of beaches, the rooms and the bar—but not a single photo of the wild animals of the northwoods which he believes are the "greatest asset" of the area.

ANIMALS CARED FOR

"Why has the conservation department, in its management of wildlife, given primary consideration to the gun carrying conservationist?" Marty asked. "It's a throwback to the turn of the century, and leaves the department almost totally dependent on license income."

Marty is disturbed that "there is not in the state of Wisconsin today a single natural refuge where wildlife can be predictably seen in their natural state. This could be made available to the state on privately owned land at practically no expense."

"I'm not opposed to hunting," he declared, "but we don't need 100% of the land for hunting."

U.S. FOREIGN AND EXPORT POLICIES FOR THE AGRICULTURAL SECTOR—ADDRESS BY MICHEL FRIBOURG

HON. WALTER F. MONDALE

OF MINNESOTA

IN THE SENATE OF THE UNITED STATES

Tuesday, May 28, 1968

Mr. MONDALE. Mr. President, last week at the World Trade Conference in Minneapolis, Minn., Mr. Michel Fribourg gave a definitive statement on the ramifications of U.S. foreign and export policies for the agricultural sector. Mr. Fribourg is president and chairman of the board of Continental Grain Co.; therefore, his views have special importance for all of us interested in the future of agricultural exports.

I ask unanimous consent that his speech be printed in the RECORD.

There being no objection, the speech was ordered to be printed in the RECORD, as follows:

CAN U.S. AGRICULTURE MAINTAIN ITS DOMINANT POSITION IN WORLD TRADE?

(By Michel Fribourg, president and chairman of the board of Continental Grain Co., at the World Trade Conference, Minneapolis, Minn., May 21, 1968)

Gentlemen, I appreciate the privilege and honor of participating in this Conference on Foreign Trade Policy.

Today, we are faced with a situation that causes real concern for all of us involved in foreign trade policy matters. The Chairman of the Federal Reserve Board, William Martin, said recently that "We are in the midst of the worst financial crisis we have had since 1931." And yet the nation's business is in the eighth year of its longest upturn in history. American production has never been higher than right now. Is this a contradic-

tion? Is Mr. Martin exaggerating? I believe not. Mr. Martin himself adds, "It is not a business crisis, but a financial crisis." For the past two years a booming economy, combined with a lack of proper financial restraint on the part of our Government, has created an increasing inflation. In addition, a 10 year balance of payments deficit has reduced our gold stocks to a point where international confidence in the U.S. dollar has been badly shaken. In the month of March, for the first time in many years, our balance of trade was unfavorable.

My purpose is not to dwell on these serious and general problems but to relate them to the area of my business activities—the agricultural trade. Exports of agricultural products, particularly those handled by my company: grains, oilseeds and their by-products, are major contributors both to our balance of trade and our foreign aid programs. U.S. commercial agricultural exports amounted to 5.2 billion dollars in 1967, representing 19% of the total U.S. commercial exports of 27 billion dollars. They exceeded any other major category of U.S. commercial exports.

The importance of agricultural exports in terms of what they mean to the national economy is generally not fully understood or appreciated. This is because we tend to think of agriculture in terms of farms and farmers. But today agriculture is industrialized. It should be viewed as a converter of the products of industry into food and fiber; in other words, as agribusiness.

The value of purchased inputs in agribusiness is surprisingly large. Among America's 12 largest industries, agriculture comes first in spending for equipment. Farming alone uses the output of 20% of our petroleum and rubber industries, 15% of our motor vehicle industry, and 10% of our chemical industry. Agricultural products provide a major source of revenue for our different types of transportation. Agribusiness, directly or indirectly, provides 3 out of every 10 jobs in the U.S. Now, when you consider that we export the output of one out of every four acres of grain under production, you can understand the importance of agricultural exports to our basic industries. When we export grain, we are also exporting the output of a broad segment of our economy.

Continental, as a major grain company, favors an aggressive policy of trade liberalization. We also firmly believe that it is in the best interest of all major industries to take a similar stand, though certain special interests can be hurt in doing so. The U.S. will have to make certain concessions to gain liberalization. But the alternative of returning to a policy of protectionism, which is advocated by a few powerful groups, would be disastrous to our overall economy. We have supported such efforts as the GATT negotiations inasmuch as they would achieve freer trade. But we have objected to restrictive aspects of the proposed International Grains Arrangement which, in my view, threatens the ability of the U.S. to compete freely for world markets.

I have wholeheartedly endorsed the creation of free trade areas of economic units such as the European Economic Community and the Latin American Free Trade Agreement, even though these entities make it tougher every day for our agricultural commodities to enter these sectors. There is no doubt that the European Common Market, while it has succeeded in eliminating tariffs amongst its members, has erected barriers against third countries such as the U.S. Particularly in the agricultural field, Europe is striving, through high internal support prices, to become more and more self-sufficient. In South America, the Latin American Common Market, still in its infancy, has established certain advantageous tariffs for its members. Argentine wheat is already displacing U.S. wheat in some Latin grain importing countries. We can visualize that, one day, the Far East may form another eco-

nomie group, which would favor Australia, the major grain exporter in that part of the world. This would be to the detriment of the U.S. who is a prime exporter to the Far East. It would appear, therefore, that U.S. agriculture is becoming increasingly isolated.

There is no question in my mind that our agricultural exports face a growing challenge. But I believe we can pursue a program which will create a dynamic expansion in our farm exports. At all times, we should follow a policy of fully competitive international grain prices. Further, we should exhort all countries, especially the grain importing ones, to lower their interior prices, thereby contributing to an increasing standard of living worldwide.

It seems evident to me that the efforts of economic blocs, to become more nearly self-sufficient in agriculture, when they do not have a comparative advantage to do so, are doomed eventually to failure, for it inhibits economic growth in several ways. First, excessive use of labor and capital in agriculture limits their utilization in those non-farm industries which can produce goods efficiently. This has been specially true in the EEC where serious nonfarm labor shortages have caused a substantial inflation the last few years. But perhaps more important, grain prices have been kept artificially high to promote self-sufficiency, thereby creating high food costs. Consumers then spend a large percentage of their income on food and less on other consumer goods and services. Lower food costs would have the opposite effect. The standard of living rises as a larger share of personal income becomes available for non-food consumer goods. Increased demand in these industries expands employment and creates more disposable income. In effect, a reduction in food costs will stimulate economic growth, as would a reduction in taxes.

I favor the principle that each country, or economic bloc, should produce goods for which it has the greatest advantage, and be willing to import what can be produced by others more economically. This, of course, requires major adjustments; but why could they not be achieved? The European Common Market, though it has not applied this policy towards the outside world, has done so internally. The GATT agreement can also be considered as a first step toward the long range economic goal of an Atlantic Community. This trade liberalization would considerably benefit our agriculture, which is the most efficient in the world today.

There are a number of actions the United States can take unilaterally to expand commercial exports of agricultural products. We must first recognize that we cannot dissociate our domestic from our international policies. Our exports of grains and oilseeds have expanded much more rapidly than our domestic usage. We cannot have a rapidly expanding and prosperous agriculture without a growth in exports.

Our agricultural policy has been domestically, rather than internationally, oriented. We have pursued a policy based on short run expediency rather than a policy designed to utilize the potential of our agricultural resources for increasing the nation's economic strength and the quality of its society. Our primary objective of improving farmers' income has been achieved by maintaining high domestic prices and restricting production instead of expanding sales in open competition in world markets.

Withdrawal of agricultural resources is best illustrated by our land use policies. In 1968, about one-fourth of the total acreage normally used for cereal grains and soybeans, will be kept idle. Prospects are that wheat acreage for 1969 will be less than two-thirds as large as in the early fifties when government controls were first instituted.

Contrast this performance with other major wheat exporting countries. In the past decade Canada expanded its wheat acreage

more than one-third and Australia doubled its wheat acreage. During that time, we have also witnessed the European Common Market shift from a net importer to a net exporter of wheat. The same is true of such countries as Mexico, Greece and Spain. Furthermore, their exports are on commercial terms whereas about 1/2 of U.S. sales are on non-commercial terms.

It is logical to question why some countries have successfully pursued an expansionist policy while the U.S. has followed a policy of retrenchment. To put it another way, our policy of high prices and restrained output has encouraged production in those countries to the long run detriment of the U.S. and U.S. agriculture. Although we cannot dictate the internal policies of other countries, we can discourage increased production by high cost producers either through trade liberalization negotiations or through free and open price competition for available markets.

The U.S. official endorsement of the International Grains Arrangement a year ago, providing for a 20 cents per bushel increase over the minimum price of the previous International Wheat Agreement, may have seemed logical at the time. The final stage of the negotiations occurred in a period when the U.S. and world wheat stocks appeared to be quite low. This apparent shortage, however, proved to be temporary. Currently, world wheat production is considerably in excess of consumption. World prices have been declining and are now about ten percent under the minimum prescribed in the Grains Arrangement Treaty the Senate has been asked to ratify. This is another example of having applied a long range policy to a short term problem. The annual report of the Council of Economic Advisers sent this February to Congress stated, "Primary producers sometimes attempt, through commodity agreements, to raise prices above the long term equilibrium level. They rarely succeed. Maintenance of a price above long term cost requires restrictions on supply; the necessary export quotas are extremely hard to negotiate and to enforce." In my view, this is sound advice from an informed body. It should be followed.

Another reason our commercial exports have failed to expand is due to the fact that we have been unable to compete on equal terms with the other major exporters, chiefly Canada, Australia and France. I am alluding to the very substantial commercial agricultural trade that has developed over the last five years with the Eastern countries. The U.S. participation has been minor. In part, this is due to government prohibition of all trade with Mainland China; in part, it is due to restrictive regulations with respect to most countries in the Soviet Bloc. These include the requirement that one-half the quantity of grain exported be shipped on American flag vessels, if available.

Even if we assume that our policy toward Communist China is correct, I fail to see what we have achieved by restricting commercial trade in non-strategic goods, mostly agricultural products, with such countries as the Soviet Union and some of its Eastern European partners. Other exporters, such as Canada and France, have derived great benefits from these trades. We have not prevented the East from meeting its needs. Actually, we have only denied ourselves an important source of dollar earnings, so vital to our balance of payments.

As stated by the U.S. Council of the International Chamber of Commerce, "Trade by definition does not take place unless benefits accrue to both parties. If one nation refused to participate, insofar as the second party can find another trading partner, the loss is entirely sustained by the country refusing to do business."

Two other important advantages have been given by some of the large grain exporting

nations and have not been available to U.S. exporters: government-backed credit insurance programs and bilateral agreements—though I know the latter are against basic U.S. trade principles.

Government policy has been more progressive in promoting commercial exports of feed grains than of wheat. The soundness of a market oriented price support loan and direct income payments to cooperating farmers has enabled us generally to compete with other exporting countries without the benefit or necessity of export subsidies. Of course, our position is aided by the following factors: the U.S. produces about 50% of the world's major feed crop, corn; and has supplied over 50% of the feed grains traded in the world market. Also, feed grains are consumed mostly in the advanced industrial nations, where consumption of meat and poultry has developed substantially on account of the steady increase in their standard of living. Production of feed grains outside the U.S. has and will continue to increase. Nevertheless, I believe that, if we pursue a policy of reasonable prices, we can maintain our preponderant position in feed grains for many years.

U.S. soybeans are another story. Our production and exports have seen tremendous growth since the end of World War II due to a heavy demand for soybeans and its by-products, and limited competition. No acreage restrictions were placed, and prices have been governed more by international values than by our domestic pricing policy.

Currently, however, U.S. soybeans are overpriced at the support level of \$2.50 per bushel. Exports have slowed down and most soybean oil exports are under concessional terms. The commercial export market has gone by default to competing products, mainly Russian sunflower oil. Under the circumstances, a reduction in the support price of this commodity is warranted.

I would like to make a few remarks concerning non-commercial exports.

Agricultural exports on concessional terms, mostly PL 480 sales for foreign non-convertible currencies or long term credit, are useful as a tool of foreign policy, humanitarian goals, and surplus removal. They have also contributed to commercial market development, since some of our best customers for dollars, Japan and Spain, for example, were once recipients of PL 480 aid. But, as now executed, most PL 480 sales to the developing countries fail to make much contribution to our balance of payments.

In my view more can be done to increase food shipments to the hungry nations of the world without increasing costs to our government. In fact, such shipments can and should make a contribution to our economy. It will not be easy but important problems seldom have simple answers.

Some concessions will be required on our part. For instance, we should consider giving special market access to the goods, mostly those using labor intensively, of the developing countries.

It will take ingenuity to facilitate exchange of our current and potential agricultural surpluses for the goods and services of the hungry. But it can be done; it must be done.

SUMMARY AND RECOMMENDATIONS

I would like now to summarize the few proposals I have made to achieve an expansion of our agricultural trade—so vital to help prevent a severe financial crisis.

The first step is to adopt a positive internationally oriented rather than a restrictive domestically oriented agricultural policy. Our long range thinking should be an expansion of demand rather than a reduction of supply.

We should increase the shift in emphasis for supporting farm income from one of high price supports to one of market oriented price supports, where, as recommended by the President's Food and Fiber Commission, "Price supports be set modestly below a mov-

ing average of world market prices." Direct income payments should be paid to farmers to allow them a decent income.

We should advocate the concept that production of agricultural products on a worldwide basis should fall into the hands of the most efficient farmers. The marginal agricultural producers should be gradually shifted into more productive non-agricultural pursuits. If we wish to export, we should be willing to import goods, even agricultural goods, produced at a cheaper price than others.

Steps should be taken to facilitate and expand commercial trade in farm products with Eastern countries. Trade is the best medium to build understanding and peace with the East.

The huge populations of the developing countries constitute the largest potential demand for our farm products. We must continue our aid programs for humanitarian reasons. But we must also aid these countries to become commercial customers. In order to do so, we will have to lower our own protective barriers. They must have access to our markets.

In the final analysis, the best way to expand sales is to provide a consistently reliable supply of a good product at a reasonable price. Our agricultural policies should be directed to these ends.

The nation has huge underutilized agricultural resources. Conditions require that we direct these resources and our best efforts into effective assets which will contribute to the nation's economic strength and the vitality of its citizenry.

THE FORGOTTEN MAN IN THE MIDDLE: THE NEED FOR TOTAL JOB ESCALATION

HON. THOMAS B. CURTIS

OF MISSOURI

IN THE HOUSE OF REPRESENTATIVES

Tuesday, May 28, 1968

Mr. CURTIS. Mr. Speaker, I submit for the RECORD my remarks to the 66th annual meeting of the National Forest Products Association:

It is a great pleasure to appear before this group as a participant on the panel today with Senator Smathers and Mr. Sam Shaffer of Newsweek magazine to discuss the topic "Do We Have A New Forgotten Man?—The American in the Middle". This is a most timely subject, and it embodies several key issues which must be faced. I would like to briefly sketch some basic themes which are pertinent to this topic which perhaps can be developed more fully in our ensuing discussion, as set forth in the paper I prepared for the U.S. Chamber of Commerce Symposium in December 1966, entitled "The Guaranteed Opportunity to Earn An Annual Income".

My first theme, which permeates the others that follow, is that we must return to accentuating the positive aspects and values of our society. Too many Americans in high places today are emphasizing the negative. They are viewing our society through the anxious eyes of a hypochondriac, which aggravates our ills, and blocks efforts to correct them. Attention and study should be given instead to our successes, not to ignore the failures, but rather that from our successes we can see what it is we are doing right and apply that knowledge to eliminating our shortcomings.

My second theme then is to locate and call attention to the keystones of our success as a dynamic society. Certainly one of them is the ability and spirit of the average American working men and women. Their ability to accept challenges and opportunities and keep pace with changes and advances, as well as create them, are worldwide symbols of the

BGP
Trade Policy
May 28, 1968

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

ORDER OF BUSINESS

Mr. PROXMIRE. Mr. President, I yield 7 minutes to the distinguished Senator from Virginia.

The ACTING PRESIDENT pro tempore. The Senator from Virginia is recognized for 7 minutes.

INTEREST ON THE NATIONAL DEBT

Mr. BYRD of Virginia. Mr. President, the Treasury Department announced today that the interest on the national debt for the current fiscal year will be \$1.1 billion more than it was last year. Stated another way, the interest on the national debt for the current fiscal year, which ends next month, will be \$14.5 billion. The increase of \$1.1 billion for that one item is a significant and important increase.

Mr. President, let us put this matter in perspective. Let us judge the difficulty of raising \$1.1 billion.

I wish to cite a few figures.

Let us assume that Congress were to pass legislation confiscating all income of every individual over \$50,000—\$100,000 on a joint return. If Congress were to confiscate all income of every individual over \$50,000—\$100,000 on a joint return—and if that money were paid into the Federal Treasury, how much money would that bring in?

The additional revenue gained would be \$700 million, or far less than just the increase in the interest on the national debt which the taxpayers of this Nation will pay this fiscal year compared to what they paid last fiscal year.

I think it important that those of us who are in Congress recognize and realize that the bulk of the taxes in our Nation come out of the pockets of the wage earners.

The bulk of the taxes come out of the pockets of those who are in the low- and middle-economic groups.

Seventy-two percent of all the income taxes paid by individuals to the Federal Government are paid by those who earn less than \$15,000; 22 percent of the taxes are paid by those who have net taxable income of less than \$7,000; and 50 percent of the income taxes are paid by those with incomes between \$7,000 and \$15,000.

Mr. President, this is a significant announcement that the Treasury Department has made today to the effect that interest on the national debt for the current year which ends next month will be \$14.5 billion, up \$1.1 billion from the year before.

All of this suggests to me that the Congress and the President jointly must reduce this Federal spending, or the individual citizen of this Nation will be in very bad condition. Not only will taxpayers be hard hit, but all citizens will feel the impact, because if we keep piling up these deficits every citizen will be hit by severe inflation.

According to the ticker tape just a few moments ago the Government announced that the Consumer Price Index

for the past month increased three-tenths of 1 percent, which means every consumer, every housewife, every individual in our Nation is paying three-tenths of 1 percent more through inflation than they paid before—and that is just for 1 month.

Mr. LAUSCHE. Mr. President, will the Senator yield for a question?

Mr. BYRD of Virginia. I am glad to yield to the Senator from Ohio.

The ACTING PRESIDENT pro tempore. The Senator's 7 minutes have expired.

Mr. PROXMIRE. Mr. President, I yield 5 additional minutes to the Senator.

The ACTING PRESIDENT pro tempore. The Senator from Virginia is recognized for 5 additional minutes.

Mr. LAUSCHE. Mr. President, the increase in the interest obligation for the fiscal year 1968 has been \$1.4 billion more than last year?

Mr. BYRD of Virginia. It has been \$1.1 billion more than last year.

Mr. LAUSCHE. That means an increase of approximately 7 percent, or \$1.1 billion as to \$14 billion.

What would the Senator say with respect to the anticipated increase in the interest obligation for 1970? It will run to \$15 billion.

Mr. BYRD of Virginia. In the new fiscal year, it will run above \$15 billion.

Mr. LAUSCHE. Obviously, the Senator from Virginia is disturbed about the tremendous interest obligation which is rising rather than going down either through the imposition of taxes or the reduction in spending.

Mr. BYRD of Virginia. That is correct.

Mr. LAUSCHE. I merely wanted to say to the Senator from Virginia that the astonishing thing to me is that on the floor of the Senate so little is being said about the interest obligation, the debt obligation, and the deficits, yet so much is being said and done toward increasing spending.

My question is, in the face of what the Senator from Virginia has said about the interest obligation, deficits, and the report of the economic council that the cost of living has gone up three-tenths of 1 percent this last month, what are we to anticipate as time goes on unless we change what we are doing?

Mr. BYRD of Virginia. In reply to the Senator, let me say that I think we can anticipate more inflation, more difficulty for the average citizen, more difficulty for the housewife, and more difficulty for the wage earner. Unless the Government is willing to get its financial house in order, we will face a financial crisis. The figures released today amply demonstrate that point.

Mr. LAUSCHE. What will happen to the person receiving an annuity, to the person receiving social security payments, to the person who thriftily put his money aside for the purpose of taking care of him in his old age, for the person who purchased Government bonds patriotically, under the conviction that he would get back every penny he paid for them? What will become of their purchasing power unless we put our

husbandry and the management of our fiscal and financial affairs in good order?

Mr. BYRD of Virginia. They will be hurt, and hurt badly.

I am not concerned about the wealthy. They can take care of themselves. But I am concerned about those to whom the Senator referred, the ones who will be hurt the most by this severe inflation—those of moderate means and those in fixed income.

TRADE EXPANSION ACT OF 1968— MESSAGE FROM THE PRESIDENT (H. DOC. NO. 322)

The ACTING PRESIDENT pro tempore (Mr. METCALF). The Chair lays before the Senate a message from the President on the Trade Expansion Act of 1968. Without objection, the message will be printed in the Record, without being read, and will be appropriately referred.

The message from the President was referred to the Committee on Finance, as follows:

To the Congress of the United States:

A nation's trade lines are its life lines. Open trade lines and active commerce lead to economic health and growth. Closed trade lines end in economic stagnation.

Franklin D. Roosevelt recognized these truths more than 30 years ago, when the Nation and the world were in the grip of depression.

On that March day in 1934 when he asked the Congress to pass the historic Reciprocal Trade Act, he pointed to America's declining world trade and what it meant to the Nation: "Idle hands, still machines, ships tied to their docks."

That Act set in motion three and a half decades of descending tariff barriers and rising world trade. Our producers and farmers found new markets abroad, and American exports multiplied twenty-fold.

This era of commercial progress was capped by the Kennedy Round Agreements reached at Geneva last year—the greatest success in all the history of international trade negotiations.

When I reported to the Congress last November on the Kennedy Round, I said it would mean new factories, more jobs, lower prices to families, and higher incomes for American workers and for our trading partners throughout the world.

Already, through these Agreements, tariff barriers everywhere are falling, bringing savings to consumers, and opening new overseas markets for competitive producers.

But the problems and the promises of world trade are always changing. We must have the tools not only to adjust to change, but to turn change to our advantage.

To prepare for the era of world trade unfolding before us now, I submit to the Congress today the Trade Expansion Act of 1968. This measure will:

—maintain our negotiating authority to settle—advantageously—trade problems and disputes.

—carry out the special Geneva agreement on chemicals and other products.

—improve the means through which American firms and workers can adjust to new competition from increased imports.

OUR INTERNATIONAL RESPONSIBILITIES

The Trade Expansion Act of 1968 will strengthen relations with our trading partners in three ways.

First, it will extend through June 30, 1970 the President's authority to conduct negotiations for tariff reductions. This authority was contained in provisions of the Trade Expansion Act of 1962 that have expired.

Most of this authority was used in negotiating the Kennedy Round. The unused portion of that authority will give the President the flexibility to adjust tariff rates as future developments might require.

For example, the United States might find it necessary to increase the duty on a particular article—as the result of an "escape clause" action—or a statutory change in tariff classification. In such event, we would be obliged to give other nations compensatory tariff adjustments for their trade losses.

Without this authority, we would invite retaliation and endanger American markets abroad.

I recommend that the President's authority to make these tariff adjustments be extended through June 30, 1970.

Second, the Trade Expansion Act of 1968 will eliminate the American Selling Price system of customs valuation. This action is necessary to carry out the special agreement reached during the Kennedy Round.

The American Selling Price system has outlived its purpose. It should be ended.

The generally accepted method of valuing goods for tariff purposes—which we and all our trading partners employ—is to use the actual price of the item to the importer.

But many years ago, to protect a few of our fledgling industries, we imposed on competing foreign goods—in addition to a substantial tariff—the special requirement that their tariff value be determined by American prices. Today this unusual system often produces tariff protection of more than 100 percent of the import cost of the product.

Such excessive protection is both unfair and unnecessary.

This system is unfair because it:

—Gives to a few industries a special privilege available to no other American business.

—Rests on an arbitrary method of valuation which no other nation uses.

—Diverges from the provisions of the General Agreement on Tariffs and Trade.

—Imposes an unjustified burden on the U.S. consumer.

This system is unnecessary because the few industries which it covers no longer need special Government protection.

It applies primarily to the chemical industry in the benzenoid field. Yet chemicals, and benzenoids in particular, are among our most efficient and rapidly expanding industries. They have done

well at home. They have done well in the international market. They are in a strong position to face normal competition from imports.

A supplementary agreement was negotiated at Geneva which will lower foreign tariffs on American chemicals and reduce certain non-tariff barriers—road taxes and tariff preferences—on American automobiles and tobacco. To receive these important concessions, the United States must eliminate the American Selling Price valuation system and thereby give foreign producers of chemicals and a few other products normal access to our markets. This bargain is clearly in our national interest—good for our industries, good for our workers, and good for our consumers.

I recommend that the Congress eliminate the American Selling Price system to remove inequities in our tariffs and enable us to take advantage of concessions negotiated in the Kennedy Round.

Third, the Trade Expansion Act of 1968 will provide for specific funding of our participation in the General Agreement on Tariffs and Trade.

This is the procedure we follow in meeting our financial responsibilities to all other international organizations.

The General Agreement on Tariffs and Trade has become the most important forum for the conduct of international trade relations. The Kennedy Round took place under its auspices. Yet since 1947, we have financed our annual contribution to this Agreement through general contingency funds rather than through a specific authorization.

I recommend that the Congress authorize specific appropriations for the American share of the expenses for the General Agreement on Tariffs and Trade.

OUR NEEDS AT HOME

When trade barriers fall, the American people and the American economy benefit. Open trade lines:

—Reduce prices of goods from abroad.

—Increase opportunities for American businesses and farms to export their products. This means expanded production and more job opportunities.

—Help improve the efficiency and competitive strength of our industries. This means a higher rate of economic growth for our nation and higher incomes for our people.

Some firms, however, have difficulty in meeting foreign competition, and need time and help to make the adjustment.

Since international trade strengthens the nation as a whole, it is only fair that the government assist those businessmen and workers who face serious problems as a result of increased imports.

The Congress recognized this need—in the Trade Expansion Act of 1962—by establishing a program of trade adjustment assistance to businessmen and workers adversely affected by imports.

Unfortunately, this program has been ineffective. The test of eligibility has proved to be too rigid, too technical, and too complicated.

As part of a comprehensive trade expansion policy, I propose that we make

our adjustment assistance program fair and workable.

I recommend that Congress broaden the eligibility for this assistance. The test should be simple and clear: relief should be available whenever increased imports are a substantial cause of injury.

I intend to pattern the administration of this program on the Automotive Products Trade Act of 1965. Determinations of eligibility will be made jointly by the Secretaries of Labor, Commerce, and Treasury.

The adjustment assistance provisions of Automotive Product Trade Act of 1965 have been successful. They have well served American automobile firms and their workers as we have moved to create an integrated U.S.-Canadian auto market.

These provisions will expire on June 30.

I recommend that the Congress extend the adjustment assistance provisions of the Automotive Products Trade Act through June 30, 1971.

TRADE INITIATIVES FOR THE FUTURE

The measures I have recommended today will help us carry forward the great tradition of our reciprocal trade policy.

But even as we consolidate our past gains, we must look to the future.

First and foremost, we must ensure that the progress we have made is not lost through new trade restrictions.

One central fact is clear. A vicious cycle of trade restrictions harms most the nation which trades most. And America is that nation.

At the present time, proposals pending before the Congress would impose quotas or other trade restrictions on the imports of over twenty industries. These measures would cover about \$7 billion of our imports—close to half of all imports subject to duty.

In a world of expanding trade, such restrictions would be self-defeating. Under international rules of trade, a nation restricts imports only at the risk of its own exports. Restriction begets restriction.

In reality, "protectionist" measures do not protect any of us:

—They do not protect the American working man. If world markets shrink, there will be fewer jobs.

—They do not protect the American businessman. In the long run, smaller markets will mean smaller profits.

—They do not protect the American consumer. He will pay more for the goods he buys.

The fact is that every American—directly or indirectly—has a stake in the growth and vitality of an open economic system.

Our policy of liberal trade has served this nation well. It will continue to advance our interests in the future.

But these are critical times for the nation's economy. We have launched a series of measures to reduce a serious balance of payments deficit. As part of this program, I have called for a major long-run effort to increase our trade surplus. This requires that we push ahead with actions to keep open the channels of trade.

Many of our trading partners have indicated a willingness to cooperate in this effort by accelerating some of their tariff reductions agreed to in the Kennedy Round, and by permitting the United States to defer a portion of our tariff reductions. Furthermore, a number of Western European countries are now taking more active steps to achieve a higher rate of economic growth. This promises to increase the demand for our exports and improve our trade position.

To take full advantage of the expanded trading opportunities that lie ahead, we must improve the competitive position of American goods. *Passage of the anti-inflation tax is the most critical action we could take now to strengthen our position at home and in world markets.* The tax measure I have recommended will help prevent destructive price increases—which can sap the vitality and strength of our economy. Continued rapid increases in our prices would mean fewer exports and higher imports.

Second, other nations must join with us to put an end to non-tariff barriers.

Trade is a two-way street. A successful trade policy must be built upon reciprocity. Our own trade initiatives will founder unless our trading partners join with us in these efforts.

The Kennedy Round was an outstanding example of international cooperation. But major non-tariff barriers continue to impede the free flow of international commerce. These barriers now block many U.S. products from competing for world markets.

Some non-tariff barriers violate provisions of the General Agreement on Tariffs and Trade. We will step up our efforts to secure the prompt removal of these illegal restrictions.

Other non-tariff barriers may not be illegal, but they clearly hamper and hinder trade. Such barriers are found in all countries; the American Selling Price system is an example of one of our non-tariff barriers.

We have initiated a major international study to assess the effect of non-tariff barriers on world trade.

We have already begun action in the General Agreement on Tariffs and Trade and other international organizations to deal with some of these non-tariff barriers.

Efforts such as these are an important element in our trade policy. All sides must be prepared to dismantle unjustified or unreasonable barriers to trade.

Reciprocity and fair play are the essential standards for international trade. America will insist on these conditions in all our negotiations to lower non-tariff barriers.

Third, we must develop a long-range policy to guide American trade expansion through the 1970's.

I have directed the President's Special Representative for Trade Negotiations to make an intensive study of our future trade requirements and needs.

I would hope that Members of the Congress and leaders of Labor, Business and Agriculture will work with the Executive Branch in this effort. To help develop the foundations of a far-reaching policy, I will issue an Executive Order

that establishes a wide basis for consultation and assistance in this important work.

AN EXPANDING ERA IN WORLD TRADE

The proposals in this message have been shaped to one purpose—to develop the promise of an expanding era in world trade.

We started on this road three and a half decades ago. In the course of that journey, the American farmer, the businessman, the worker and the consumer have benefitted.

The road ahead can lead to new levels of prosperity and achievement for the American people. The Trade Expansion Act of 1968 will speed us on the way.

I urge the Congress to give this important measure its prompt and favorable consideration.

LYNDON B. JOHNSON.

THE WHITE HOUSE, May 28, 1968.

MESSAGE FROM THE HOUSE

A message from the House of Representatives by Mr. Bartlett, one of its reading clerks, announced that the House had agreed to a concurrent resolution (H. Con. Res. 782) providing for the adjournment of the two Houses from Wednesday, May 29, 1968 to June 3, 1968, in which it requested the concurrence of the Senate.

HOUSING AND URBAN DEVELOPMENT ACT OF 1968

The Senate resumed the consideration of the bill (S. 3497) to assist in the provision of housing for low- and moderate-income families, and to extend and amend laws relating to housing and urban development.

Mr. BAYH. Mr. President, I send an amendment to the desk and ask that it be stated.

The ACTING PRESIDENT pro tempore. The amendment will be stated.

The assistant legislative clerk proceeded to read the amendment.

Mr. BAYH. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered; and the amendment will be printed in the RECORD at this point.

The amendment offered by Mr. BAYH is as follows:

On page 303, after line 23, insert the following new section 1520:

"SHELTER FOR DISASTER VICTIMS

"Sec. 1520. (a) The President is authorized to provide dwelling accommodations for any individual or family whenever he determines—

"(1) that such individual or family occupied a home (as an owner or tenant) which was destroyed or damaged to such an extent that it is uninhabitable, as the result of a major disaster occurring after January 1, 1968; and

"(2) that such action is necessary to avoid severe hardship on the part of such individual family; and

"(3) that such owner or tenant cannot otherwise provide suitable dwelling accommodations for himself and/or his family.

"(b) Such dwelling accommodations, including mobile homes, as may be neces-

sary to meet the need, shall be provided through acquisition, acquisition and rehabilitation, or lease. Dwelling accommodations in such housing shall be made available to any such individual or family for such period as may be necessary to enable the individual or family to find other decent, safe, and sanitary housing which is within his or its ability to finance. Rentals shall be established for such accommodations, under such rules and regulations as the President may prescribe and shall take into consideration the financial ability of the occupant. In cases of financial hardship, rentals may be compromised or adjusted for a period not to exceed twelve months, but in no case shall any such individual or family be required to incur a monthly housing expense (including any fixed expense relating to the amortization of debt owing on a house destroyed or damaged in a disaster) which is in excess of 25 per centum of the individual's or family monthly income.

"(c) In the performance of, and with respect to, the powers and duties conferred upon him by this section, the President may—

"(1) prescribe such rules and regulations as he deems necessary to carry out the purposes of this section;

"(2) exercise such powers and duties either directly or through such Federal agency or agencies as he may designate;

"(3) sell or exchange at public or private sale, or lease, any real property acquired or constructed under this section;

"(4) obtain insurance against loss in connection with any such real property;

"(5) enter into agreements to pay annual sums in lieu of taxes to any State or local taxing authority with respect to any such real property; and

"(6) include in any contract or instrument made pursuant to this section, such conditions and provisions as he deems necessary to assure that the purposes of this section will be achieved.

"(d) Such sums as may be necessary to carry out the provisions of this section are authorized to be appropriated."

Mr. BAYH. Mr. President, I join the Senator from Iowa [Mr. MILLER], who has been working with us, as well as the Senator in charge of the bill, the Senator from Wisconsin [Mr. PROXMIER], who has been a cosponsor of this measure from its inception. When a series of major disasters, tornadoes, and floods descended on this country in 1965, a group of Senators decided that the time had come to do something about disaster relief by way of the various codes affecting disaster relief already on the statute books. A bill was introduced and enacted by the Senate in July 1965 without a dissenting vote. More than a year later, the House, in acting on this measure, struck about half of it from the bill. There was not enough time left toward the end of the session to seek a conference on the bill so we had to take half a loaf rather than none at all.

Senate bill 438 was introduced this year, reported favorably by the Public Works Committee, and is on the calendar. One section of that bill is the amendment now at the desk.

Let me read the first section of it, because I think it explains its scope better than I could extemporaneously:

The President is authorized to provide dwelling accommodations for any individual or family whenever he determines—

(1) that such individual or family occupied a house (as an owner or tenant) which was destroyed, or damaged to such an extent

**SPECIAL
ANALYSIS**

**PRESIDENTIAL MEASURES ON
BALANCE OF PAYMENTS CONTROLS**

By Gottfried Haberler and Thomas Willett



AMERICAN ENTERPRISE INSTITUTE
FOR PUBLIC POLICY RESEARCH

1200-17TH STREET, N.W. - WASHINGTON, D.C. 20036

This poses a puzzle. Homebuilding was strong in the late Forties and early Fifties as the nation scrambled to make up for 15 years of depressed construction—the most severe lapse in our history. Yet in spite of the evident need for more housing and substantial government assistance, demand was not strong enough to allow the industry to command as large a share of the nation's resources as it had in earlier decades.

Family incomes have grown rapidly since the mid-Fifties, not only in current dollars but also in dollars adjusted for price increases. Moreover, the rate of increase accelerated in the early Sixties. Yet even when credit market conditions were extremely favorable for homebuilding in the early and mid-Sixties, output of new homes failed to pierce the records set a decade earlier. And homebuilding dropped off after early 1964—amid complaints of overbuilding—well before booming overall economic growth appreciably began to drain resources away from this industry.

Consumer Investment in Housing

Further questions arise if one focuses on homebuilding as an avenue for personal saving. The usual measures of saving—for example, those of the Commerce Department, the Securities and Exchange Commission, and the Federal Reserve Board — include households' net investments in housing (gross home purchases minus depreciation of existing homes). For the most part, these are investments in single-family homes. The official figures do not include appreciation due to rising market values; they thus understate saving, as it is viewed by many individuals, in an inflationary environment.

The accompanying table sketches the changing character of individuals' asset acquisitions since the mid-Fifties. Investment in new housing has been exceedingly sluggish, despite the steep acceleration in growth of liquid assets—in turn reflecting the much more expansive monetary policy of the Sixties—and markedly higher acquisition rates for automobiles, home appliances, and other durables.

The relative decline in net home purchases over the past decade has been especially conspicuous relative to household saving. Total personal saving—growth in assets minus increases in debt, or the gain in households' net worth—has climbed rapidly in recent years. But consumers, who had been building up equity in single-family homes during the Fifties, appear to have been reducing their nominal equity in the Sixties. This is partly an accounting illusion: inflation in real estate values has almost certainly

produced an increase in home equity during the past two years.

A Search for Solutions

Explaining the diminishing importance of homebuilding in the economy and the erosion of personal investment in new homes is more than an intellectual exercise. At stake are fundamental questions about the ability of this industry to satisfy public needs.

The temporary 1966-67 slump in homebuilding reflected the inability of the consumer and the homebuilding industry to outbid other business sectors and government for credit and for productive resources in a period of intense economic growth.

More fundamentally troublesome, however, is the sluggish growth in private demand for housing over the past decade as well as over the past 50 years and more. To some extent, this reflects demographic trends. The reduced propensity of households to invest in new homes, for example, partly reflects changes in the structure of the population in the Sixties. But, historically, even major movements in home construction have been only loosely related to demographic changes.

The heaviest drag on demand for new homes has been the sensitivity of consumers to the cost of housing—including construction costs, land prices, mortgages rates, downpayment requirements, and real estate taxes.

Over the long run, new home prices have gone up considerably faster than the general price

Household Investment, Borrowing and Saving						
(Net flows, billions of dollars)						
	1955-59	1960-64	1965	1966	1967	1968
	Average	Average				1st Half*
Financial Assets	25	32	48	48	54	53
Liquid assets ...	11	23	34	22	46	25
Fixed income securities	5	1	3	10	-1	15
Other	9	8	10	11	9	13
Real Assets	22	22	29	28	23	31
Homes	15	18	18	11	9	18
Other	7	10	18	17	15	18
Total Assets	47	54	77	71	77	84
Borrowing	17	22	30	22	28	25
Saving	31	33	47	49	55	59
Net Investment in New Homes as a Per Cent of—						
Disposable income	5.0	3.2	2.5	2.2	1.6	2.3
Total asset accumulation ...	32	23	15	16	11	16
Saving	50	39	25	28	16	23

*Seasonally adjusted annual rates.
 Note: Changes in holdings of assets exclude capital gains and losses; borrowing shown net of repayments. Acquisitions of real assets are new purchases less depreciation of the existing stock. "Other" real assets are largely autos, appliances, and home furnishings. Saving is growth of assets minus borrowing.

level. This has partly reflected escalating land costs—an unavoidable trend in light of the fixed availability of potential housing sites, the growth in population and incomes, and more extensive land use by government and business. But home construction costs have also tended to rise faster than the overall price level. For the most part, this has reflected a slower growth of productivity in this industry than in the overall economy.

Galloping Construction Costs

For the second time since World War II, construction costs have been galloping ahead of the rise in the general price level. This means that any given rate of increase in rents or in the prices of existing homes will tend to encourage less new building than a comparable rise would have induced 3-5 years ago. As yet, it is not evident that the value of the existing housing stock has been rising fast enough to lift housing starts to a 2 million annual rate.

Moreover, achievement of any given target for housing starts would be tarnished if rising rental and home-ownership costs compel consumers to downgrade their purchases and accept lower-quality housing. Historically, real residential construction has risen less than housing starts. It appears that downgrading has accelerated in the past two years. Consumers have also responded by stepping up their purchases of mobile homes—a form of residential construction which is produced outside the homebuilding industry and omitted from the usual homebuilding figures.

The recovery of housing starts in 1968 to a 1½ million annual rate, despite the fact that the

net volume of mortgage lending in the first half of this year was no larger than in 1963-65, while home prices are 20-30 per cent higher, testifies to the current strength of demand. If more money becomes available for mortgage loans, starts can ascend even higher. But the experience of the early Sixties suggests that easier credit conditions, in themselves, are not likely to provide more than a relatively temporary boost to home construction. More fundamental solutions are necessary if we are to come close to the Government's 2.6 million goal.

Merton J. Peck, a member of the President's Council of Economic Advisers, pointed out recently that a 50 per cent increase in activity would "strain the resources of any sector and put pressure on its prices."

The construction sector, however, may be especially vulnerable. Despite considerable recent technological advance, there is evidence that this industry has not achieved its rightful place in the procession of progress. . . . It is clear . . . that construction represents a potential bottleneck . . .

Efforts to meet the 2.6 million target through Government subsidies to homebuyers and renters will tend to make housing more expensive for those who are not subsidized. This, in turn, will cut into home purchases by middle- and upper-income groups.

A subsequent article will delve further into the demographic outlook, the problem of rising home costs, and some of the proposed solutions—including the innovations embodied in the Housing Act of 1968. There is a noteworthy agreement among Government officials and a large segment of the homebuilding industry that business as usual is not enough.

The Search for Protection of International Reserves

The search by governments and central banks for ways to protect their countries' international reserves is one international monetary fact of life that has once again been much in evidence in recent months. The opportunity to add to official monetary gold stocks out of the substantial amounts sold by France and the International Monetary Fund has been seized by a strikingly large number of countries. Ample use is also being made by governments and central banks of the various arrangements under which they can secure, to varying degrees, protection for their foreign exchange assets.

At the IMF meetings last month in Washington, pleas mounted for an early ratification by governments of the new international monetary facility in the form of Special Drawing Rights. The value of SDRs is guaranteed "in terms of a weight of gold"—a feature that the Fund's Man-

aging Director, M. Pierre-Paul Schweitzer, emphasized in the following context:

While special drawing rights will, I expect, eventually become a major component of international reserves, it is important at this stage to do nothing to undermine, and to do whatever is possible to strengthen, the traditional reserve components. The new facility is intended, when the need arises, to supplement, not to supplant, gold and foreign exchange. This is no more than common sense. Gold is a traditional means of international settlement and a point of reference for the values of national currencies. The value of special drawing rights is guaranteed in terms of a weight of gold. More than one half of all monetary reserves consists of gold, and it continues to be the basic element in the world monetary system.

The Buildup of Gold Reserves

Against this background of practical realism regarding gold, it is of interest to review the

changes in the monetary gold stocks of governments and central banks over the six months ended in September. In the wake of the disturbances in its economy and its balance of payments, France not only used the dollars it had in its reserves or was able to secure from the IMF and central banks of other countries, but also sold gold—\$1,069 million from June through September. The IMF, in order to accommodate the British and French drawings last June, not only used its own resources and borrowed currencies but also raised \$547 million by selling gold to thirteen countries other than the United States.

The Federal Republic of Germany, Italy and other Continental countries have added appreciable amounts to their already substantial gold reserves. Although the United States had acquired a sizable part of the \$1.1 billion of gold sold by France since June, its reserve has shown a rather moderate rise.

The redistribution of gold in the recent past stands out clearly from the chart, along with changes in official foreign exchange holdings, for the most part U.S. dollars. France has disposed of part of the gold reserve it built up during 1959-67 largely through purchases from the United States; it had sold large amounts to the United States during the prolonged period of its balance-of-payments deficits from 1935 to 1958. Even so, it has the third largest gold reserve in the world. Germany and Italy, which had little gold before World War II, are now the second and the fourth largest gold-holding countries; Switzerland is the fifth. The United States is, of course, the first.

The rise in South Africa's gold reserve has come from new output, which the central bank purchases, and, as needed, sells. During April-September, its reserve showed an increase of \$327 million; South African output during this period may be estimated at \$550 million.

For the world as a whole, official gold stocks have increased since the end of March—in sharp contrast with the \$3 billion outflows into private uses and holdings during the gold crisis in late 1967 and early 1968. During the second quarter of 1968, the rise amounted to \$290 million—\$33 million more than could be accounted for by additions to the reserves of South Africa and Australia; and, judging from incomplete data, total stocks rose further during the third quarter. Thus, the world's monetary gold has not, in effect, been frozen at the \$40 billion level of last March when the Washington conference of seven countries expressed the feeling that it was no longer necessary for central banks to buy gold from the private market.

Blending Gold, Dollars and SDRs

Some students of international finance have of late expressed the thought that an international monetary system containing more than one kind of international asset would be difficult to operate. So long as there are several assets in which monetary authorities can keep reserves—gold, dollars, reserve positions in the IMF and, hopefully next year, SDRs—and so long as the composition may be freely changed by shifting from one kind to another, instability may result. The SDRs may help meet the need for more reserves, but they cannot deal with matters of confidence.

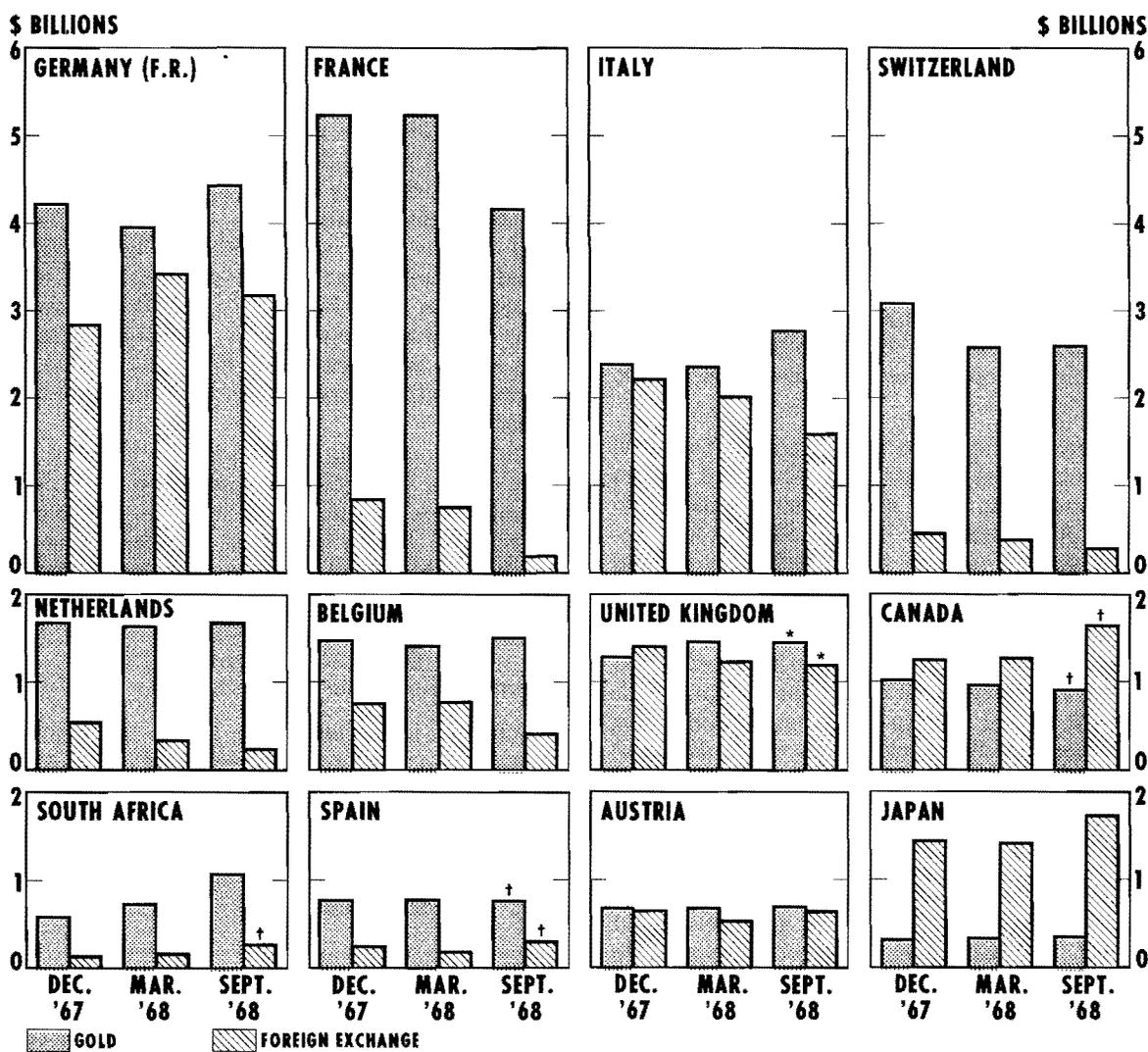
Rules have been devised to prevent switches from SDRs into gold; but switches from dollars to gold have not been banned. To prevent conversions of dollars into gold, schemes have been suggested to blend gold, dollars and SDRs in fixed proportions; to take dollars out of official reserves by having them turned into deposits on the books of an international institution; or to crown SDRs as the only reserve asset.

Schemes like these have found little support outside narrow circles. Historically, it may be recalled, governments and central banks chose freely to hold sterling or dollars in monetary reserves because they found it safe, profitable and convenient to do so, and because they were confident that they could at any time,

Changes in Monetary Gold Stocks of Governments and Central Banks

	Millions of dollars		Percentage of gold in total reserves*	
	Oct. '67-Mar. '68	Apr.-Sept. '68	Mar. '68	Sept. '68
Losses in Apr.-Sept. '68:				
France	\$ 1	\$ -1,069	87%	95%
Canada	-128	-113	43	34
United Kingdom	-338	-19†	55	55†
Intl. Mon. Fund	32	-415
Gains in Apr.-Sept. '68:				
Germany (Fed. Rep.) ..	-312	484	54	58
Italy	-25	408	54	63
Belgium	-96	106	64	78
Netherlands	-77	43	82	88
Switzerland	-238	23	97	90
United States ..	-2,374	52	80	78
South Africa ...	253	327	81	79‡
Ireland	13	45	9	24‡
Australia	5	25	19	22
Other developed countries§ ...	52	191‡
Middle East	220	115‡
All other countries	265	75‡

* Total gold and foreign exchange reserves. † Through June. ‡ Through August. § Mainly Austria, Denmark, Greece, Norway, Portugal, Sweden and Yugoslavia. ... Not applicable.
Note: Adapted from International Monetary Fund *International Financial Statistics*.



Gold and Foreign Exchange Reserves of Governments and Central Banks

* June. † August.

without having to give any explanations, shift from one currency to another or into gold. Today, they are not ready to relinquish this freedom of choice. They have retained the right of "opting out" of SDRs.

The preference for gold—documented in that part of the table showing the proportion of gold to total reserves—basically reflects deeply anchored views that there are times and circumstances where no other money will do because gold alone is universally acceptable as the means of payment of last resort. These views rest in part on the thought that gold is beyond the control of any one nation—especially as it is redistributed today, with the United States holding only slightly more than a quarter of the world's monetary stock. They also reflect the desire to protect reserves against the hazards of depreciation.

As the Governor of the Bank of England, Sir

Leslie O'Brien, remarked on October 17:

... I find the tendency to attack the role of gold in the system somewhat ironic, when it is not gold which is the root cause of the present uneasiness but doubts about the alternative reserve assets. While admitting all the imperfections of gold as a monetary asset, the enthusiasm for getting rid of it owes much to the fact that in this inflationary age currencies cannot stand comparison with it. ... I suggest ... that in this necessarily long process [leading to an international monetary system less dependent on gold and national currencies] we concentrate on containing the role of the alternatives first and leave to the last any discarding of gold ...

The Maze of Gold and Exchange Guarantees

To protect the claims of governments and central banks on international financial institutions and the value of official foreign exchange holdings, use is made of a great variety of gold and exchange clauses. All accounts of the Bank for International Settlements are kept in gold Swiss

francs. The obligations of a country to the IMF in the event that the par value of its currency is reduced are governed by a maintenance-of-gold-value clause. The SDRs are to be guaranteed in terms of a weight of gold. The European Monetary Agreement provides for yet another form of guarantee; this protected the participating central banks at the time of the sterling devaluation a year ago.

Credits arranged to help stabilize foreign exchange rates—such as the large British borrowings from governments and central banks—contain exchange clauses. Under arrangements concluded last month, the bulk of sterling-area countries' balances held in sterling carry a dollar guarantee; on their part, the countries have undertaken to keep a guaranteed minimum proportion of their reserves in sterling.

The swap network of the Federal Reserve system, dating back to the early Sixties and comprising today nearly \$10 billion of reciprocal credit lines with fourteen central banks and the BIS, offers exchange protection for the lending banks. They are to be repaid at a constant value in their own currencies and are thus protected against an adjustment in the dollar exchange rate. The protection is, of course, reciprocal. The level of drawings reached \$1.8 billion at the end of 1967; most commitments were to the central banks of Italy, Germany and Switzerland and to the Bank for International Settlements. Subsequently, reversals in the flows of funds, together with a U.S. drawing on the IMF and sales of U.S. Treasury securities denominated in foreign currencies, enabled the Federal Reserve to reduce these commitments and, in mid-July, to liquidate them entirely.

Maturing commitments under swap transactions are, as noted, often consolidated over a longer period by placings of U.S. Treasury securities denominated in the lenders' currencies—German marks, Italian lire, Swiss francs, etc. These placings are also used to absorb dollar holdings in excess of the needs of the central banks to which the bonds are sold, or simply to acquire foreign currencies for intervention in the foreign exchange markets. A total of \$2 billion of such Treasury securities was outstanding on September 30, with Germany, Switzerland and Italy by far the principal holders.

As a result of these various arrangements, the monetary authorities of Italy and Switzerland hold something like one half of their total foreign exchange reserves in forms that offer protection of one kind or another. The German Federal Bank holds about two fifths of its international assets other than gold in protected forms.

The Real Protection

Those responsible for administering their country's international monetary reserves seek, understandably and legitimately, to protect them against depreciation. For the buildup of international reserves—whether gold, dollars, IMF positions or SDRs—involves a surrender by a nation of present goods, services and capital assets for claims on the resources of other countries in an indefinite future—for periods short or long, or even “for good.”

The protection that gold offers rests on merits in which most of the world, rightly or wrongly, still firmly believes. Exchange clauses offer protection against devaluation of individual currencies. In the IMF, as is well known, the obligations of a country, in the event that its currency is devalued, are governed by a maintenance-of-gold-value clause. A clause in the charter also states that the same provision “shall apply to a uniform proportionate change in the par value of the currencies of all members, unless at the time when such a change is proposed the Fund decides otherwise.” Evidently, the language providing for the maintenance of gold value foresees, at the same time, a potential exception. The SDRs are, however, to be endowed with an absolute maintenance - of - gold - value clause; it could not be rescinded in the event of a uniform change in the price of gold.

Gold and dollar clauses are matters of great importance to countries that have incurred guaranteed debts. Britain's gold-claused debts are far larger than its gold stock; its dollar-claused debts are also sizable. Such countries cannot devalue without having to provide, in repaying the debts, greater amounts of goods, services and capital assets than anticipated at the time the debts were incurred. These considerations awaken some of the unhappy memories of the 1930s when gold clauses were abrogated in the United States and, at least in private contracts, in foreign countries as well. The crucial point is that the gold- or exchange-claused debts that governments and central banks have incurred to international institutions and to other governments and central banks are much larger today than in the 1930s.

Maintenance-of-gold-value clauses and foreign exchange guarantees are a redundant and useless appendage so long as nations preserve economic health, fiscal responsibility and monetary sobriety. But an international monetary system resting on national currencies that are unable to resist inflation could not be rescued even with the most elaborate of gold and foreign exchange guarantees.

FIRST NATIONAL CITY BANK

399 Park Avenue, New York, N. Y. 10022

PRINTED
IN
U.S.A.

November 1968

\$25,000 Introductory Offer

(You don't need \$200,000 before our investment men will talk to you.)

Most investment management services begin a lot higher than \$25,000. But we've come up with a new way to apply the benefits of our regular investment advisory service to accounts under \$200,000.

Besides, can you think of a better way for us to get to know each other than with a special introductory offer?

Basically, it's a way for you to take a new approach to investing. By letting us do it for you. We'll arrange for you to open an account with a leading Wall Street brokerage firm. And then we buy and sell securities as we think best, keeping you up to date on every transaction.

In managing your money, we can take two different approaches. If you're looking for solid income, we'll pick high-return securities. If you're eager to get the jump on inflation through capital appreciation, we'll invest in securities that we believe offer the best potential for performance.

We won't over-diversify, or be super-conservative. We believe in a select number of securities, carefully chosen, as the best way to achieve your objectives. Which is why we base our decisions on plenty of careful research. With scores of hardheaded investment men keeping



We've weathered a lot of storms.

tabs on every industry. Plus a special computer for projecting corporate earnings and growth into the future.

In our hands, your portfolio will be guided by this deep-digging research effort.

But we are also guided by the experience that comes from 156 years of handling people's money. (You learn a lot when you've weathered 36 depressions and recessions.)

Now, whether you want current in-

come, or an investment program aimed at long-range growth, we'll be glad to discuss our special investment management service with you. (If you're performance minded, you should take a look at our record.) Just write Mr. Robert Ketcham, Trust & Investment Division, First National City Bank, 399 Park Avenue, New York, N. Y. 10022. Or call (212) 559-6009.

**FIRST NATIONAL CITY BANK
TRUST & INVESTMENT DIVISION**



Member Federal Deposit Insurance Corporation.

For Release on Delivery
Friday, November 8, 1968
12 Noon, E.S.T.

Boyd

CAPITAL FLOWS IN THE U.S. BALANCE OF PAYMENTS
SINCE 1965

A Paper Presented By

Andrew F. Brimmer
Member
Board of Governors of the
Federal Reserve System

Before a

Joint Luncheon at the
Annual Meetings of the
Southern Economic Association
and the
Southern Finance Association

Washington Hilton Hotel
Washington, D.C.

November 8, 1968

CAPITAL FLOWS IN THE U.S. BALANCE OF PAYMENTS
SINCE 1965

By
Andrew F. Brimmer*

Almost four years have passed since the United States in February, 1965, adopted programs aimed primarily at the improvement of the capital accounts in the U.S. balance of payments. More than five years have passed since the adoption of the Interest Equalization Tax (IET) in 1963, which was also focused on a segment of the capital account. Given this passage of time, one might naturally ask what effects -- if any -- have these programs had on capital flows as recorded in the balance of payments.

In this paper, I will review briefly the main developments since 1965 with respect to several key elements in our capital accounts. I will stress particularly the changes in those accounts with which the Federal Reserve portion of the President's program is concerned -- the flow of funds from commercial banks and other financial institutions. I will also discuss foreign borrowing in the United States through the sale of long-term bonds and securities (most of which are bought by U.S. nonbank financial institutions) and foreign investment in this country through the purchase of U.S. securities.

The general conclusions which emerge from this assessment of the impact of the balance of payments programs on capital flows can be summarized briefly:

- Commercial banks (which have not fully used the leeway available to them in any year since the voluntary foreign credit restraint program began)

* Member, Board of Governors of the Federal Reserve System. I am grateful to Mr. Gordon B. Grimwood of the Board's staff for assistance in the preparation of this paper.

by the end of September had reduced their foreign claims by over \$700 million below the amount outstanding at the end of last December, or by \$300 million more than had been requested for all of 1968.

- During the last 3-1/2 years, there has been a noticeable shift of bank funds to the developing countries, which has been matched almost entirely by a decline of bank lending in continental Western Europe.
- Foreign branches of U.S. banks have taken over a substantial part of the foreign lending formerly done by the head offices; the funds from which these loans are made are acquired mainly in the Eurodollar market.
- New issues of foreign securities in the U.S. still seem to be influenced to a considerable extent by the IET. Although such issues rose sharply last year and are continuing at a high level in 1968, the direction of this capital outflow shows clearly the impact of the IET.
- Foreign purchases of U.S. securities (which have become an increasingly important factor in the recent improvement in the capital account) may well exceed substantially the capital outflow related to U.S. acquisition of foreign issues during 1968.
- Finally, a basic improvement in our balance of payments must rest heavily on a sizable improvement in our trade surplus, which in turn will depend upon how successful we control inflation.

In stressing the role of the balance of payments programs on the flow of U.S. capital, I do not wish to imply that these programs were the only factors at work. Since 1965 many influences have affected these flows, and these other factors may well have been equally significant. I refer particularly to the restrictive monetary policy which was adopted in

the fourth quarter of 1965 and followed during most of 1966, and which was adopted again in the fourth quarter of last year. Other important developments were a slowdown in economic activity in the industrial countries of Western Europe during 1967 (which still may not have been completely reversed) and several major international financial disturbances.

Finally, the rapid development of the Eurodollar market, which was itself stimulated by our balance of payments measures, has provided alternative sources of financing, both through banks, including foreign branches of U.S. banks, and through the growth of the Eurobond market. These developments undoubtedly have tended to reduce the demand for capital from U.S. sources, particularly by foreign subsidiaries of U.S. corporations.

Flow of Commercial Bank Capital

Bank lending to foreigners was included in the balance of payments programs of 1965, in part at least, because of a very rapid increase in the foreign assets of banks during 1964. After increasing at an average annual rate slightly above \$1 billion in the previous five years (which was itself high from an historical standpoint and which was focused mainly on Japan), bank claims on foreigners went up by \$2.5 billion in 1964. Thirty per cent of the outflow in that year went to countries of Western Europe, excluding the U.K.; 25 per cent went to Latin American and other countries in the Western Hemisphere (excluding Canada); and 25 per cent went to Japan.

The principal objective of the 1965 program, then, was to reduce the rate of increase in bank lending to foreigners to a more manageable figure. At the same time, another main goal was to insure sufficient credit to finance our expanding exports and to meet the needs of the developing

countries. To achieve the latter objectives, the Federal Reserve requested the banks to give an absolute priority to bona fide export credits, and the highest priority in the nonexport category to credits to meet the needs of developing countries. Banks also were asked to avoid action that might place an undue burden on the United Kingdom, Canada, or Japan. Term loans to these nations as well as to other developed countries were inhibited in any event by the extension of the IET to bank credits with maturities of one year or longer.

The program announced in 1965 has been extended three times because the deficit in our balance of payments has persisted. The form of the bank program remained essentially unchanged until January 1, 1968. For the first time on that date the banks were requested to achieve a net inflow of funds during the year through a reduction in outstanding loans. The more restrictive program (which was focused especially on those countries whose surpluses mainly reflected our deficit) requested the banks to make no new nonexport credits to developed countries of continental Western Europe. Finally, due to an extremely difficult financial situation in Canada early this year, that country was exempted completely from all U.S. balance of payments programs on February 29, 1968.

The Federal Reserve Board constantly monitors progress under the programs for financial institutions to assure that the objectives are being achieved. My purpose here is not to give a progress report on the Federal Reserve program (for which I have administrative responsibility on delegation from the Board). Rather, my objective is to look at U.S.

capital flows over the last 3-1/2 years as influenced by the balance of payments programs and by the other factors mentioned above.

An Over-all View

Foreign assets held by commercial banks that are covered by the Federal Reserve program increased during 1965 by about \$170 million, compared with a permissible increase of almost \$500 million under the ceiling for that year. In 1966, despite an increase in the aggregate ceiling, covered assets fell by \$160 million, leaving the banks almost at their base date position of December 31, 1964. During 1967, covered assets increased by \$370 million, but the banks at the end of that year still had an aggregate leeway of \$1.2 billion.

The program announced last New Years Day in effect requested that banks reduce their covered foreign assets by at least \$400 million during 1968. By last September 30, as I mentioned above, the banks had reduced their claims by over \$700 million, or by \$300 million more than had been requested for all of 1968. At the end of September, the banks were \$328 million below the December, 1964, base figure, and they had an aggregate leeway for the remainder of the year of \$629 million. (Table 1 attached.) However, I do not expect that all of that leeway will be used. Moreover, I am confident that the banks will more than achieve the objective of a net inflow of \$400 million -- even if we experience in the fourth quarter the seasonal outflow of funds that usually occurs during the closing months of the year.

Geographical Distribution of Bank Capital Flows

As I stated at the outset, a striking change has occurred in the last 3-1/2 years in the geographic pattern of bank lending abroad. The data on which we must rely to trace the regional flows of bank capital are not exactly comparable with the aggregate figures given above. For this purpose, the analysis must be based on data supplied on Treasury Foreign Exchange forms from which the balance of payments statistics are derived. In general, the coverage of foreign assets reported on the Treasury forms is broader than that of the foreign credit restraint program because the former include collections and other claims held for account of customers, and also include claims held by the U.S. agencies and branches of foreign banks.

The Treasury data show that on December 31, 1964 (the base date), the developing countries accounted for 38 per cent of all bank claims on foreigners; Japan for 26 per cent; developed countries of continental Western Europe for 18 per cent; Canada for 11 per cent, and the United Kingdom for only 3 per cent. Broken down between short and long-term claims, Canada and Japan accounted for higher percentages of short-term claims, while the percentages of long-term claims on the developing countries and the developed countries of continental Western Europe were higher than the relative positions of those areas with respect to total bank claims.

Developing Countries

In the period December 31, 1964, to August 31, 1968 (the latest date for which data are available), over-all banks claims on foreigners

declined by 3.3 per cent. On the other hand, bank claims on the developing countries increased by 28 per cent. The shift in the direction of flow of bank credit was most marked with respect to long-term loans, which are most important to economic development. Long-term claims on developing countries rose by 33 per cent, and by the end of last August they accounted for 63 per cent of a total that itself had declined by 16 per cent over the same period.

Developed Countries of Continental Western Europe

The shift of funds to the developing countries was made almost entirely at the expense of the developed countries of continental Western Europe. Bank claims on these countries declined almost dollar-for-dollar by the amount that claims on developing countries increased. The major part of this shift was in the long-term area, where claims on developing countries increased by \$568 million while claims on Western Europe (mainly because they became subject to the IET in February, 1965) went down by \$1.1 billion.

United Kingdom, Canada, and Japan

Bank claims on these countries -- which were especially mentioned in the guidelines after export credits and credits to developing countries -- fluctuated during the period under review but changed only moderately overall. (Canada, as has been noted, was exempted from the program on February 29, 1968.) Total claims on the United Kingdom and Canada declined 22 per cent and 32 per cent, respectively, while over-all claims on Japan, after declining slightly in the last half of 1966, increased again by the end of 1967 to a level slightly above December 31, 1964.

Within these over-all totals both short and long-term claims on the United Kingdom declined, the short-term relatively more. Short-term claims on Canada were reduced by one half but were partially offset by an increase in long-term claims. A slight increase in short-term claims on Japan, which account for about 95 per cent of total claims on that country, was offset by a relatively sharp drop in long-term claims outstanding. (Tables 2, 2-a, and 2-b.)

Impact of Restraint Program on Operations of U.S. Banks with Foreign Branches

When the foreign credit restraint program was announced in 1965, foreign branches of U.S. banks were exempted from the program provided that "the funds utilized (by the branches) are derived from foreign sources and do not add to the outflow of capital from the United States." This exemption was made because the operations of the branches are not reflected in the balance of payments statistics of the United States. It also avoided placing the branches in a less advantageous competitive position in the countries in which they operated.

Nevertheless, it was recognized that branch operations might have some effects on our balance of payments. Foreign branches of U.S. banks have taken over a substantial part of the foreign lending formerly done by the head offices. The funds from which these loans are made are acquired mainly in the Eurodollar market. To the extent that these funds represent a shift of dollar liabilities to foreigners from head offices to branches -- or to the extent that dollars are deposited at foreign branches which otherwise might have come to the head offices -- it is possible that there will be

an adverse effect on our balance of payments as measured on the official settlements basis.

Whether the adverse effect occurs depends upon the use made by the branches of these funds. If they are used for the purpose of making advances to the head office, there is no effect on our balance of payments whether measured on the liquidity or the official settlements basis. However, if the funds are used to make loans to foreigners that otherwise would have been made by the head offices, the official settlements balance may be affected. The borrowers may use the dollars acquired to purchase local currencies, or they may use the dollars in lieu of dollars that otherwise would have been acquired from foreign official reserves. In either case, our liquid liabilities to foreign official institutions would be higher than they otherwise would have been.

The business of the foreign branches expanded very rapidly after the announcement of the foreign credit restraint program. Dollar loans to foreign nonbank customers increased by almost 60 per cent between the end of February, 1965 (the first date for which such data are available) and the end of that year. To a considerable extent, this increase reflected the "sale" of foreign assets to the branches by the head offices of some banks that were substantially over the target ceiling when that ceiling was announced.

Bank loans to foreigners increased by 20 per cent in 1966. This more moderate gain partly reflected the adjustment of head offices to the program ceiling. But it may also have been the result of tightening monetary

conditions in the United States. Eurodollar funds acquired by the branches were advanced to the head offices to meet domestic requirements rather than used to increase branch loans to foreigners.

The increase in loans to foreign nonbank customers by the branches was 40 per cent in 1967, and in the first eight months of 1968 the rise was 30 per cent. As of the end of August, U.S. dollar loans outstanding to foreign nonbank customers at foreign branches of U.S. banks (at \$2.4 billion) were more than three times the amount of such loans outstanding on February 28, 1965.

It is difficult to measure the extent to which the branch lending activities may have resulted in the "substitution" or "shift" of U.S. head office liabilities to foreigners described above. One problem is that our data do not go back far enough and in sufficient detail. However, we may draw some tentative conclusions from an examination of changes in head offices deposit liabilities to foreigners in the years preceding and in the years since the announcement of the foreign credit restraint program.

If we look at U.S. bank deposit liabilities to foreign bank and nonbank customers, adjusted to exclude accounts that are affected by other than market forces (see Table 3), we find that the total of such liabilities increased by an average of 7 per cent per annum between the end of 1964 and 1967. Liabilities to foreign

banks increased by almost a 2 per cent annual average, while liabilities to foreign nonbank customers went up by over 10 per cent per annum.

Partial data for U.S. banks that had foreign branches prior to December 31, 1964, (the last year-end before the inauguration of the VFCR) indicate that deposit liabilities of such banks to foreign nonbank customers increased by almost 40 per cent between end-1964 and end-1967.

Data for banks that have established foreign branches since December 31, 1964, show the same pattern. These banks (which accounted for only 6 per cent of total deposit liabilities to foreigners on December 31, 1964) more than doubled deposit liabilities to foreign nonbank customers in the following three years.

We must conclude, on the basis of the above statistics, that it is possible that the activity of foreign branches might have had some adverse effect on our official settlements balance. However, the data do not provide conclusive evidence that this has been the case.

Flows of Funds from Nonbank Financial Institutions

Total foreign assets of nonbank financial institutions reporting to the Federal Reserve under the foreign credit restraint

program (insurance companies, finance companies, trust departments of banks, pension funds, etc.) were about \$14 billion at the end of June, 1968. On the same date, total foreign assets of banks amounted to about \$12 billion. However, of the former amount, only \$1.5 billion is subject to the guidelines; \$10 billion is exempt as claims on Canada; \$1 billion represents claims on international institutions, which are exempt from the guidelines; and the remaining \$1.5 billion consists of claims on developing countries and a small amount of other foreign assets which are specifically exempted from the guidelines.

The nonbank financial institutions were asked on January 1, 1968, to reduce their adjusted base date holdings of "covered" foreign assets to 95 per cent of the amount outstanding on December 31, 1967. As of June 30, 1968 (the nonbank financial institutions report on a quarterly basis), covered assets of all reporting institutions had been reduced by \$175 million from the end-1967 figure. As of last June 30, total covered assets outstanding were 93 per cent of the adjusted base date holdings. (Table 4.)

Assets not subject to the guidelines increased by almost \$400 million in the first six months of 1968. Two-thirds of this amount represented increased loans and investments in Canada.

Transactions in Foreign Securities in the U.S.

During the five years ending in 1961, the capital outflow related to net U. S. transactions in foreign securities averaged \$760 million annually; in only one of the five years did the outflow substantially exceed the average. In 1962, the outflow increased to \$970 million, and in 1963 the figure jumped to \$1.1 billion, a factor which led to the proposal of the IET. Moreover, larger amounts of new issues of European countries began to appear in the market. (Table 5.)

The Interest Equalization Tax had features which tempered its effect on new issues of foreign securities in the U. S., including the exemption of newly issued Canadian securities as well as the securities of the developing countries. Nevertheless, the tax did reduce sharply the capital outflow related to these transactions -- at least until 1967. The outflows for 1964, 1965, and 1966 were \$677 million, \$759 million, and \$481 million, respectively. In 1967, the outflow increased to \$1.3 billion and was running at only a slightly lower annual rate in the first half of 1968.

The direction of foreign portfolio investment by Americans was influenced by the incidence of the IET and the foreign credit restraint program. The increase in 1967 was related entirely to issues exempted from the IET (Canada accounted for 62 per cent of the new issues in 1967). Further, while it is not possible to separate long-term bonds from long term credits in our data, it appears that nonbank financial institutions might have accounted for approximately 60 per cent of the total increase in

net purchase of securities of Canada, Japan, the developing countries, and international institutions. Investments in all of these areas are exempted from the guideline ceiling for nonbank financial institutions.

Preliminary data for the first half of 1968 indicate a continuation of these trends with the exception of the international agencies. Based on these data, the outflow related to net transactions with Canada and the developing countries might be somewhat higher than in 1967. There was a net inflow on account of the international agencies of \$35 million in the first half, primarily as a result of large redemptions in the second quarter. However, new issues of international agencies are running a little above the 1967 level.

Foreign Purchases of U.S. Securities

At this point, it would be well to look at the other side of this coin, since foreign purchases of U.S. corporate securities have become an increasingly important factor in the recent improvement in our balance of payments.

In the five years ending December 31, 1964, net foreign purchases of U.S. corporate securities averaged about \$190 million annually. In 1965, there were net sales of \$350 million; however, this amount is more than accounted for by the liquidation in that year of securities owned by the government of the United Kingdom. Discounting this transaction, net purchases were only slightly lower than the average of the preceding five years. In 1966, net purchases jumped to \$900 million, twice the amount in any

previous year since the end of World War II; in 1967 another gain was registered -- raising the level to slightly over \$1 billion. (Table 6.)

During the first eight months of 1968, net foreign acquisition of U.S. corporate securities totaled \$2.4 billion. At an annual rate, this was almost three times the amount of the outflow related to net U.S. purchases of foreign securities described above.

The movement in 1966, 1967, and 1968 to date may be ascribed to several developments which affected both borrowers and lenders in this market. From the standpoint of the borrowers, the balance of payments program (which encouraged borrowing abroad to finance foreign direct investment) was reinforced in 1966 by restrictive monetary conditions in the United States. Several international financial and political disturbances in those years also had a substantial impact on both borrowers and lenders.

These developments can be traced readily in the statistics. Net sales of corporate securities by the British government (made to recoup official reserve losses associated with weakness in sterling) have been mentioned in connection with the 1965 experience. There was a further disinvestment in 1966, followed by another large net sale of securities in 1967.

The effect of the balance of payments program also may be seen in data distinguishing between net purchases or sales of U.S. long-term bonds and equity securities (Table 7). In the five years prior to December 31, 1964, stocks had averaged about 85 per cent of total net

purchases, including one year in which there were large net sales of corporate securities. In 1965, net sales of stocks (related to the U.K. transaction) were offset to a minor extent by net purchases of bonds. Again, in 1966, there were net sales of stocks, but in that year there were large net purchases of corporate bonds -- in excess of \$1 billion.

Over one-half of the amount of net purchases of corporate securities represented the issue of convertible bonds abroad by U.S. corporations to finance foreign direct investment (see Table 8). Excluding net transactions of the United Kingdom and the international agencies (whose holdings usually are dictated by other than market forces), sales of convertible bonds abroad amounted to 78 per cent of total transactions in U.S. securities in 1966. This proportion declined to one-third in 1967, and it increased again to about 60 per cent in the first eight months of 1968 following the imposition of mandatory regulations on direct investment.

However, as total net purchases of U.S. securities increased in 1967 and in 1968, corporate stocks again accounted for about 70 per cent of the total and are running at about 50 per cent thus far in 1968.

Obviously there are many factors which enter into a borrower's decision whether to issue fixed-interest-bearing or equity securities, and into a lender's decision as to which type of investment he wishes to make. It does seem, however, that the major impetus given to foreign investment in U.S. corporate securities by the efforts of U.S. corporations to borrow abroad is now being moderated (and perhaps replaced) by a movement into U.S.

as, particularly stocks, because of market factors probably not related to our balance of payments programs. This movement has been encouraged by adverse international financial and political developments already mentioned (including particularly the French franc crisis) as well as by the recent buoyant mood of the U.S. stock market. Whatever the reasons, this inflow of funds has given a welcome lift to our balance of payments since 1966.

cluding Remarks

It is apparent that, for whatever reasons, commercial banks and other financial institutions consistently have exceeded the objectives set for them by the balance of payments program. Indeed, the improvement in the total of the capital accounts -- mainly reflecting the performance of the financial sector -- has exceeded our expectations. At the same time, we realize that the results also partly reflect favorable developments with respect to elements not included in our programs.

On the other hand, this improvement in the capital account has done little more than offset the deterioration in our current account, notably the shrinkage in our surplus on goods and services. Further, the improvement is based upon disturbingly transitory factors. A change in international interest rate patterns, or a sharp drop in our stock market, might generate a large reversal of the capital inflow that we have enjoyed thus far this year.

For these reasons we should not permit the recent improvement in the balance of payments to lull us into a false sense of security.

Unless we bring inflationary pressures under control, we will have a very difficult time in restoring the traditionally strong surplus on current account upon which a lasting improvement in the balance of payments must depend.

Table 1

Foreign Credits of United States Banks
(dollar amounts in millions)

	1964	1965	1966	1967	1968				
	<u>Dec.</u>	<u>Dec.</u>	<u>Dec.</u>	<u>Dec.</u>	<u>March</u>	<u>June</u>	<u>August¹</u>	<u>Sept.</u>	
Number of reporting banks	154	161	148	151	153	153	154	154	
Target ceiling	--	9,973	10,407	11,069	9,984	9,886	9,847	9,785	
Total foreign credits subject to ceiling ^{1/}	9,484	9,652	9,496	9,865	9,396	9,203	9,105	9,156	
Change from previous date	--	+168	-156	+369	-469	-193	-98	+51	
Net leeway for further expansion	--	321	911	1,204	588	683	742	629	
Total foreign credits held for own account ^{2/}	9,719	9,958	9,844	10,202	9,731	9,721	9,590	9,649	
Change from previous date	--	+239	-114	+358	-471	-10	-131	+59	

^{1/} Total foreign assets reported on Treasury Foreign Exchange Forms B-2 and B-3 minus (1) amounts held for accounts of customers, (2) loans guaranteed or participated in by the Export-Import Bank or insured by the FCIA, and (3) beginning March 1, 1968, changes after February 29, 1968, in claims on residents of Canada held for own account; plus foreign assets held for own account but not reported on Forms B-2 and B-3.

^{2/} Total foreign assets reported on Treasury Foreign Exchange Forms B-2 and B-3 plus foreign assets not reported on those forms, minus amounts held for account of customers.

Table 2
Outstanding Bank Claims on Foreigners
(\$ Million)

<u>End of Period</u>	<u>LDC</u>	<u>% of Total</u>	<u>Western^{1/} Europe</u>	<u>% of Total</u>	<u>UK</u>	<u>% of Total</u>	<u>Canada</u>	<u>% of Total</u>	<u>Japan</u>	<u>% of Total</u>	<u>Other</u>	<u>% of Total</u>	<u>Total</u>
Dec 1964	4,601	37.6	2,219	18.1	397	3.2	1,331	10.9	3,240	26.5	454	3.7	12,242
<u>1965</u>													
June	4,708	38.3	2,222	18.1	315	2.6	1,175	9.6	3,359	27.3	524	4.2	12,303
Dec	5,074	41.4	2,095	17.1	302	2.5	1,027	8.4	3,213	26.2	540	4.4	12,251
<u>1966</u>													
June	4,993	41.5	1,983	16.5	322	2.7	966	8.0	3,139	26.1	635	5.3	12,038
Dec	5,392	44.8	1,879	15.6	263	2.2	937	7.8	2,898	24.1	664	5.5	12,033
<u>1967</u>													
June	5,471	45.2	1,513	12.5	314	2.6	925	7.6	3,134	25.9	743	6.1	12,100
Dec	5,933	47.3	1,332	10.6	300	2.4	1,024	8.2	3,334	26.6	608	4.8	12,531
<u>1968</u>													
June	5,833	48.7	1,060	8.9	332	2.8	893	7.4	3,200	26.7	659	5.5	11,977
Aug ^P	5,906	49.9	945	8.0	311	2.6	906	7.7	3,145	26.6	625	5.3	11,838

^{1/} Developed countries, excluding U.K.

Table 2-A
Outstanding Short-term Bank Claims on Foreigners
(\$ Million)

End of Period	<u>LDC</u>	% of <u>Total</u>	Western ^{1/} <u>Europe</u>	% of <u>Total</u>	<u>UK</u>	% of <u>Total</u>	<u>Canada</u>	% of <u>Total</u>	<u>Japan</u>	% of <u>Total</u>	<u>Other</u>	% of <u>Total</u>	<u>Total</u>
Dec 1964	2,883	36.2	733	9.2	310	3.9	1,004	12.6	2,810	35.3	217	2.7	7,957
<u>1965</u>													
June	2,870	37.0	741	9.6	223	2.9	807	10.4	2,880	37.1	237	3.1	7,758
Dec	3,080	39.8	761	9.8	216	2.8	669	8.6	2,768	35.8	240	3.1	7,734
<u>1966</u>													
June	2,962	38.7	807	10.5	235	3.1	643	8.4	2,733	35.7	269	3.5	7,649
Dec	3,300	42.0	945	12.0	193	2.5	611	7.8	2,572	32.7	232	3.0	7,853
<u>1967</u>													
June	3,399	41.1	783	9.5	274	3.3	592	7.2	2,939	35.6	274	3.3	8,261
Dec	3,572	41.4	810	9.4	244	2.8	611	7.1	3,154	36.6	229	2.7	8,620
<u>1968</u>													
June	2,515	42.6	649	7.9	267	3.2	476	5.8	3,048	37.0	286	3.5	8,241
Aug ^P	3,620	44.0	604	7.3	241	2.9	488	5.9	3,007	36.5	267	3.2	8,227

^{1/} Developed countries, excluding U.K.

Table 2-B
Outstanding Long-term Bank Claims on Foreigners
(\$ Million)

<u>End of Period</u>	<u>LDC</u>	<u>% of Total</u>	<u>Western^{1/} Europe</u>	<u>% of Total</u>	<u>UK</u>	<u>% of Total</u>	<u>Canada</u>	<u>% of Total</u>	<u>Japan</u>	<u>% of Total</u>	<u>Other</u>	<u>% of Total</u>	<u>Total</u>
Dec 1964	1,718	40.1	1,486	34.7	87	2.0	327	7.6	430	10.0	237	5.5	4,285
<u>1965</u>													
June	1,838	40.4	1,481	32.6	92	2.0	368	8.1	479	10.5	287	6.3	4,545
Dec	1,994	44.1	1,334	29.5	86	1.9	358	7.9	445	10.1	300	6.6	4,517
<u>1966</u>													
June	2,031	46.3	1,176	26.8	87	2.0	323	7.4	406	9.3	366	8.3	4,389
Dec	2,092	50.0	934	22.3	70	1.7	326	7.9	326	7.9	432	10.3	4,180
<u>1967</u>													
June	2,072	54.0	730	19.0	40	1.0	333	8.7	195	5.1	469	12.2	3,839
Dec	2,361	60.4	520	13.3	56	1.4	413	10.6	180	4.6	381	9.7	2,971
<u>1968</u>													
June	2,318	62.0	411	11.0	65	1.7	417	11.2	152	4.1	373	10.0	3,736
Aug ^P	2,286	63.3	341	9.4	70	1.9	418	11.6	138	3.8	358	9.9	3,611

^{1/} Developed countries, excluding U.K.

Table 3

Head Offices of U.S. Banks
Deposit Liabilities to Foreigners^{1/}

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u> ^{2/}
Foreign Banks							
Demand	n.a.	1,813	2,017	2,027	2,330	2,172	2,583
Time	<u>n.a.</u>	<u>192</u>	<u>329</u>	<u>284</u>	<u>296</u>	<u>292</u>	<u>256</u>
Total	1,870	2,005	2,346	2,311	2,626	2,464	2,839
Foreign Nonbank							
Demand	n.a.	1,493	1,531	1,566	1,511	1,691	1,692
Time	<u>n.a.</u>	<u>966</u>	<u>1,271</u>	<u>1,594</u>	<u>1,819</u>	<u>2,057</u>	<u>2,050</u>
Total	2,096	2,459	2,802	3,160	3,330	3,748	3,742
Grand Total							
Demand	n.a.	3,306	3,548	3,593	3,841	3,863	4,275
Time	<u>n.a.</u>	<u>1,158</u>	<u>1,600</u>	<u>1,878</u>	<u>2,115</u>	<u>2,349</u>	<u>2,306</u>
Total	3,966	4,464	5,148	5,471	5,956	6,212	6,581

^{1/} Excludes deposit liabilities to foreign governments and official institutions and to foreign branches of reporting banks. Also excludes liabilities to U.S. agencies and branches of foreign banks. Last two adjustments estimated for 1962.

^{2/} June 30, 1968.

FOREIGN ASSETS OF U.S. NONBANK FINANCIAL INSTITUTIONS AND NONPROFIT ORGANIZATIONS
(DOLLARS IN MILLIONS)

	Holdings	Change from		Change from	
	End of	March 1968		Dec. 1967	
	June 1968	Dollars	Per Cent	Dollars	Per Cent
<u>ASSETS SUBJECT TO GUIDELINE</u>					
Deposits & money market instr., foreign countries except Canada	32	-17	-35.0	-41	-55.6
Short & intermed. credits, foreign countries except Canada <u>1/</u>	291	-15	-5.4	-30	-10.3
Long-term investments, "other" developed countries <u>2/</u> :					
Investment in financial businesses <u>3/</u>	93	-6	-5.9	-8	-8.1
Investment in nonfinancial businesses <u>3/</u>	7	-3	-28.1	-3	-30.0
Long-term bonds and credits	638	-8	-1.3	-17	-2.6
Stocks <u>4/</u>	481	-24	-4.7	-76	-13.6
TOTAL holdings of assets subject to guideline	1,513	-73	-4.6	-175	-10.4
Adjusted base-date holdings <u>5/</u>	1,626	-20	-1.2	n.a.	n.a.
Target ceiling <u>6/</u>	1,545	-19	-1.2	n.a.	n.a.
<u>ASSETS NOT SUBJECT TO GUIDELINE</u>					
Investments in Canada:					
Deposits and money market instruments	123	16	14.5	4	3.7
Short- and intermediate-term credits <u>1/</u>	141	8	5.9	8	5.7
Investment in financial businesses <u>3/</u>	594	14	2.3	17	3.0
Investment in nonfinancial businesses <u>3/</u>	43	*	0.4	*	0.2
Long-term bonds and credits	7,884	180	2.3	274	3.6
Stocks	1,333	-17	1.3	-52	-3.7
Bonds of international institutions, all maturities	1,009	-6	-0.6	25	2.5
Long-term investments in the developing countries and in Japan:					
Investment in financial businesses <u>3/</u>	25	10	69.8	12	99.8
Investment in nonfinancial businesses <u>3/</u>	7	1	13.9	1	13.9
Long-term bonds and credits	804	19	2.4	64	8.6
Stocks	213	-8	-3.5	-*	-0.2
Stocks, "other" developed countries <u>7/</u>	340	19	5.8	34	11.2
TOTAL holdings of assets not subject to guideline	12,476	234	1.9	387	3.2
Memo: Total holdings of all foreign assets	13,989	161	1.2	212	1.5

1/ Bonds and credits with final maturities of 10 years or less at date of acquisition. 2/ Developed countries other than Canada and Japan. 3/ Net investment in foreign branches, subsidiaries or affiliates in which the U.S. institution has an ownership interest of 10 per cent or more. 4/ Except those acquired after Sept. 30, 1965 in U.S. markets from U.S. investors. 5/ December 31, 1967 holdings of assets subject to guideline, less carrying value of equities included therein but since sold, plus proceeds of such sales to foreigners. 6/ Adjusted base-date holdings, times 95 per cent. 7/ If acquired after Sept. 30, 1965 in U.S. markets from U.S. investors.
* Less than \$500,000. n.a. Not applicable.

Table 5
Net U.S. Purchases of Foreign Securities
(\$ Million)

	1962	1963	1964	1965	1966	1967	I	1968	
									II ^P
New Issues	1076	1250	1063	1206	1210	1619	372	352	
Redemptions	-203	-195	-192	-222	-406	-469	-100	-220	
Other Transactions	<u>96</u>	<u>50</u>	<u>-194</u>	<u>-225</u>	<u>-323</u>	<u>116</u>	<u>113</u>	<u>13</u>	
Total	969	1105	677	759	481	1266	406	145	
Of which:									
<u>U.K.</u>									
New Issues	----	155	9	80	15	----	---	---	
<u>Canada</u>									
New Issues	458	693	700	709	922	1007	229	223	
Redemptions	-83	-107	-87	-109	-269	-226	-55	-50	
Other	<u>-79</u>	<u>-36</u>	<u>-17</u>	<u>-147</u>	<u>-91</u>	<u>-11</u>	<u>41</u>	<u>16</u>	
Total	296	550	596	453	562	770	238	189	
<u>Japan</u>									
New Issues	101	164	----	52	4	14	---	---	
Redemptions	- 4	- 9	- 18	- 7	- 6	- 4	---	- 1	
Other	<u>23</u>	<u>29</u>	<u>----</u>	<u>- 6</u>	<u>- 10</u>	<u>5</u>	<u>---</u>	<u>3</u>	
Total	120	184	- 18	39	- 12	14	---	2	
<u>Western Europe</u> ^{1/}									
New Issues	195	116	26	15	----	----	---	---	
Redemptions	- 33	- 23	- 35	- 35	- 37	- 72	-11	-14	
Other	<u>47</u>	<u>38</u>	<u>-103</u>	<u>-110</u>	<u>-156</u>	<u>25</u>	<u>-49</u>	<u>6</u>	
Total	209	131	-112	-130	-193	- 47	-60	- 8	

^{1/} Excluding U.K.

	1962	1963	1964	1965	1966	1967	I	1968	
									II
<u>Developing countries</u> ^{2/}									
New Issues	180	104	323	270	189	352	58	61	
Redemptions	- 38	- 28	- 19	- 27	- 42	- 81	-10	-16	
Other	<u>13</u>	<u>- 6</u>	<u>- 2</u>	<u>8</u>	<u>- 26</u>	<u>36</u>	<u>88</u>	<u>19</u>	
Total	272	70	302	251	121	307	136	64	
<u>International Institutions and unallocated</u>									
New Issues	84	----	4	179	80	246	85	68	
Redemptions	- 17	- 12	- 18	- 29	- 28	- 68	-15	-132	
Other	<u>98</u>	<u>55</u>	<u>- 11</u>	<u>3</u>	<u>- 51</u>	<u>- 13</u>	<u>-12</u>	<u>- 29</u>	
Total	165	43	- 25	153	- 1	165	58	- 93	

^{2/} Western Hemisphere, excluding Canada; Asia and Africa excluding Japan, Australia, New Zealand, and South Africa.

Table 6

Net Purchases or Sales (-) of U.S. Securities
by Foreigners
(Excluding Treasury Issues)
(\$ millions)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>			
									<u>I</u>	<u>II</u>	<u>July</u>	<u>Aug.</u>
Total	282	324	134	282	-84	-357	909	1,016	700	1,075	336	261
Of which:												
U.K.	-48	-17	-34	207	-3	-520	-101	-453	107	239	3	50
International Institutions	<u>14</u>	<u>12</u>	<u>17</u>	<u>22</u>	<u>18</u>	<u>21</u>	<u>251</u>	<u>128</u>	<u>-37</u>	<u>-36</u>	<u>-1</u>	<u>10</u>
	-34	-5	-17	229	15	-499	150	-325	70	203	2	60
Other												
Western Europe	281	264	157	3	-149	85	426	776	500	586	246	190
Canada	-16	-25	31	14	38	48	243	312	114	163	61	7
Developing countries	<u>50</u>	<u>90</u>	<u>-38</u>	<u>34</u>	<u>12</u>	<u>11</u>	<u>86</u>	<u>237</u>	<u>16</u>	<u>122</u>	<u>26</u>	<u>3</u>
	315	329	150	51	-99	144	755	1,325	630	871	333	200

Table 7

Net Purchases by Foreigners of U.S.
Corporation Stocks and Bonds

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>			
				<u>I</u>	<u>II</u>	<u>July</u>	<u>Aug.</u>
Total	-375	703	1,067	920 ^{1/}	1,042	336	261
Of which							
Stocks	-413	-333	753	492	522	198	82
Bonds	38	1,036	313	427	520	138	178

¹ ^{1/} Includes purchase of \$210 million by a foreign company of stock issued by its U.S. subsidiary. This transaction was classified by the Commerce Department as direct investment in the U.S.

Table 8

Transactions in U.S. Securities Other
Than Treasury Issues 1/

	<u>1966</u>	<u>1967</u>	<u>I</u>	<u>II</u>
Total	766	1,348	738	1,116
<u>Of which</u>				
Issued abroad ^{2/}	594	446	533	554
Other	172	903	205	562
Stocks	(220)	(815)	(285)	(528)
Bonds	(-48)	(88)	(-80)	(34)

1/ Excludes investment by international and regional organizations in non-guaranteed U.S. Government agency bonds, and liquidation of U.S. securities other than Treasury issues by United Kingdom.

2/ Issues of new securities sold abroad by U.S. corporations to finance direct investments abroad.

TO: KEY ISSUES COMMITTEE -- ATTENTION JERRY FRIEDHEIM AND CHUCK COLSON

FROM: KEN KHACHIGIAN -- OCTOBER 22, 1968

HERE IS THE HOUSING STATEMENT. THERE IS A RUSH ORDER ON THIS, AND IT HAS ALREADY GONE OUT TO THE RN TOUR. I WOULD APPRECIATE IT IF KIC COULD GIVE IT QUICK SUBSTANTIVE REVIEW FOR ANY POSSIBLE ERRORS. IT HAS BEEN CLEARED THROUGH ALL PARTIES ON THIS END.

EARLIER THIS YEAR, IN A NATIONWIDE RADIO ADDRESS, I TALKED ABOUT STEPS WHICH COULD BE TAKEN TO ATTACK THE PROBLEMS OF SLUM HOUSING. RATHER THAN SPENDING HUNDREDS OF MILLIONS TO CLEAR MORE SLUM ACRES, TO DISPLACE MORE FAMILIES, AND TO BUILD MORE PUBLIC HOUSING, I OUTLINED IMAGINATIVE ENLISTMENT OF THE PRIVATE AND THE INDEPENDENT SECTORS, ENCOURAGEMENT OF PRIVATE OWNERSHIP, AND DEVELOPMENT OF THE PRIDE THAT CAN ONLY COME FROM INDEPENDENCE.

TODAY, I WANT TO EXPAND UPON THAT DISCUSSION AND PROPOSE A PROGRAM WHEREBY WE CAN BEGIN THE TASK OF REBUILDING THE CENTER OF THE AMERICAN CITY,

THE CONTINUED DETERIORATION OF AMERICAN CITIES, THE ENTRAPMENT OF DISADVANTAGED AMERICANS IN UGLY GHETTOS AND THE CIVIL DISORDERS OF RECENT YEARS UNDERSCORE THE FAILURE OF THE OLD WAYS. THE JOHNSON-HUMPHREY ADMINISTRATION HAS MADE PROMISES WHICH HAVE NOT--AND IN MANY CASES COULD NOT--BE KEPT. MY ADMINISTRATION WILL END THE GAP BETWEEN PROMISE AND PERFORMANCE.

DESPITE THE VOLUMINOUS AMOUNT OF HOUSING LEGISLATION ENACTED INTO LAW OVER THE YEARS, THERE HAS BEEN RELATIVELY LITTLE PROGRESS TOWARD A TRUE WORKING PARTNERSHIP BETWEEN THE GOVERNMENT AND PRIVATE INDUSTRY IN THIS AREA. OUR PRESENT NEED, THEREFORE, IS FOR A GREATER VOLUME OF HOUSING PRODUCTION UNDER EXISTING LAWS RATHER THAN A VOLUME OF NEW LEGISLATION.

THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, THOUGH CHARGED WITH ENCOURAGING THE MAXIMUM CONTRIBUTION OF PRIVATE CONSTRUCTION AND FINANCE TOWARD URBAN PROBLEM-SOLVING, HAS BECOME ENTANGLED IN ADMINISTRATIVE CHAOS. ITS POLICIES AND ATTITUDES HAVE DISCOURAGED, RATHER THAN ENCOURAGED, THE FULL INVOLVEMENT OF PRIVATE ENTERPRISE IN OUR URBAN HOUSING PROGRAMS.

MY ADMINISTRATION WILL APPROACH THIS PROBLEM ON TWO BROAD FRONTS. FIRST, WE WILL BEGIN BY REVIEWING AND EVALUATING EXISTING PROGRAMS AND THEN ALLOCATE PRIORITIES TO THOSE PROGRAMS WHICH HAVE THE GREATEST POTENTIAL FOR PRODUCING THE HOUSING THAT IS SO URGENTLY NEEDED IN THE BLIGHTED NEIGHBORHOODS OF OUR CITIES. AVAILABLE FUNDS MUST BE CONCENTRATED ON THE PROGRAMS THAT WILL PRODUCE THIS HOUSING. THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WILL HAVE A MANDATE FROM MY ADMINISTRATION TO ACHIEVE THIS GOAL.

SECOND, MY ADMINISTRATION WILL ACT TO IMPROVE COMMUNICATION AND UNDERSTANDING BETWEEN THE PRIVATE HOMEBUILDING INDUSTRY AND HUD. INCENTIVE-DESTROYING RED TAPE AND THE PRESENT BUREAUCRATIC OBSESSION FOR MAKING EVERY DECISION AT THE FEDERAL LEVEL WILL BE ELIMINATED. THE ADMINISTRATORS WILL IN FACT ADMINISTER. THE PRIVATE SECTOR WILL

BE LOOKED TO TO DEMONSTRATE HOW THE JOB CAN BEST BE DONE. THE IMPLEMENTATION OF THESE PROGRAMS WILL REFLECT AN AWARENESS THAT THE GREAT MAJORITY OF LOCAL PROBLEMS ARE BEST APPROACHED THROUGH LOCAL INITIATIVE, WITH ONLY SUCH INVOLVEMENT OF THE FEDERAL GOVERNMENT IN THE FREE ENTERPRISE PROCESS AS PROVES ABSOLUTELY NECESSARY. I KNOW, ALSO, IF FREE ENTERPRISE IS TO REALIZE ITS FULL POTENTIAL, THERE MUST BE THE OPPORTUNITY FOR REASONABLE, HONEST PROFIT. TANGIBLE INVOLVEMENT OF PRIVATE INVESTMENT AND PRIVATE INDUSTRY IN OUR URBAN PROBLEMS WILL RESULT IF THE OPPORTUNITY FOR SUCH PROFIT IS MADE POSSIBLE BY AN UNDERSTANDING GOVERNMENT. MOREOVER, THE STRUCTURE OF HUD AND ITS REGULATORY PROCEDURES MUST BE SIMPLIFIED IF OUR URBAN PROGRAMS ARE TO BE TRULY WORKABLE. THE OVERLAPPING OF AUTHORITY FOR PROGRAM ADMINISTRATION MUST BE CORRECTED

THE ULTIMATE MEASURE OF SUCCESS IN OUR EFFORTS TO REBUILD OUR NATION'S DETERIORATED NEIGHBORHOODS AND TO PRODUCE THE HOUSING THAT SO MANY OF OUR CITIZENS URGENTLY NEED RESTS NOT ON LAWS ALONE. RATHER, IT DEPENDS HEAVILY ON THE EXTENT TO WHICH WE BRING ABOUT THE FULL INVOLVEMENT OF OUR NATION'S PRIVATE SECTOR AND ALL OF ITS PROVEN INITIATIVE AND MASSIVE RESOURCES IN SEEKING TO ACHIEVE OUR NATIONAL GOAL OF URBAN BETTERMENT.

AS I HAVE INDICATED, THE FAILURE OF EXISTING PROGRAMS LIES IN THE LACK OF ALLOCATING PRIORITIES TO THOSE PROGRAMS WHICH HAVE THE GREATEST POTENTIAL FOR REBUILDING THE CENTER CITIES. ONE OF THE PRIORITIES OF A NIXON ADMINISTRATION WILL BE TO EMPHASIZE PRIVATE HOMEOWNERSHIP IN THE BLIGHTED AREAS OF OUR COUNTRY. IT IS MY GOAL TO PROVIDE THE OPPORTUNITY THROUGH A COMBINATION OF PUBLIC AND PRIVATE EFFORT FOR MILLIONS OF DISADVANTAGED AMERICANS FOR THE FIRST TIME TO OWN THEIR OWN HOMES.

SENATOR EDWARD BROOKE HAS SUCCINCTLY STATED THE CASE FOR HOMEOWNERSHIP: ". . . HOMEOWNERSHIP CAN BE OF FAR GREATER BENEFIT TO THE POOR THAN A MERE ROOF AND FOUR WALLS. HOMEOWNERSHIP CAN BE A SOURCE OF PRIDE AND STABILITY, INFLUENCES THAT WILL EXTEND TO THE HOMEOWNER'S JOB AND FAMILY LIFE." YET, AMONG NON-WHITES, ONLY 38 PERCENT OF ALL HOUSING UNITS ARE OWNER-OCCUPIED WHILE 62 PERCENT ARE RENTED.

I AM PROUD TO NOTE THAT REPUBLICAN MEMBERS OF THE SENATE AND HOUSE OF REPRESENTATIVES GAVE THE TRUE INITIATIVE TO THE HOMEOWNERSHIP PRINCIPLE IN OUR HOUSING LEGISLATION. AND IN MY ADMINISTRATION THAT INITIATIVE WILL BE CARRIED ON TO GIVE PRIVATE HOMEOWNERSHIP A GREAT IMPETUS.

THE TECHNIQUE OF THE CURRENT ADMINISTRATION IS TO PROMISE MORE FEDERAL MONEY, MORE URBAN RENEWAL AND MORE PUBLIC HOUSING. BUT THE NUMBER OF HOUSING UNITS DESTROYED BY URBAN RENEWAL IS ESTIMATED TO BE FOUR TIMES GREATER THAN THE NUMBER CREATED. FEDERAL CONSTRUCTION PROGRAMS DISPLACE ABOUT 73,000 FAMILIES AND INDIVIDUALS PER YEAR, AND YET, IN URBAN AREAS, 14 PERCENT OF ALL HOUSING UNITS ARE STILL CONSIDERED SUBSTANDARD. AN ESTIMATED TWO-THIRDS OF THOSE DISPLACED BY URBAN RENEWAL PROJECTS ARE MINORITY GROUPS FOR WHOM THE PROBLEM OF RELOCATION IS OFTEN MOST DIFFICULT.

PUBLIC HOUSING BY ITSELF IS NOT AN EFFECTIVE ANSWER TO THE MASSIVE PROBLEMS WHICH FACE OUR CITIES AND DEPRESSED RURAL AREAS. IT SIMPLY CANNOT BE BUILT FAST ENOUGH AND IN SUFFICIENT QUANTITIES TO MEET OUR NATIONAL NEEDS. MOREOVER, PUBLIC HOUSING ONLY UPGRADES THE MATERIAL SURROUNDINGS WITHOUT GIVING ITS RESIDENTS THE SAME SENSE OF RESPONSIBILITY WHICH COMES FROM PRIVATE HOMEOWNERSHIP. ONE EXPERT HAS NOTED: "DURING THE LAST THIRTY-ODD YEARS THAT THE NATION HAS BEEN

INVOLVED IN THE HOUSING BUSINESS, IT HAS ONLY BUILT A LITTLE MORE THAN 600,000 UNITS. THAT MEANS JUST ONE PERCENT OF THE NATION'S HOUSING SUPPLY HAS BEEN BUILT FOR ACCOMMODATION BY LOW AND MODERATE INCOME FAMILIES."

ONE SOLUTION TO THESE PROBLEMS -- AND SOMETHING TO WHICH I WILL GIVE PRIORITY IN MY ADMINISTRATION -- LIES IN TAKING THE HOMEOWNERSHIP PRINCIPLE AND EXTENDING IT INTO THE CENTER OF OUR URBAN AREAS. IF GIVEN THE PRIORITY IT REQUIRES, IT WILL CONVERT TENANTS INTO HOMEOWNERS. IN THE MULTI-UNIT DWELLINGS WHICH DOMINATE THE HOUSING IN OUR CITIES, HOMEOWNERSHIP CAN BE BROUGHT ABOUT THROUGH THE USE OF AN AGE-OLD, BUT NEGLECTED, CONCEPT OF TENURE: THE CONDOMINIUM.

THE MODERN CONDOMINIUM IS AN APARTMENT HOUSE WHOSE RESIDENTS ENJOY EXCLUSIVE OWNERSHIP OF THEIR INDIVIDUAL APARTMENTS MUCH IN THE SAME MANNER AS DOES THE OWNER OF A SINGLE FAMILY DWELLING. THE GOALS OF CONDOMINIUM, A FORM WHICH IS SAID TO PRE-DATE CAESAR, HAVE REMAINED CONSTANT: TO ENABLE PEOPLE IN APARTMENT HOUSES TO ACHIEVE THE ADVANTAGES NOW AVAILABLE TO HOMEOWNERS. THE CONDOMINIUM ALSO ENCOURAGES DEMOCRATIC PARTICIPATION IN PLANNING THE AFFAIRS OF THE COMMUNITY. IT PROVIDES, AS DID OUR TOWN MEETINGS IN THE EARLY DAYS OF THE REPUBLIC, THE FOUNDATION FOR BROADER PARTICIPATION IN THE COMMUNITY.

THE CONDOMINIUM -- WHICH IS A "HIGH-RISE HOME" -- IS NOT ENTIRELY NEW AS A TOOL FOR LOW-INCOME HOMEOWNERSHIP. NOTABLE EXAMPLES OF THE USE OF CONDOMINIUM EXIST IN BOSTON, CHICAGO, AND LOS ANGELES AND OUR OTHER MAJOR CITIES. THE EXPERIENCE IN LOS ANGELES GOES FAR TO SHOW HOW WE CAN BEGIN TO BREAK THE POVERTY CYCLE. THERE, PRIVATE INDUSTRY, WITH ASSURED FINANCING, HAS INVOLVED THE CONSTRUCTION OF SO-CALLED "TOWNHOUSE CONDOMINIUMS" IN A MODEL 10-UNIT PILOT PROJECT. THE WORK AND SUCCESS OF MANY OF THESE PROJECTS SHOULD BE WIDELY COPIED.

WE DO NOT NEED GREATER VOLUMES OF NEW LEGISLATION; WE NEED MORE

PRODUCTIVE USE OF THE LEGISLATION WE NOW HAVE. IT IS TIME WE SOUGHT TO EXTRICATE OURSELVES FROM A LOW-INCOME HOUSING POLICY WHICH CREATES AND MAINTAINS TENANTS, AND OVERLOOKS THE INTRINSIC BENEFITS WHICH FLOW FROM INDIVIDUAL HOMEOWNERSHIP. AS A COMMUNITY LEADER IN ONE NEIGHBORHOOD OF SUBSTANDARD HOUSING IN NEW YORK CITY HAS STATED: "PEOPLE MUST HAVE INCENTIVE. THEY MUST HAVE PRIDE. AND WITHOUT THESE TWO THINGS, THERE IS NO REHABILITATION. I THINK THAT THE GOAL SHOULD BE TO MAKE THESE PEOPLE PROPERTY OWNERS RATHER THAN JUST TRANSIENT TENANTS MOVING AWAY EVERY FEW WEEKS." MY ANSWER TO THAT NEED IS A CONCERTED EMPHASIS ON THE "HIGH-RISE HOME" WHICH WILL GO FAR TO PROVIDING THE SENSE OF PRIDE WHICH COMES FROM HOMEOWNERSHIP.

OVER 100 YEARS AGO, THE REPUBLICAN PARTY PIONEERED THE HOMESTEAD LAWS. THIS LEGISLATION OPENED AMERICAN FRONTIERS, NOT ONLY GEOGRAPHICALLY, BUT POLITICALLY AS WELL. PEOPLE MOVED WEST TO STAKE OUT THEIR HOMESTEAD. THEY ACQUIRED PRIVATE PROPERTY--THEY IMPROVED THE PROPERTY--THEY BUILT THEIR OWN COMMUNITIES--DEVELOPED THEIR OWN COMMUNITY FACILITIES, SCHOOLS, HOSPITALS--AND AS PRIVATE HOMEOWNERS, THEY JOINED THE MAINSTREAM OF THE GREAT AMERICAN PRIVATE ECONOMIC SYSTEM. I SAY THAT NOW--100 YEARS LATER--WE MUST DO THE SAME IN THE CENTERS OF AMERICAN CITIES. WE MUST PROVIDE "HOMESTEADS" FOR THOSE AMERICAN FAMILIES PRESENTLY LIVING IN DEPLORABLE SUBSTANDARD CONDITIONS AND ALIENATED FROM SOCIETY.

AS PRIVATE HOMEOWNERS WITH A STAKE IN THEIR COMMUNITY, A PIECE OF THE ACTION AND A RESPONSIBLE VIEW TOWARD THE STATE OF THEIR COUNTRY, THEY WILL REBUILD THE CITIES--IT WILL BE THEIR SPIRIT AND THEIR CONCERN, AS IT WAS WITH THE FRONTIERSMEN 100 YEARS AGO. THEY WILL REESTABLISH THE PRIDE AND THE DIGNITY OF OUR NATION'S CITIES.

THOMAS JEFFERSON KNEW WHAT THIS SENSE OF PRIDE MEANS: "IT IS NOT TOO SOON TO PROVIDE BY EVERY POSSIBLE MEANS THAT AS FEW AS POSSIBLE SHALL BE WITHOUT A LITTLE PORTION OF LAND. THE SMALL LANDHOLDERS ARE THE MOST PRECIOUS PART OF THE STATE."

THE CENTRAL PRINCIPLE OF A NEW FEDERAL HOUSING POLICY MUST BE TO HELP PEOPLE RATHER THAN JUST CONSTRUCT BUILDINGS. THE CONDOMINIUM IDEA EMBODIED IN "HIGH-RISE HOMES" CAN GO FAR TOWARD HELPING US ACHIEVE THAT END.

END

RN Y

JGT WASH

TO: ALAN GREENSPAN
FROM: CHUCK COLSON

RE: MY CONVERSATION WITH KHACHIGIAN ABOUT HOUSING STATEMENT. KHACHIGIAN SAID THAT HE ELIMINATED ALL OF THE DETAILS ON THE CONDOMINIUM PLAN BECAUSE HE THOUGHT THEY WERE TOO LONG AND DETAILED, BUT SUGGESTED THAT IF I COULD WRAP IT UP IN ONE PARAGRAPH AND ADD IT TO THE STATEMENT, I SHOULD DO SO. I THINK IT SHOULD BE DONE IN ORDER TO GIVE THE STATEMENT A LITTLE MORE MEAT AND SOMETHING NEW AND SUBSTANTIVE. ALSO IT IS IMPORTANT AS A WAY OF SHOWING THAT RN HAS THOUGHT THROUGH SPECIFICALLY HOW THIS PARTICULAR PROPOSAL MIGHT WORK. I SUGGEST THEREFORE THE FOLLOWING PARAGRAPH. THIS PARAGRAPH SHOULD COME RIGHT AFTER THE CONDOMINIUM PARAGRAPHS AND IMMEDIATELY BEFORE THE PARAGRAPH WITH BEGINS: "WE DO NOT NEED GREATER VOLUMES OF NEW LEGISLATION..."

"TO THIS END, I WILL PROPOSE THE CREATION OF A LOW COST PRIVATE HOMEOWNERSHIP INDEPENDENT GOVERNMENT CORPORATION TO WORK WITH PRIVATE BUILDERS AND DEVELOPERS AND TO ENCOURAGE THE FLOW OF PRIVATE CAPITAL. THE FUNCTION OF THIS CORPORATION WILL BE TO PROVIDE AN INTEREST DIFFERENTIAL SO THAT PRIVATE LENDERS MAY LOAN AT INTEREST RATES WHICH LOW INCOME FAMILIES CAN AFFORD AND TO GUARANTEE THE FULL AMOUNT OF LONG TERM MORTGAGES FOR ELIGIBLE PURCHASERS. UNDER THIS PLAN, THE PRINCIPAL REPAYMENT WOULD BE SPREAD OVER 25 YEARS WITH MORTGAGE PAYMENTS SPREAD OVER A FULL 30 YEARS SO THAT IN THE LAST 5 YEARS OF THE LIFE OF THE MORTGAGE, THE GOVERNMENT WOULD RECOVER A SUBSTANTIAL PORTION OF THE INTEREST SUBSIDY AND GUARANTEE COSTS. SUCH A PLAN WOULD PROVIDE THE OPPORTUNITY FOR HOMEOWNERSHIP TO HUNDREDS OF THOUSANDS OF FAMILIES NOW UNABLE TO PURCHASE THEIR OWN HOMES; AND THIS COULD BE ACCOMPLISHED AT MINIMUM COST TO THE FEDERAL TREASURY."

BEGINNING OF THE NEXT PARAGRAPH SHOULD START: THE SOLUTION TO OUR PROBLEMS LIES NOT ALONE IN NEW LEGISLATION BUT IN THE MORE PRODUCTIVE USE OF THE LEGISLATION WE NOW HAVE.

ON THE WHOLE, THE STATEMENT IS A FIRST RATE JOB.

END.P

PRIVATE HOME OWNERSHIP - SOLVING THE CRISIS OF THE CITIES

No task will have ~~a~~ higher priority in the next Administration than rebuilding the center of the American city.

The continued deterioration of American cities, the entrapment of disadvantaged Americans in ~~the~~ ugly ghettos and the civil disorders of recent months underscore the failure of the old ways. The present Administration has made promises, but they have not - and in many cases ~~my~~ could not ^{be} kept. A Nixon Administration will end the gap between promise and performance.

At the core of the problems of the American cities is the need for ^{adequate, decent} ~~substant~~ housing. But it must be more than housing in the physical sense; we must provide an opportunity for disadvantaged Americans to own their own homes and to once again have a stake in the welfare of their community.

If a city is to survive, its people must own it. It must be their ^{home} ~~own~~ and their community. They must care. ⁹ The disease which has caused vast numbers of our citizens living in the cities to become alienated from the society of which they are a part cannot be solved by the simple promise of more Federal money.

¶ Our urban housing needs can only be met by imaginative measures which encourage the full utilization of our dynamic private enterprise resources. ¶ Public housing ^{by itself} is not an effective answer to the massive problems which face our cities and ~~indeed~~ rural areas as well. It simply cannot be built fast enough and in sufficient quantities to meet our national needs. What is more - public housing only upgrades the material surroundings without giving its residents the same sense of belonging - the same sense of responsibility which comes from private home ownership.

Some public housing is obviously necessary. There is simply no other economic ~~alternative~~ alternative. ¶ We can and we will, however, provide the opportunity through a combination of public and private effort for millions of disadvantaged Americans for the first time to own their own homes.

To this end, I will propose the creation of an independent, publicly-funded, low-cost private home ownership corporation.

¶ This agency will work with persons, whether in ~~inter~~ cities or rural areas who are unable through existing programs to purchase their own homes. It will help ^{THEM} to select adequate housing. ¶ It will be empowered to arrange a 100% FHA (guaranteed) 25-year mortgage.

¶ This corporation will be ~~empowered~~ ^{For eligible purchasers} to service the mortgage loan and ~~to~~ subsidize the difference between the mortgage interest charged to the borrower, which may be as low as 2% and the mortgage

interest payment to the lender which will be the prevailing interest rate for private loans. Mortgage payments would be based on a 25-year amortization of principal and interest calculated at the eligible rate. The home owner would pay a constant rate over 30 years even though the principal ~~was~~ ^{would be} fully repaid in 25 years. By this ~~balancing~~ technique, payments during the last 5 years would go to offset FHA insurance costs, government servicing cost and the interest ~~subsidy~~ ^{subsidy.}

Under this plan the mortgage ^{ceiling} would be set at \$15,000, or in certain higher cost areas, \$20,000. The individual home owner would for the first two years that he occupied the home, pay rent, but assuming at the end of the two years he meets all of the specified conditions ^{AND} demonstrating ~~his~~ his responsibility for maintaining the property, the rent would be applied as a down payment and the title would pass to ^{HIM,} ~~the individual home owner~~. During the ~~life~~ of the mortgage, the property would be freely transferable - the interest rate would be subject, however, to the economic circumstances of the purchaser. ⁹ The program I will propose will be a self-help plan. It will not require government capital investment; It will involve mortgage interest subsidies ^{ONLY}. It will encourage private builders and private capital to come into

the low cost housing market. It will unleash the resources of the private sector of the economy with government assistance and government guarantees. It will do so at a minimum cost to the taxpayer.

During the first year in excess of 300,000 new homes could be constructed. Assuming maximum subsidies of interest, the total cost to the government would be \$200 million in the first year. This is a feasible and realistic goal. And over a 5 to 10 year period could ~~provide the benefit of private home ownership~~ ^{RESCUE} to as many as 3 million American families ~~now living in~~ ^{FROM} rapidly deteriorating slums.

Key to the success of this program is a recognition of the ✓ condominium concept, that is, private individual ownership of individual units in multi-unit buildings. It is the only feasible way in which private ownership can be realized in high-density, high-land cost, central city areas. It combines the advantages of individual ownership of the residences and joint ownership of the common areas of the building. It thus encourages democratic participation in planning the affairs of the community. It provides, as did our town meetings in the early days of the republic ~~xxxx~~ the foundation for broader participation in the community.

To this end the Nixon Administration will work in a close cooperative effort with states and local communities. ^{THE} Condominium concept, ~~has~~ not been widely accepted or understood in this country, although its use is wide-spread in Europe and South America.

We would seek the cooperation of local officials to the end that private builders would have made available to them large urban renewal areas in which to build new condominiums. One of the most difficult problems of urban renewal has always been the **RE-**location of existing residents of slum areas. We will propose, therefore, ~~with~~ separate legislation ~~authorizing~~ to provide adequate temporary quarters for those residents of the inner cities who must be moved to make room for rebuilding. These displaced residents must also have first priority rights on the new residences constructed. Finally, the program must provide a fair return for the lender and a fair profit for the builder. ⁹ If private enterprise ~~is~~ properly encouraged - if adequate guarantees are provided by the Federal government - if local officials ^{ARE ENCOURAGED to} cooperate - it is possible to provide the benefits of private home ownership for even the lowest income groups in America.

Over 100 years ago, the **R**epublican party pioneered the **H**omestead laws. This legislation opened American frontiers, not only geographically, but politically, as well. People moved West to stake out their homestead. Our frontiersmen acquired private property - they improved the property - they built their own

communities - developed their own community facilities, schools, hospitals - and as private home owners they joined the mainstream of the great American private economic system. I say that now - 100 years later - we must do the same in the center of American cities. We must provide "homesteads" for those American families presently living in deplorable substandard conditions and alienated from society.

As private home owners with a stake in their community, a piece of the action and a responsible view toward the state of their country, they will rebuild the cities - it will be their spirit and their concern, as it was with the frontiersmen 100 years ago. They will reestablish the pride and the dignity of our nation's cities.

M C A NY

M C A NY

M C A NY

JGT WASH

C

TO: TXXX MR. KACHIGAN

FROM: MR. COLSON

PER OUR CONVERSATION OF LAST NIGHT HERE IS FULL TEXT OF CONDOMINIUM STATEMENT.

PRIVATE HOME OWNERSHIP - SOLVING THE CRISIS OF THE CITIES

NO TASK WILL HAVE HIGHER PRIORITY IN THE NEXT ADMINISTRATION THAN REBUILDING THE CENTER OF THE AMERICAN CITY.

THE CONTINUED DETERIORATION OF AMERICAN CITIES, THE ENTRAPMENT OF DISADVANTAGED AMERICANS IN UGLY GHETTOS AND THE CIVIL DISORDERS OF RECENT MONTHS UNDERSCORE THE FAILURE OF THE OLD WAYS. THE PRESENT ADMINISTRATION HAS MADE PROMISES, BUT THEY HAVE NOT - AND IN MANY CASES COULD NOT BE KEPT. A MIXON ADMINISTRATION WILL END THE GAP BETWEEN PROMISE AND PERFORMANCE.

AT THE CORE OF THE PROBLEMS OF THE AMERICAN CITIES IS THE NEED FOR ADEQUATE, DECENT HOUSING. BUT IT MUST BE MORE THAN HOUSING IN THE PHYSICAL SENSE: WE MUST PROVIDE AN OPPORTUNITY FOR DISADVANTAGED AMERICANS TO OWN THEIR OWN HOMES AND TO ONCE AGAIN HAVE A STAKE IN THE WELFARE OF THEIR COMMUNITY.

IF A CITY IS TO SURVIVE, ITS PEOPLE MUST OWN IT. IT MUST BE THEIR HOME AND THEIR COMMUNITY. THEY MUST CARE.

THE DISEASE WHICH HAS CAUSED VAST NUMBERS OF OUR CITIZENS LIVING IN THE CITIES TO BECOME ALIENATED FROM THE SOCIETY OF WHICH THEY ARE A PART CANNOT BE SOLVED BY THE SIMPLE PROMISE OF MORE FEDERAL MONEY.

OUR URBAN HOUSING NEEDS CAN ONLY BE MET BY IMAGINATIVE MEASURES WHICH ENCOURAGE THE FULL UTILIZATION OF OUR DYNAMIC PRIVATE ENTERPRISE RESOURCES.

PUBLIC HOUSING BY ITSELF IS NOT AN EFFECTIVE ANSWER TO THE MASSIVE PROBLEMS WHICH FACE OUR CITIES AND DEPRESSED RURAL AREAS AS WELL. IT SIMPLY CANNOT BE BUILT FAST ENOUGH AND IN SUFFICIENT QUANTITIES TO MEET OUR NATIONAL NEEDS. WHAT IS MORE - PUBLIC HOUSING ONLY UPGRADES THE MATERIAL SURROUNDINGS WITHOUT GIVING ITS RESIDENTS THE SAME SENSE OF RESPONSIBILITY WHICH COMES FROM PRIVATE HOME OWNERSHIP.

SOME PUBLIC HOUSING IS OBVIOUSLY NECESSARY. THERE IS SIMPLY NO OTHER ECONOMIC ALTERNATIVE.

WE CAN AND WE WILL, HOWEVER, PROVIDE THE OPPORTUNITY THROUGH A COMBINATION OF PUBLIC AND PRIVATE EFFORT FOR MILLIONS OF DISADVANTAGED AMERICANS FOR THE FIRST TIME TO OWN THEIR OWN HOMES.

TO THIS END, I WILL PROPOSE THE CREATION OF AN INDEPENDENT, PUBLICLY-FUNDED LOW-COST PRIVATE HOME OWNERSHIP CORPORATION.

THIS AGENCY WILL WORK WITH PERSONS, WHETHER IN INNER CITIES OR RURAL AREAS WHO ARE UNABLE THROUGH EXISTING PROGRAMS TO PURCHASE THEIR OWN HOMES. IT WILL HELP THEM TO SELECT ADEQUATE HOUSING. IT WILL BE EMPOWERED TO ARRANGE A 100% FHA (GUARANTEED) 25-YEAR MORTGAGE.

THIS CORPORATION WILL FOR ELIGIBLE PURCHASERS SERVICE THE MORTGAGE LOAN AND SUBSIDIZE THE DIFFERENCE BETWEEN THE MORTGAGE INTEREST CHARGED TO THE BORROWER, WHICH MAY BE AS LOW AS 2% AND THE MORTGAGE INTEREST PAYMENT TO THE LENDER WHICH WILL BE THE PREVAILING INTEREST RATE FOR PRIVATE LOANS. MORTGAGE PAYMENTS WOULD BE BASED ON A 25-YEAR AMORTIZATION OF PRINCIPAL AND INTEREST CALCULATED AT THE XXX THE ELIGIBLE RATE. THE HOME OWNER WOULD PAY A CONSTANT RATE OVER 30 YEARS EVEN THOUGH THE PRINCIPAL WOULD BE FULLY REPAID IN 25 YEARS. BY THIS TECHNIQUE, PAYMENTS DURING THE LAST 5 YEARS WOULD GO TO OFFSET FHA INSURANCE COSTS.

THIS CORPORATION WILL FOR ELIGIBLE PURCHASERS SERVICE THE MORTGAGE LOAN AND SUBSIDIZE THE DIFFERENCE BETWEEN THE MORTGAGE INTEREST CHARGED TO THE BORROWER, WHICH MAY BE AS LOW AS 2% AND THE MORTGAGE INTEREST PAYMENT TO THE LENDER WHICH WILL BE THE PREVAILING INTEREST RATE FOR PRIVATE LOANS. MORTGAGE PAYMENTS WOULD BE BASED ON A 25-YEAR AMORTIZATION OF PRINCIPAL AND INTEREST CALCULATED AT THE ELIGIBLE RATE. THE HOME OWNER WOULD PAY A CONSTANT RATE OVER 30 YEARS EVEN THOUGH THE PRINCIPAL WOULD BE FULLY REPAID IN 25 YEARS. BY THIS TECHNIQUE, PAYMENTS DURING THE LAST 5 YEARS WOULD GO TO OFFSET FHA INSURANCE COSTS, GOVERNMENT SERVICING COST AND THE INTEREST SUBSIDY.

UNDER THIS PLAN THE MORTGAGE CEILING WOULD BE SET AT \$15,000, OR IN CERTAIN HIGHER COST AREAS, \$20,000. THE INDIVIDUAL HOME OWNER WOULD FOR THE FIRST TWO YEARS THAT HE OCCUPIED THE HOME, PAY RENT, BUT ASSUMING AT THE END OF THE TWO YEARS HE MEETS ALL OF THE SPECIFIED CONDITIONS AND DEMONSTRATES HIS RESPONSIBILITY FOR MAINTAINING THE PROPERTY, THE RENT WOULD BE APPLIED AS A DOWN PAYMENT AND THE TITLE WOULD PASS TO HIM. DURING THE LIFE OF THE MORTGAGE, THE PROPERTY WOULD BE FREELY TRANSFERABLE - THE INTEREST RATE WOULD BE SUBJECT, HOWEVER, TO THE ECONOMIC CIRCUMSTANCES OF THE PURCHASER.

THE PROGRAM I WILL PROPOSE WILL BE A SELF-HELP PLAN. IT WILL NOT REQUIRE GOVERNMENT CAPITAL INVESTMENT; IT WILL INVOLVE MORTGAGE INTEREST SUBSIDIES ONLY. IT WILL ENCOURAGE PRIVATE BUILDERS AND PRIVATE CAPITAL TO COME INTO THE LOW COST HOUSING MARKET. IT WILL UNLEASH THE RESOURCES OF THE PRIVATE SECTOR OF THE ECONOMY WITH GOVERNMENT ASSISTANCE AND GOVERNMENT GUARANTEES. IT WILL DO SO AT A MINIMUM COST TO THE TAXPAYER.

DURING THE FIRST YEAR IN EXCESS OF 300,000 NEW HOMES COULD BE CONSTRUCTED. ASSUMING MAXIMUM SUBSIDIES OF INTEREST, THE TOTAL COST TO THE GOVERNMENT WOULD BE \$200 MILLION IN THE FIRST YEAR. THIS IS A FEASIBLE AND REALISTIC GOAL. AND OVER A 5 TO 10 YEAR PERIOD COULD RESCUE AS MANY AS 3 MILLION AMERICAN FAMILIES FROM RAPIDLY DETERIORATING SLUMS.

KEY TO THE SUCCESS OF THIS PROGRAM IS A RECOGNITION OF THE CONDOMINIUM CONCEPT, THAT IS, PRIVATE INDIVIDUAL OWNERSHIP OF INDIVIDUAL UNITS IN MULTI-UNIT BUILDINGS. IT IS THE ONLY FEASIBLE WAY IN WHICH PRIVATE OWNERSHIP CAN BE REALIZED IN HIGH-DENSITY HIGH-LAND COST, CENTRAL CITY AREAS. IT COMBINES THE ADVANTAGES OF INDIVIDUAL OWNERSHIP OF THE RESIDENCE AND JOINT OWNERSHIP OF THE COMMON AREAS OF THE BUILDING. IT THUS ENCOURAGES DEMOCRATIC PARTICIPATION IN PLANNING THE AFFAIRS OF THE COMMUNITY. IT PROVIDES, AS DID OUR TOWN MEETINGS IN THE EARLY DAYS OF THE REPUBLIC THE FOUNDATION FOR BROADER PARTICIPATION IN THE COMMUNITY.

TO THIS END THE NIXON ADMINISTRATION WILL WORK IN A CLOSE COOPERATIVE EFFORT WITH STATES AND LOCAL COMMUNITIES. THE CONDOMINIUM CONCEPT HAS NOT BEEN WIDELY ACCEPTED OR UNDERSTOOD IN THIS COUNTRY, ALTHOUGH ITS USE IS WIDE-SPREAD IN EUROPE AND SOUTH AMERICA.

WE WOULD SEEK THE COOPERATION OF LOCAL OFFICIALS TO THE END THAT PRIVATE BUILDERS WOULD HAVE MADE AVAILABLE TO THEM LARGE URBAN RENEWAL AREAS IN WHICH TO BUILD NEW CONDOMINIUMS. ONE OF THE MOST DIFFICULT PROBLEMS OF URBAN RENEWAL HAS ALWAYS BEEN THE RE-LOCATION OF EXISTING RESIDENTS OF SLUM AREAS. WE WILL PROPOSE, THEREFORE, SEPARATE LEGISLATION TO PROVIDE ADEQUATE TEMPORARY QUARTERS FOR THOSE RESIDENTS OF THE INNER CITIES WHO MUST BE MOVED TO MAKE ROOM FOR REBUILDING. THESE DISPLACED RESIDENTS MUST ALSO HAVE FIRST PRIORITY RIGHTS ON THE NEW RESIDENCES CONSTRUCTED. FINALLY, THE PROGRAM MUST PROVIDE A FAIR RETURN FOR THE LENDER AND A FAIR PROFIT FOR THE BUILDER.

IF PRIVATE ENTERPRISE IS PROPERLY ENCOURAGED - IF ADEQUATE GUARANTEES ARE PROVIDED BY THE FEDERAL GOVERNMENT - IF LOCAL OFFICIALS ARE ENCOURAGED TO COOPERATE - IT IS POSSIBLE TO PROVIDE THE BENEFITS OF PRIVATE HOME OWNERSHIP FOR EVEN THE LOWEST INCOME GROUPS IN AMERICA.

OVER 100 YEARS AGO, THE REPUBLICAN PARTY PIONEERED THE HOMESTEAD LAWS. THIS LEGISLATION OPENED AMERICAN FRONTIERS, NOT ONLY GEOGRAPHICALLY, BUT POLITICALLY, AS WELL. PEOPLE MOVED WEST TO STAKE OUT THEIR HOMESTEAD. OUR FRONTIERSMEN ACQUIRED PRIVATE PROPERTY - THEY IMPROVED THE PROPERTY - THEY BUILT THEIR OWN COMMUNITIES - DEVELOPED THEIR OWN COMMUNITY FACILITIES, SCHOOLS, HOSPITALS, - AND AS PRIVATE HOME OWNERS THEY JOINED THE MAINSTREAM OF THE GREAT AMERICAN PRIVATE ECONOMIC SYSTEM. I SAY THAT NOW - 100 YEARS LATER - WE MUST DO THE SAME IN THE CENTER OF AMERICAN CITIES. WE MUST PROVIDE "HOMESTEADS" FOR THOSE AMERICAN FAMILIES PRESENTLY LIVING IN DEPLORABLE SUBSTANDARD CONDITIONS AND ALIENATED FROM SOCIETY.

AS PRIVATE HOMEOWNERS TAKE IN THEIR COMMUNITY, A PIECE OF THE ACTION A RESPONSIBLE VIEW TOWARD THE STATE OF THEIR COUNTRY, THEY WILL REBUILD THE CITIES - IT WILL BE THEIR SPIRIT AND THEIR CONCERN, AS IT WAS WITH THE FRONTIERSMEN 100 YEARS AGO. THEY WILL REESTABLISH THE PRIDE AND THE DIGNITY OF OUR NATION'S CITIES.

RE-LOCATION OF EXISTING RESIDENTS OF SLUM AREAS. WE WILL PROPOSE, THEREFORE, SEPARATE LEGISLATION TO PROVIDE ADEQUATE TEMPORARY QUARTERS FOR THOSE RESIDENTS OF THE INNER CITIES WHO MUST BE MOVED TO MAKE ROOM FOR REBUILDING. THESE DISPLACED RESIDENTS MUST ALSO HAVE FIRST PRIORITY RIGHTS ON THE NEW RESIDENCES CONSTRUCTED. FINALLY, THE PROGRAM MUST PROVIDE A FAIR RETURN FOR THE LENDER AND A FAIR PROFIT FOR THE BUILDER.

IF PRIVATE ENTERPRISE IS PROPERLY ENCOURAGED - IF ADEQUATE GUARANTEES ARE PROVIDED BY THE FEDERAL GOVERNMENT - IF LOCAL OFFICIALS ARE ENCOURAGED TO COOPERATE - IT IS POSSIBLE TO PROVIDE THE BENEFITS OF PRIVATE HOME OWNERSHIP FOR EVEN THE LOWEST INCOME GROUPS IN AMERICA.

OVER 100 YEARS AGO, THE REPUBLICAN PARTY PIONEERED THE HOMESTEAD LAWS. THIS LEGISLATION OPENED AMERICAN FRONTIERS, NOT ONLY GEOGRAPHICALLY, BUT POLITICALLY, AS WELL. PEOPLE MOVED WEST TO STAKE OUT THEIR HOMESTEAD. OUR FRONTIERSMEN ACQUIRED PRIVATE PROPERTY - THEY IMPROVED THE PROPERTY - THEY BUILT THEIR OWN COMMUNITIES - DEVELOPED THEIR OWN COMMUNITY FACILITIES, SCHOOLS, HOSPITALS, -AND AS PRIVATE HOME OWNERS THEY JOINED THE MAINSTREAM OF THE GREAT AMERICAN PRIVATE ECONOMIC SYSTEM. I SAY THAT NOW - 100 YEARS LATER - WE MUST DO THE SAME IN THE CENTER OF AMERICAN CITIES. WE MUST PROVIDE "HOMESTEADS" FOR THOSE AMERICAN FAMILIES PRESENTLY LIVING IN DEPLORABLE SUBSTANDARD CONDITIONS AND ALIENATED FROM SOCIETY.

AS PRIVATE HOMEOWNERS TAKE IN THEIR COMMUNITY, A PIECE OF THE ACTION, A RESPONSIBLE VIEW TOWARD THE STATE OF THEIR COUNTRY, THEY WILL REBUILD THE CITIES - IT WILL BE THEIR SPIRIT AND THEIR CONCERN, AS IT WAS WITH THE FRONTIERSMEN 100 YEARS AGO. THEY WILL REESTABLISH THE PRIDE AND THE DIGNITY OF OUR NATION'S CITIES.

END.

PLEASE WAIT A MINUTE. I HAVE A LITTLE MORE TO COME. OK

IN LAST PARAGRAPH IT BEGINS AS FOLLOWS:

AS PRIVATE HOME OWNERS WITH A STAKE IN THEIR COMMUNITY, A PIECE OF THE ACTION AND A RESPONSIBLE VIEW TOWARD THE STATE OF THEIR COUNTRY, THEY WILL REBUILD THE CITIES - IT WILL BE THEIR SPIRIT AND THEIR CONCERN, AS IT WAS WITH THE FRONTIERSMEN 100 YEARS AGO. THEY WILL REESTABLISH THE PRIDE AND THE DIGNITY OF OUR NATION'S CITIES.

END. HOPE YOU UNDERSTAND???

OK TU BYP

at the root of the Problems of American
Cities is the need for decent housing & -
MEETING THE CHALLENGE OF URBAN HOUSING Home owners Act

~~There is no greater need in this country than the need for adequate~~
~~housing for the millions of disadvantaged Americans trapped in our decaying~~
~~cities.~~ No Task will have higher priority in the next administration

than providing
housing for the millions of disadvantaged Americans trapped in our decaying
cities.

Families living in squalor and despair in a bleak urban environment ~~who~~
~~are inherently susceptible to a loss of incentive; drawn to crime by the~~
~~lure of escape, and victimized by the deadly evasions of narcotics.~~
often are sapped of hope and they are too often
seen in crime or narcotics the only real hope of escape

Families with no personal interest in their own immediate surroundings
have no stake in the community and little incentive to contribute to its
improvement. ~~Instead, they may allow its condition to worsen by their own~~
~~neglect and find its only value as kindling for self-defeating flames which~~
~~mirror the fires in their own souls.~~
as conditions worsen, the ghetto family
becomes more and more alienated from the society.

We must create physical surroundings for disadvantaged Americans which
make coming home a fulfillment rather than an imprisonment. We must give
these Americans a real stake, an ownership interest, in decent homes in living
cities. ~~and~~ we must do ~~so~~ this before it is too late.

Solving this crisis is a task beyond the realm of government. Public
housing is not the answer. It simply cannot be built fast enough. It cannot
longer be built alone
I only up grades
the

Public housing is not an appropriate
answer to such a
massive problem - while there is a role
Marking
Samuel Lewis

provide home ownership because it is a public home and inevitably saps the pride and individuality of its occupants.

On the other hand, it would be idle to promise a two-car suburban home to each family in the inner city. This too is simply not possible. More important, it is not desirable. Our goal must not be to accelerate the death of our central cities, but instead to invigorate them by protecting their most important resource, their people.

Our urban housing crisis can only be solved by imaginative measures which leap over the barriers of conditioned bureaucratic response and encourage the employment of flexible and dynamic private enterprise resources in the struggle to make our cities livable.

I suggest two key measures which would make massive improvements in the bleak picture we face today.

First, I call for the creation of an independent, publicly funded "Capital for ^{Private} Ownership Corporation." This corporation would work with inner city residents to enable them to select adequate housing, and arrange a 100 percent long-term mortgage guaranteed on an FHA basis. It would pay a portion of the

the concept would be parallel to
the Home Ownership Laws of a century ago.

mortgage interest charge, depending on the income of the mortgagee, ~~and~~ ~~the~~ allowing private capital to receive a normal return on such mortgage loans.

It would advise the home owner on arranging his own budget to meet his payments.

Because the "Capital for Ownership Corporation" would enable inner city residents to gain access to the vast supplies of private funds available in this country, its very existence would create an enormous incentive for private builders to produce homes to satisfy the urgent needs of these Americans.

Because the "Capital for Ownership Corporation" would not require Government capital investment, each dollar appropriated to it would result in multiple dollars of actual housing. I estimate that an initial investment of \$400 million for the first year could provide \$10 billion in housing capital for disadvantaged Americans, and provide 650,000 new homes.

Because the "Capital for Ownership Corporation" would be permitted to collect additional amortization payments for five years beyond the mortgage period, it would allow the growing class of inner-city home-owners to repay, in part, the Government's help to them and to provide funds for continued progress.

Second, I call upon private enterprise, and I would encourage the directors of the "Capital for Ownership Corporation," to recognize the need for combining individual ownership with multi-unit dwellings in our cities.

The condominium concept, for example, which permits each resident to own his home in a multi-unit dwelling, is successfully operating in many communities in this country. It adds joint ownership of the commonly used parts of the unit to individual ownership of residence areas and thus encourages democratic participation in planning the affairs of the small community, providing, as did our town meetings, the foundation for broader participation in the larger community.

Private enterprise has in the past provided, and will continue in the future to provide, effective solutions for the needs of our people. The proper role of government lies not in usurping the private function, but in putting all our citizens in a position where they can make private enterprise work for them.

New Leadership to Rebuild the Ghettos

No task will be higher priority in the new administration than rebuilding the center of the American cities.

We have witnessed the failures of the old ways.

Promises have been made but have not, and in many cases could not have been kept.

My administration will offer a new opportunity and will end the gap between performance and promises.

A city is many things; offices, factories, schools, homes but more important than the brick and are the people. At the root of the problems of American cities is the despair of its people. Vast segments of our people have invigorating alienation - a feeling that they don't belong and that somehow the city around them is merely a hollow shell world in which they exist.

If a city is to survive, its people must own it and belong to it. It must be their home and their community. They must care.

One hundred years ago America faced a parallel problem. To those who were for the new frontier of the West our nation had to offer incentives and an opportunity to belong and to own. The Congress passed revolutionary legislation for homestead laws. These laws would be to establish the concept of private ownership and broad based capitalization than perhaps any other act in our nations history.

Under new leadership, I see we need a new homestead act. We need to the private citizens of our inner city regardless of their economic status; the need to own their own home and to have a stake in their community.

Public housing is no substitution. Public housing to be built in sufficient quantity to meet the needs of our

this proposal, the corporation would act as a clearing house collecting mortgage payments at low interest rates from low income home owners - perhaps 2% for family incomes in excess of \$5,000. It would not turn to the private lending institution which had advanced the money for the mortgage a rate slightly in excess of the prime rate. The actual rate paid and the amount of interest subsidy would vary from time to time. It would be geared to the prime rate. By having a variable periods would be inaffected.

Mortgage maximum would be set at \$15,000 or in certain higher cost areas at \$20,000. A 100% FHA guaranty would be provided. Free transferability of the mortgage and of the property would be permitted but the interest rate would be subject to change, depending on the economic status of the purchaser.

Mortgage payments would be based on a 25 year amortization of prices and interest calculated at the eligible rate. The home owner or mortgagee would pay a constant rate. However, under a 30 year plan even though the mortgage prices would be fully returned in 20 years. By this back-loading technique, payments under the last 5 years would offset government servicing costs and in part repay the interest subsidy. Finally, under this plan a qualified individual would ~~have~~ for the first 2 years of occupancy "rent" at the end of 2 years provided the individual had not on the standards prescribed that is still qualified and in good standing and had kept the property in good condition. The first 2 years "rent" payments would be treated as a down payment. Title would pass to the home owner who would assume all of the obligation of the mortgage. During the first 2 years the private builder would remain

responsible for the property although the risk would be limited by full FHA insurance. In the event the prospective owner would have moved in the first 2 years, the property would be sold by the builder to another purchaser.

The sum of this program is recognized as the condominium concept. It is the only feasible way in which private ownership can be realized in high density, high land costs, central city areas. The urgency in introducing the condominium concept is underscored by the projection of the population by the year 2,000 which will have doubled.

Under this plan, private owners could build in new areas, urban areas or existing suburban areas. While this plan is essentially immediate to our plan, it has

broader application and can be used in rural areas
farm communities. In fact, any where there is a need for
low cost housing.

This homestead plan offers a means for involving
many private builders and the people themselves not
private home owners for low income families - for those
who want to improve their lot in life. For those who
want a stake in the action.

Under a program which authorizes, for example,
5 billion dollars a year for construction, over 300,000
more homes could be built. The annual cost to the govern-
ment would be \$200,000,000 in the first year, up to a billion
dollars a year for a 5 year program. During the last 5 years
of each mortgage approximately $\frac{1}{4}$ of the governments outlay
of funds would be repaid. At modest cost, therefore, we can

provide the revolution of private ownership and private investment to those who want more stake in their community. To those citizens who live in despair and in deplorable ghetto conditions who are allienated from society. We are offering home ownership. We will give them a stake in the community so that so that ~~the~~ in the long run the people themselves will save.

REBUILDING THE GHETTOS
THROUGH PRIVATE HOME OWNERSHIP

This Memorandum details a proposal for creating approximately 650,000 new homes per year for low income families at minimum cost to the Federal Government. The Memorandum deals also with the need for such a plan, the political implications for the Nixon campaign, and the financial and economic impact.

A. The Need - Civil disorders, the decay of the center city and the black separatist movement are all interrelated aspects of the country's number one domestic problem. Clearly, the racial crisis is the most severe domestic challenge the U. S. has faced since the great depression of the '30s.

While there are obviously deep seated sociological, political and economic causes of the unrest among negro groups which have lead to civil disorder and riots, one central and immediate fact seems clear. There is an increasing feeling of alienation on the part of large groups of people who do not feel that they have a stake - who are not "part of the action."

Black capitalism as advocated by Mr Nixon is a sound and significant concept. Intelligent negros and intelligent civil rights sympathizers recognize that the thesis advanced by Mr Nixon is in the long run the only meaningful solution. It is, however, conceptual and gradual. It does not offer immediate hope for easing the present crisis.

Concrete steps are necessary to prevent further alienation and to provide some stake in society for vast numbers of negros who will not enjoy the fruits of the black capitalism concept for many years.

Private home ownership is the key; it is perhaps the single most effective and immediate way to build responsible citizens. A home owner, making mortgage payments,

is concerned with the welfare of his property and his investment. He becomes in a very significant way a capitalist and a responsible member of his community.

Public housing is not a solution. Public housing only upgrades the material surroundings without giving the slum dweller any sense of belonging or any sense of responsibility. Providing home ownership for slum dwellers who presently have no stake and no interest in their community is the fastest and most effective means to combat further alienation from society.

B. Political Implications - The Press (unfairly) has characterized Mr. Nixon's basic approach to the civil disorder problem as an appeal to the preservation of law and order; he is portrayed as being unconcerned about the needs of the poor. Mr Nixon is further criticized on the grounds that he is talking only in generalities, that he is really appealing to the white backlash sentiment more than he is to the legitimate needs of the negro and that black capitalism, in the absence of specific proposals, is merely a vague promise off in the future.

How does Mr. Nixon counter these political attacks which will surely be intensified once the nomination is secured? To mimic the proposals of other candidates would be hollow. Nixon's image is well established as a candidate concerned with fiscal responsibility, one who will not make promises that cannot be fulfilled, and one who does not believe that Federal spending per se is a panacea for social problems. What is needed is a program that does offer immediate concrete tangible aid to the negro masses in the city but is tailored to be consistent with Mr Nixon's overall image and beliefs. The following proposal does just that.

This proposal is intended to appeal basically to two groups. Negro opposition to Mr Nixon (or more correctly, the negro's loyalty to the Democrats) is emotional,

unreasoned, and will probably not be affected in any substantial degree by any proposal or promise that he makes. On the other hand, while not necessarily switching negro votes, specific proposals in the housing area would have great appeal first to the white, liberal, eastern, Republican and independent voters with whom Mr Nixon has not identified well, at least according to the polls. To these voters Mr Nixon must prove that he cares, that he is concerned, and that he is prepared to take progressive steps consistent with his basic philosophy. The second group to which this would appeal is what might be regarded as the "new backlash" group. The backlash theory has always held that the white establishment would react against the negroes as civil disorders, riots, and racial tension increased and to date this has been somewhat true. There is developing, however, a "new backlash" - that is, a concern of whites in the city and suburban areas that unless something is done to satisfy the demands of the negro, their own communities and their own power structure is in danger. The "new backlash" theory holds that the government must act to satisfy the threats of the negroes in order to quiet tensions and thereby protect the security of white neighborhoods. For one opinion at least, the new backlash may be a more significant factor than the old.

C. Proposal -

1. A government corporation is created which is authorized to accept for deposit mortgages eligible under the act from private lenders to the limit of \$10 billion per year.

2. Any lending institution which deposits a mortgage under the act will be paid during any given year that the mortgage remains in effect interest at the prime rate prevailing during that year plus 1%. The lending institution would be paid directly

by the government corporation. (The variable amount is established so that this program would be unaffected by periods of loose or tight money.) It would also insure that the government paid interest at the minimum rate available.

3. Under this plan, the mortgagor - that is the individual home owner - would pay 2% interest if he qualified with, for example, a maximum family income not in excess of \$5000. It would be possible to create a sliding scale so that a higher interest could be paid if the income increased during the life of the mortgage or higher interest would be set initially if the owner earned more than the statutory minimum. Mortgage maximums might be set at \$15,000, or \$20,000 in certain high cost areas. A 100% FHA guaranty would be provided, providing no initial down payment. Free transferability of the mortgage and of the property would be permitted but the interest rate would be subject to change depending upon the economic circumstances of the purchaser.

4. During the first two years a qualified individual would "rent". At the end of two years, provided the owner met all the standards prescribed under the act (still qualified economically and had maintained the property in good condition) all of the principal that had been amortized in the first two years' payments would be treated as a down payment. Title would pass to the home owner who would assume at that point all of the obligations of the mortgage. Prior to the expiration of the two years, the promoter or private builder would be responsible for the mortgage (receiving the corporation's interest rate) and in the event the "tenant" were to move during the first two years, the property would be resold to another eligible purchaser.

5. Mortgage payments would be based on a 25 year amortization of principal, insurance and interest at the rate of 2%. The home owner or mortgagor would pay a constant amount, however, for 30 years even though the mortgage was

paid during 25 years. Payments during the last five years would be made to the government corporation as payment for servicing FHA costs and in part a repayment of the interest subsidy which had been advanced.

6. This proposal would require a recognition of the condominium concept. While the condominium has been little used in this country, its use is widespread in Europe and South America. It is the only feasible way in which private ownership can be realized in high density, high land cost, central city areas. Under this plan, private developers could build in new areas, urban renewal areas or in existing slum areas. Obviously the builder would be entitled to a profit for the risks he takes and his determination to build should be based upon the economic feasibility. Knowing, however, that he could offer 2% mortgage money and thereby provide housing more economically than existing low income housing projects or even public housing projects, the builder would know that an excellent market existed. The administration of this program would have to recognize a fair return on the investment which would be an inducement to the success of the program.

D. Economic Impact - Under a program which authorized \$10 billion a year, 650,000 new homes could be constructed. Over 5 years this program could result in over 3,250,000 new homes and more importantly, 3,250,000 new private home owners. The annual cost to the government would be \$400 million in the first year, \$800 million in the second and so forth up to \$2 billion a year for a five year program. No capital would be required on the part of the Federal government since the program requires the use of private builders and private lenders. The total cost of the program for 25 years would be \$50 billion, which is less than present projections for a lesser number of public housing units. In addition to this, during the last five years the government

would enjoy a return of approximately \$12 billion.

In summary, therefore, for a total net cost over 30 years to the Federal government of less than \$40 billion, 3, 250, 000 new homes could be created in the next five years. This number would be sufficient to replace all existing slum ghetto areas with new privately owned homes.

E. Conclusion - This proposal would substitute private home ownership for massive public housing. Its political, social and economic advantages over public housing are vast.

The proposal could be comparable to the Republican passed Homestead Laws of 100 years ago which did more to establish the concept of private property, private enterprise and capitalism than any other law in the nation's history. It would convert the vast majority of persons presently living in deplorable substandard conditions and alienated from society into private home owners with a stake in their community and a responsible view towards the state of the country.

Finally, it would encourage through private enterprise and with the flow of private capital the rebuilding of our center cities quickly and at minimum cost.