The plot against U.S. housing

Richard Freeman presents the policy of halting single-family construction, and the present murderous cost picture.

In an article in its newsletter of Nov. 28, 1980, entitled, "Housing: The Sacred Cow?," the Federal Reserve Bank of San Francisco writes, "Some sacred cows will have to be slaughtered in the lean years looming ahead, and housing-industry leaders they may provide one of the most tempting targets. . . ." As backup, the newsletter quotes a recent editorial in *Business Week* magazine which lies that, "the diversion of capital from industry to housing—the primary aim of government policy—is one of the reasons investment in productive facilities has been inadequate." This lie justifies *Business Week's* solution: "Wean the housing industry of continuing government assistance and make it stand on its own feet."

Have the gentlemen from the San Francisco Federal Reserve Bank lost their senses? Do they really mean to say that over the decade of the 1980s, the $100 to $110 billion U.S. housing market is to be "slaughtered" and government financing, which provides the critical margin of funds to keep the housing market liquid, is to be chopped in half? The answer is an emphatic yes.

At the higher level of financial command in this war against homebuilding is Federal Reserve Board Chairman Paul Volcker, the final boss over the San Francisco and all district Fed banks. Starting in October 1979, Volcker has imposed loan-shark interest rates on the United States that have produced one of the deepest housing and industrial collapses since the 1930s Depression.

Volcker specifically told the housing industry to go to hell in April 1980. At that time 200 thrift institution leaders from around the U.S. traveled to Washington, D.C. to talk about Volcker's imposition of credit controls on March 14. Interest rates skyrocketed to 20 percent in March. Housing, the prime lending market of the thrift institutions, responded by plummeting from its 2 million a year housing starts level to 906,000 starts per year by May 1980.

Homebuilders were experiencing the highest rate of bankruptcies in 45 years, the thrift institutions were suffering gigantic profit losses, and the rate of unemployment of construction workers was skyrocketing which, among other things, was pushing the federal budget deficit further into the red through unemployment disbursements.

The thrift leaders wanted Volcker to reverse his credit policy. According to one of the participants, Volcker said, "The 1980s is the decade for industry, the 1990s is the decade of housing. The next ten years are not going to be your years."

Sunrise versus sunset

The economic strategists of the New York Council on Foreign Relations, the leading financiers for the U.S. construction market, major Canadian and New York real-estate firms, the lower Manhattan banks, and the American Council of Life Insurance and its members—this group is spinning out various ways to eliminate the high-technology existence of the United States and particularly its housing market, through such think tanks as the Council on Development Choices for the 80s and the Washington, D.C.-based Heritage Foundation.

The intention is to divide the United States into two separate economies: an economy of "sunrise" industries, like information processing and service industries, and costly synthetic fuels, which "deserve" to be financed; and "sunset" industries, based on U.S. consumption goods production such as housing, auto, and durable goods production, which "deserve" to fail. Volcker summarized his commitment to this policy when he told a congressional hearing in October 1979 that "American living standards must fall," and therefore items such as housing must be struck from the American household income.

The sunrise versus sunset distinction became a handy rationale for two simultaneous policies: shifting some construction flows into commercial buildings to house the newly created white-collar workers who are replacing productive industrial workers, a trend that is documented in Table 1; and to use the sunrise verbiage in part as a cover for turning U.S. urban centers into centers for cottage industry and "recreational" services like casinos. This implies a massive change for the housing sector, as cheap "rehab" apartments for the poor and exorbitantly priced high-rises for the rich become the American housing norm. Thus, the old traditional homebuilding relationships become the subject of wild tirades.

Reflecting this is the viewpoint of William Mingot, who held the post of deputy secretary for Financial Institutions to Assistant Treasury Secretary Robert Altman in the Carter administration. "We've got too much housing," Mingot stated in an interview published on Dec. 23. He continued, "I think it's outrageous that the typical college graduate today expects automatically to be able to live in a three-bedroom house with one-and-a-half baths. He thinks it's the American dream. Who says he's right? Ten years ago," Mingot continued, "we went on a homebuilding spree. We built houses all over the country, contractors were humming, the building trades were working, everyone had a grand time. Gee, wasn't that fun, Ma? But now, we have too many houses, and scarce resources, especially scarce capital. We can't afford capital for housing."

Mingot's claims that 1) the U.S. housing market is overbuilt and 2) that there is a finite amount of funds and that the housing industry is siphoning important sources of funds from manufacturing industries, which are giving Volcker grounds to most vigorously push to shut down the housing industry. Therefore, we will examine these two claims first.

Housing finance

It is easy enough to explode the claim that housing is taking its "undue share" of credit market funds. According to figures published by the Federal Reserve itself, mortgages represented in the 1960s a 19 percent share of total financial flows, while in the 1970s they represented a 20.5 percent share, a noticeable, but marginal shift of no great importance.

However, there has been an undeniable explosion in the amount of money the economy is committing to housing in the form of single-family housing and multi-dwelling-unit mortgages, called residential mortgages. This points the way toward an overcapitalization of mostly fictitious values, which nonetheless constitute superprofits pocketed by the real-estate swindlers and Wall Street bankers, not the homebuilder.

At the end of 1974, the total amount of residential mortgage debt outstanding was $549 billion. By the end of 1979, the total amount of residential mortgage debt outstanding was $1,000.3 billion ($868.3 billion for single family housing alone), nearly a *doubling* in five years.

Yet, the volume of increase in mortgage loans was scarcely due to an increase in the volume of new housing. The average rate of new housing starts (and completions) in the 1970s was only 2 percent per year (the rate was lower in the latter half of the 1970s; it is impossible to get an accurate picture on a year-to-year basis because of the tremendous boom-bust cycle in housing). Thus, in the 1974-1979 period, there was an addition of 10 to 11 percent in new homes. The nearly 100 percent increase in mortgage loans versus the 10 percent increase in new homes says only one thing: the great bulk of the huge flow of funds didn't go to cover new housing, but just to cover inflation! And in the housing industry, two of the most important causes of inflation are higher interest rates and higher land costs fed by real-estate speculation—the very two items Volcker is committed to increasing. The increase of mortgage interest rates from 9 to 14 percent in the last five years adds nearly a quarter of a million dollars on a $60,000 house with a 30-year mortgage. And interest rates negatively impact the housing market twice—in the forms of higher building costs and higher purchasing costs.

Yet, looking more closely at the housing market, it can be seen that there is not an "overproduction" of housing as Volcker maintains, but rather a vast shortage, in terms of real housing needs.

According to government information, the United States lost nearly 3 million housing units, or one in every 20 of the total stock between 1973 and 1977, because of decay, despite the building of new homes.

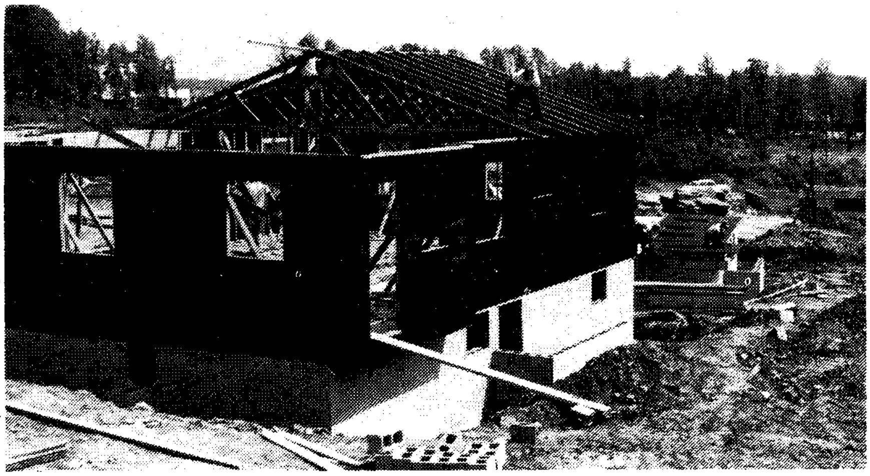
There is a tremendous amount of family-formation potential starting in the 1980s. Whereas in 1961-1965 there were only 2.2 million individuals annually who reached the age of 30 years—a prime-indicator age for home buying and family formation—in the years 1981-1985, it is projected that there will be 4 million individuals annually who reach the age of 30 years, the result of the 1950s baby boom.

If the United States tried to equal the 3 million dwelling units taken out of circulation between 1973 and 1977, plus whatever units were taken out of circulation since then, tried to meet the housing needs of the new crop of 30-year-olds, and replaced the housing in America's inner cities, the U.S. housing industry would have to produce at the rate of 2.5 to 3 million starts a

The high cost of housing

Year	Yearly income	Price of house
1949	$ 6,000	$ 9,800
1979	16,000	79,000
1980	16,000	98,000

U.S. Department of Housing and Urban Development



The family dwelling: a thing of the past in the 1980s?

year between now and 1990—a rate the U.S. has never reached.

The problem for the housing industry is one of capacity; it doesn't have it. How could industrialists be persuaded to build up and invest in such capacity, when Volcker might turn around and push the rate of new housing starts down to 1.2 to 1.3 million per year—as the Federal Reserve did in 1980 to well below the 2 million levels of even 1977 and 1978.

The blueprints for destruction

Central to the current attack on the homebuilder are two institutions: the Council on Development Choices for the 80s and the Heritage Foundation.

The Council on Development Choices for the 80s was set up in 1980 with a $650,000 grant from the Department of Housing and Urban Development. This grant specified that HUD and the Washington, D.C.-based Urban Land Institute, a land developers' group, would administer the grant and perform a study. The executive director of the latter group is Donald Priest. The Urban Land Institute, in turn, is a front for the giant Canadian real-estate firms like Olympia and York, run by the Bronfman family and Cadillac Fairview, run by the Reichmann family, as well as New York firms such as the Donald Trump organization. The lawyer for this group is the reputed mob lawyer Roy Cohn. As uncovered in *EIR*'s Dec. 16, 1980 issue, ("Free Banking Zones: Selling U.S. Cities on the Black Market"), the key point about these giant realtors is that they siphon, rechannel, and launder large sums of money from the world's $200 billion illegal narcotics trade into their real-estate operations. Their interest then, given their access to this large illicit pool of money, is to bid real-estate prices into the stratosphere, and build a market in which only they can afford to build that will enhance their control of real-estate flows. They do this in connection with some of the large New York money-center banks.

The outcome of their plan can be seen in New York City, where low- or medium-priced single family or multidwelling-unit construction—the type the average homebuilder can afford to build—has collapsed. Instead, New York is filled with high-rise apartments, whose rents start at $1,000 to $5,000 per month, duplexes, and commercial real estate. What is emerging as the leading form of housing otherwise is rehabilitation, which by and large is a ruse put over on the future purchaser. As a result of their speculations, the New York City real-estate market is valued at $1 trillion, more than twice the value of all productive plant and equipment in the United States.

Their aim is to enlarge upon the New York City real-estate model throughout the country, in fact elevating it to the model of Hong Kong, where the center of the world's narcotics trade is located, and whose rents are the highest in the world.

The first aim of these giant Canadian and New York real-estate interests has been to clear the ground for such plans by intentionally wiping out the existing U.S. real-estate market, and the traditional housing-thrift institution loans structure, as well as the traditional homebuilding industry. This also included the plan to disrupt the very pattern of economic growth and family formation in the United States which is the underpinning of the U.S. housing market.

In its Nov. 20, 1980 report with recommendations on the U.S. housing market, the Council on Development Choices for the 80s proposed the following changes to impose on the United States:

Its first proposal is to "reduce the growth of energy consumption," which is the key for the Council on Foreign Relations and real-estate firms to wreck economic growth in the United States. The council then proposes to "*minimize long-term commitments in light of uncertainty about future conditions* [emphasis in original]. Public and private investors" the Council says, "are increasingly unwilling to make long-term commitments in light of uncertainty regarding future inflation, development costs, and regulatory volatility." The report recommends that a minimum of services be provided for communities that need housing, and finally, the acceptance of a new ultraliberal lifestyle: no new families with children. "The composition of households is changing rapidly. Households without children now account for over 50 percent of the total," the report gleefully states. This means, the Council on Development Choices on the 80s emphatically asserts, "Households will consume less space in the 80s."

While the council sets up the imposition of this negative set of constraints on the housing industry, the Washington, D.C.-based Heritage Foundation, then offers the further program it wants to impose. "We need to take the sort of action that will stabilize the New York real-estate market," stated Heritage Foundation Director Stuart Butler. Butler recommended that the "Hong Kong model be brought to the United States," to accomplish this. This would include shifting a large amount of capital into labor-intensive, low-wage jobs and "free-enterprise zones." This is the phony "reindustrialization" Volcker is talking about: Chinese coolie sweat shops.

To house the people who will work there, Butler recommended "rehabilitation of old housing" in ghettos and similar schemes. This will replace new single- or multidwelling-unit housing. To finance the operation, Butler recommends going outside the U.S. capital markets and bringing in billions of dollars from abroad.

Economic warfare

But as Volcker, the giant narcotics-connected Canadian real-estate firms, and the Council on Foreign Relations know, the U.S. homebuilders, construction workers, and the average family will not accept the alternatives they are proposing. Thus they will attempt to enforce this scheme through warfare. The first step in this warfare is the attempt to knock out government financing assistance to the U.S. housing market. The Nov. 28, 1980 newsletter of the San Francisco Federal Reserve recommends that "it will be necessary to bring the tax treatment of housing and other investments into line if the distortions of investment patterns are not to persist." The San Francisco Fed Bank says that the capital-gains exemptions for single family housing should be "reformed." It also lobbies heavily for the elimination of some or all of the government financing and government mortgage financing programs such as Ginnie Mae, and Freddie Mac, which account for about one-quarter of the annual $100 billion in net flow of funds that goes into the housing industry.

At the same time, Volcker is attempting to wreck the traditional source of all homebuilding: the thrift institutions. Volcker is placing interest rates at such a level that financing home mortgages for 30 years at 8 percent interest rates is not profitable. Instead, Volcker is offering the thrift institutions the chance to make floating rate, or variable mortgages, which tie the interest rate to both the prime rate and the inflation rate pushed higher and higher by Volcker's policies. This severs the secure relationship that once characterized housing-market financing, turning it into a volatile,

Residential vs. commercial construction

(millions of current dollars)

Year	I Contract awards for office buildings, stores, and other commercial buildings	II Contract awards for residential construction*	III Total construction	IV I as a percent of III
1973	12,846	43,137	99,304	12.9
1974	11,751	31,976	93,685	12.5
1975	9,233	30,165	92,659	10.0
1976	10,234	42,995	110,061	9.2
1977	13,575	60,993	139,723	9.7
1978	20,626	74,949	159,930	12.9
1979	24,215	71,950	166,378	14.5
1980 (est)	22,950	59,900	140,400	16.3

It can be seen that commercial construction (of which the largest element is office building construction) has been growing rapidly at the expense of residential construction. Most noticeable is that unlike the recession of 1974-76, when office building construction contracted as a percentage of the total share, during the current Volcker recession it is actually increasing by leaps and bounds.

* Single-family housing and multi-dwelling units

Source: Construction Review of U.S. Dept. of Commerce indexed, and therefore completely uncertain affair.

Volcker is indeed attempting to entice the thrift institutions out of the housing market altogether by giving, in exchange for his high interest-rate policy, the thrift institutions the right to start making commercial and speculative-type loans which will be more profitable. This is an incorporated feature of the Monetary Deregulation and Monetary Control Act of 1980, which ultraliberal Henry Reuss, outgoing chairman of the House Banking Committee wrote, and Volcker helped steer through Congress.

At the same time, Volcker and the large New York banks are pushing for the legalization of interstate banking through abolition of the Douglas Amendment to the McFadden Act and establishment of International Banking Facilities (IBFs) in the United States, which would bring the $1.3 trillion Eurodollar market back onto U.S. shores. This will swallow up more than half the thrift institutions and give huge profits to the New York banks which can afford to run IBFs. The money for the housing market will soon be transferred into lower Manhattan's hands.

This financial warfare is capped by Volcker's announcement of tight credit supplies for the whole of 1981. This will be the setting for the thrust to destroy the American housing market.

How it looks to the building trades

The following is excerpted from a recent interview with Ron Thelin, president of the Illinois State Conference of Plasterers and Cement Masons, and president of Cement Finishers Union local 502, the largest cement local in the United States.

Thelin: In 1940 you could buy a medium-priced home in the Chicago area for $4,000. My men were averaging anywhere from $3,000 to $3,500 a year incomes. Today, the medium-priced home is $97,000 and my men are averaging $17,000.

EIR: What would you say is the principal reason for this rise?

Thelin: There's no question about it: interest rates. In 1949, a medium-priced home in the Chicago area was $9,780, and you paid $5,140 interest. Today you are paying over half a million!

EIR: If you were to go out and try to get a mortgage in Chicago, how much would you have to pay?

Thelin: Anywhere from 15 to 16½ percent interest.

EIR: What about the value of the land? Has it been bid up?

Thelin: Land and financing are about 36 percent of a new home today. And in 1949, land and financing were about 16 percent.

Otherwise, in the Chicago area, housing prices are up 70 percent in five years, while wages are just inching ahead. So, they've really made a new home a vanishing dream.

EIR: What happened to housing in the Chicago area after October 1979, when Volcker first hiked interest rates, and then again in March 1980?

Thelin: Let me give some figures. On Jan. 1, 1979, a medium-priced home in Chicago was $79,000. Your interest rate was 10⅜ percent. So, if you put 20 percent down, your monthly payments were $577 per month. On Jan. 1, 1980, that home went from $79,000 to $97,000, interest rate from 10⅜ to 13 percent, your monthly payment from $557 to $1,140. That was one year ago.

Since then, they have raised the usury ceiling in Illinois and 25 other states. The interest rates were holding fast at 16½ percent. So now, it is absolutely impossible for any working person to buy a new home.

The qualifying income in 1979 was $38,869 to buy a medium-priced home. That meant that maybe three of my members might have to get together to buy a house.

EIR: What has happened to your members' employment?

Thelin: Bungalow work was approximately one-third of our work, so obviously, it's destroyed us. In Illinois, we have the highest unemployment since the depression. The rate is something like 10 percent.

EIR: How many are laid off?

Thelin: I can't speak for the other trades; some are affected more than others, but it's massive. The iron worker wouldn't be affected by the bungalows slowing down because he doesn't put any steel in them. Whereas the industrial contruction has slowed down, but it hasn't collapsed like homebuilding. One-third of our work is bungalow, another third is highway and road construction. Heavy [construction] and highway have been poor in the Chicago area. The remaining third is commercial and industrial.

EIR: What about commercial and industrial construction?

Thelin: That has been holding its own.

EIR: How would you say Volcker's policy has affected the need to get unemployment benefits and therefore, the budget?

Thelin: Well, Volcker is a jerk—how can I put it? He has done more to create inflation than any man in America today (maybe with the exception of David Rockefeller, who calls the shots).

Nobody can afford the cost of a medium-priced home today, and that will have a ripple effect on other things. When you stop building homes, you stop building washers, driers, refrigerators, carpeting, TV, everything. . . .

EIR: The Development Council for the 80s, which was set up by Carter with a $650,000 grant from HUD, says it's greedy for people to want single-family homes.
Thelin: This is supposed to be a nation of the people, by the people and for the people. And I don't need David Rockefeller or any banker to tell me what's best for the American people. The government takes 42 percent of everything we earn in federal, state, and local taxes, and I think we're entitled to a say-so in how this country's being run.

EIR: Were you happy with the election of Reagan?
Thelin: Not really. I don't think we had a candidate on the ticket to choose from.

EIR: He's had some input from homebuilders. Do you think he will respond to their needs?
Thelin: I don't know. I'm watching his appointments. Carefully. He's replaced several members of the Council on Foreign Relations. But he's also made about six appointments of members of the Council on Foreign Relations. So, it's hard to say. I can't criticize the man until he's given a chance. It's sure that Carter was a disgrace to the American worker, and it's time we gave the Democratic Party back to the American worker.

EIR: According to some figures, utility construction went down from $13 billion in 1979 to about $5 billion in 1980, a lot of it having to do with the shutdown of nuclear construction in the Northeast and Midwest.
Thelin: Yes, it's as if they are doing everything they can to collapse anything that's productive in this country. Shutting down nuclear construction is a bad mistake. It's the answer to our energy needs.

EIR: Is there anything you would like to add?
Thelin: Well, if you were to walk out on the street and grab the first citizen you see, and ask him why a new house costs so much, he's likely to say it's those plumbers and electricians and carpenters that are killing us, charging too much in wages. I'd like to point out that in 1949, 31 percent of the cost of a new home was on-site labor, and that figure is down 15 percent today. In 1949, a painter used a paintbrush. Today he's using sprays and a roller. In 1949 a cement mixer didn't have ready-mixed concrete. They mixed it in a drum and spread it out with shovels. Now we've got pumps, machines to help finish it and so on. Productivity has tremendously increased. The labor is the only segment of the cost of a new home that has actually gone down.

But if you talk to the average citizen, they blame the worker. The worker is the most productive thing in a new home. And, the union worker is 22 percent more productive than a non-union worker.

When it comes to federal funds, the biggest losers were Illinois, Michigan, Ohio, New Jersey, Indiana, and Wisconsin. These are all industrial states. It is as if there is a conspiracy to hold back funds from those unionized states and sent it to the non-union states. Illinois is probably the most industrialized and unionized state in the county. And it gave the federal government $31.4 billion more than it received back in all types of federal spending. No one expects a dollar for dollar return on federal taxes. But it's obvious that for years, this state has been suffering from industrial anemia.

EIR: What about Southern states, where there is a great deal of new construction going on? Is there any organizing going on there?
Thelin: The vast majority of construction, in Texas, say, is non-union. Today, 62 percent of all construction is non-union, much higher than it was a few years ago. This despite the fact that productivity per employee is 29 percent higher in construction firms that use union building tradesmen, and this is wholly attributable to the labor, that the union employee is 38 percent more productive than his non-union counterpart. Therefore, it should be obvious that unions foster free enterprise; this was proven in a study conducted by Dr. Steven Allen at North Carolina State University.

EIR: What do you think it will take to get Volcker out?
Thelin: The only way you're going to get him out is to focus attention on the real cause of inflation, the fact that they're collapsing productive employment. This country was set up on the basis of productivity. Someone mentions productivity, and they think of the American worker. When they shut down all productive sectors of the economy, naturally productivity is going to go down.

One of the foundations of our society was construction. That was a very productive sector of the economy. When they collapse construction, they collapse one-fourth of the economy, through its ripple effect.

What's causing inflation? High interest rates. A guy with a savings passbook is getting 5 percent. They're getting 16 percent when he goes in to buy a home. It is ridiculous.

EIR: If the National Association of Homebuilders were to offer you their assistance in getting rid of Paul Volcker, would you accept it?
Thelin: Of course.