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34

AN APPRAISAL OF CURRENT PROSPECTS AND A TENTATIVE PROGRAM

Background

Around the turn of the year there were certain unhealthy developments in the economic sphere. Commodity prices had broken out of their 1934-36 range and were moving rapidly upward. There appeared to be some danger of entering into a spiral of wage and price advances. The price advances were resulting in inventory profits and to this extent encouraged speculative inventory buying. A general inflationary psychology, fostered by the rearmament programs, was emerging. The steel industry on which many of the demands for durable goods ultimately converge was operating at capacity, and although steps were taken to enlarge capacity, these steps would not become effective until after a year or more. In these circumstances it appeared desirable to exercise some measure of restraint. Reserve requirements were raised, the President's statement relating to durable goods expenditures by the Federal government was made, action was delayed on the Miller-Tydings Bill, and the Department of Justice began a more vigorous anti-trust enforcement program.

Partly as a result of these steps, partly because speculative technical positions in various raw materials became weakened, and partly because of the rumor of an impending cut in the price of gold, the emerging speculative movement was definitely checked for the time being. Raw material prices receded and prices of various semi-manufactured goods ceased to advance. A definite change in short-run expectations has become apparent. Vague fears and expectations of inflation have given way to a fairly widespread expectation of a minor business recession and of a continuance for a time of present price levels. It is therefore proper to reappraise the situation. Have the restraining measures proved too drastic or is there still danger of a runaway situation? Are we proceeding too rapidly to bring about an excess of cash receipts over cash expenditures by the Federal government? Should expenditures of the Federal government be curtailed or should taxes be raised, or should either of these things be done? Should a further expansion of money be permitted? The answer to these and other questions depends on our appraisal of the outlook during the remainder of this year and next year. I shall first consider whether anything has occurred to modify the basic upward trend. The possibilities of an intermediate recession in this basic trend will then be taken up.

A. Federal receipts and expenditures

It would appear that the contribution to the increase in total community expenditures attributable to the operations of the Federal Government will be very substantially reduced in the fiscal year 1938 as compared with the fiscal year 1937. While it is impossible to determine the exact contribution, since it is unknown what income tax payers would have done with their money if they had not paid taxes, it is possible to give an approximate range.

Let us assume that all government expenditures except debt retirements, appropriations to the old-age reserve account, purchases of investments by the Unemployment Trust Fund, and gold purchases represent a gross increase in community expenditures. We may assume that the proceeds of the bonds and checks issued in payment of adjusted service certificates which were cashed in June 1936 were spent in the fiscal year 1937 and should be included with the government contribution to expenditures during that period.

We may arrive at a maximum figure for the net government contribution to expenditures by deducting from these gross expenditures only indirect taxes on consumption, manufacturers' excise taxes, social security taxes paid by employees, and the income taxes paid by the group of tax payers with a net income of $15,000 or less. We assume that only these receipts result in an equivalent contraction of expenditures in other directions. On these assumptions we arrive at a figure of $6.8 billion for the net government contribution to expenditures in the fiscal year 1937. In the fiscal year 1938 this figure will fall to $4.5 billion, a decline of $2.3 billion.

In arriving at these maximum figures we have assumed that the collection and spending of all other taxes than those mentioned result in an increase of community expenditures equal to the amount spent. We may arrive at minimum figures by assuming that <u>all</u> taxes and all other government receipts except borrowing reduce expenditures in other directions and should be deducted from the gross contribution to community expenditures. This calculation yields an excess of expenditures of $3 billion for the fiscal year 1937. In the fiscal year 1938 we arrive at an excess of receipts of $700 million, a decline of $3,700,000,000. We can now say that the decline in the net contribution of the government to community expenditures from the 1937 level will be somewhere between $2.3 billion and $3.7 billion. We will probably not be far wrong in choosing the midpoint of this range and taking $3 billion as indicating the probable magnitude of the reduction. It would therefore appear that there will be a considerable reduction in the stimulation to the growth of community expenditures provided by government fiscal policy, and that the continuance and rate of the recovery movement depend upon the increase in private expenditures.

B. Private expenditures

1. Automobiles. It appears that the output of automobiles this year may be larger than in 1936 by some 400,000 cars. Stocks of cars are now low and production should remain higher than last year for some months to come.

2. Housing. In 1936 some 280,000 housing units were constructed. In 1937 it is anticipated that some 450,000 units will be built. In dollar terms such a volume of construction plus repairs would mean about $1 billion more than in 1936. A substantial addition to income will therefore probably arise from the increase in building construction this year. In the first four months residential building contracts ran 78 percent above the previous year.

3. Railroad and power expenditures. Judging from orders already placed, from expenditure programs announced from time to time,

and from expected requirements for rolling stock and power capacity, this fall and next year, a substantial increase in railroad and power company expenditures in 1937 over 1936 may be expected to occur.

4. Total private construction. It may be hazarded that total private construction in 1937 will show an increase somewhere in the neighborhood of $2 billion over 1936.

5. Larger harvests. It is now expected that harvests will be substantially larger this year than in 1936. The general experience in the past has been that farm income is higher with large crops even if prices are lower than with short crops at higher prices. This should be true this year since we are on the ascending phase of the cycle and the world position does not appear to call for much recession in prices. It is sometimes assumed that a larger crop, which results in larger incomes for farmers, merely represents a transfer of buying power from consumers, and not a net increase. This view, however, appears open to question. In the first place, part of the additional income of farmers may come from foreigners. Secondly, a larger crop results in increased traffic upon railways and, hence, stimulates capital expenditures which add to income.

6. Exports and imports. Even though we may expect some increase in agricultural exports and decrease in agricultural imports it appears now that the debit balance on account of merchandise and services will be greater in 1937 than in 1936. This should

exercise a restraining influence. A larger amount of current income of the community is subtracted for the purchase of foreign goods than is restored through the sale of domestic goods to foreigners.

7. Interest rates and financing. The bad case of financial jitters since the first of the year seems to be passing. In recent weeks bond prices have firmed and a large new issue immediately went to a premium. Plans are being made for a substantial volume of new issues. Interest rates are still relatively low and if some confidence arises in their permanence the degree of rise that has taken place should not prove any deterrent to capital expenditures. Stock prices by and large appear to be reasonably priced in relation to current earnings, and substantial yields are obtainable on a large number of investment stocks. In the absence of any very deflationary development, therefore, the probabilities appear to favor an advance rather than a fall in stock prices.

8. Profits. Some fears have been expressed that the advance in wages and material costs may narrow the margin of profits. Although this is undoubtedly true here and there, it would appear that by and large earnings for common stocks will experience a substantial increase in 1937 over 1936. Standard Statistics estimates that the leading industrials will report an increase in per share earnings of over 40 percent in the first half of 1937 over 1936. They estimate that steel company earnings will be even higher in the second quarter than the first. It appears unlikely that the rate of increase in the first

half can be sustained in the second half, as comparisons in many cases will have to be made with a period when activity was nearly as great and costs were lower. If, however, the increase in wage and material costs has been in major degree arrested or slowed up, the increase in volume and the increase in efficiency should permit profit margins to be sustained. For the year as a whole very many companies will be in a position to take some profit on inventories.

9. Effect of higher prices on incomes. It appears likely that industrial wholesale prices in 1937 will average some 7 or 8 percent over 1936. Hence, even with no increase in the volume of industrial production there would be an increase in the value. Aggregate wages and profits would be higher, therefore, even if there should be no increase in industrial production. Actually there appears every reason to expect an increase in the volume of production for the year as a whole, as the increase in the first half over the corresponding period in 1936 will amount to some 20 percent. On this score, therefore, tax yields should be higher in the fiscal year 1938 than in the fiscal year 1937. One effect of the higher price level will be that an increase in expenditures of a given amount will result in a less increase in production and employment than would be true if prices had not advanced.

10. Inventories. The prospects for the next few months are bound up with the movement of inventories. The volume of inventories throughout all industry is always so large that a slight

variation in one direction or the other may be sufficient for the time being to outweigh the effect of the longer-run and continuing factors, It is very difficult to get a clear picture of the inventory situation. At the end of March seasonally adjusted stocks of department stores were 17 percent higher than for the corresponding month in 1936. Part of this increase, however, resulted from higher prices. Seasonally adjusted sales in April increased nearly 11 percent over the previous year. Mail-order sales in April showed a much larger increase over the previous year. It would appear reasonable to assume that the bulk of the recent wage advances will go into consumer purchases. The excess stocks of bituminous coal, built up in anticipation of a strike, are in process of being worked off. The commentators on the steel industry appear to feel that little of the steel production in the last six months has gone into stocks. Non-ferrous metal and new car stocks are very low. Gasoline stocks, while higher than a year ago, are lower in relation to current sales. The general unevenness of the picture may indicate that there is little likelihood of a general cessation in buying while stocks are being worked off. However, the cessation in certain lines may not be fully offset by increased buying in other lines, so that a net restraining influence may be felt for a few months. In any case, there appears little reason to expect much accession to incomes arising from production for increased inventories in the remainder of the year.

Summary and Conclusion

The general picture that emerges is as follows: The first six months of 1937 will show a substantial percentage gain in production over 1936 and an even larger gain in money incomes. For the remainder of the year, however, the percentage gains will be considerably less. The stimulus in 1936 arising from bonus payments and the expectation of rising prices will be absent in the second half of 1937, while increasing taxes, particularly on social security account, will exercise a restraining influence. Comparisons will have to be made with a period that showed an exceptionally rapid rate of increase in production and payrolls.

Basic factors at work will tend in the direction of increasing incomes in the second half of the year. The increase in incomes that has already occurred, in conjunction with the still modest volume of residential building, will operate to force rents up and thus make for a continuance of the increase in building. Increasing railroad traffic and electric power output will result in an increase in expenditures by railroads and public utilities. Increasing residential construction normally entails additional municipal expenditures. Larger harvests will result in a net addition to national income and have a generally stimulating effect. Under the workings of the tax on undistributed earnings the bulk of dividend payments tends to be concentrated in the second half of the year, and indications are that profits and, hence, dividends will be higher this year than last. As opposed to these factors there will be the restraining effect of increasing tax revenues, decreasing relief expenditures, and an excess of payments for merchandise and service account abroad. The prospects, therefore, are for continued and modest gains in production and income unless a net reduction of inventories occurs which, for a few months, could cause a decline in production. Such a reduction, however, if it is to occur at all, should be taking place now as an aftermath of the cessation of the period of rapid price advances. It may, of course, be that a slackening of orders will only show itself after industry has caught up with the orders placed this spring. At this juncture, therefore, the prospects for the remainder of the year depend largely on the movement of inventories. If they remain stationary, a modest advance in production is possible; if they decline, we may experience a minor recession.

Looking at the matter from a cyclical point of view, the establishment of a broad and relatively high plateau of activity in 1937 would be constructive. Demands have increased as far as they can go at present without unduly taxing the capacity of the steel industry, the machine tool industry and the railroads. A rate of increase at this time comparable to that of the latter part of 1936 could only result in price advances. What is needed is a slowing up for the time being of the rate of increase, so that opportunities may be afforded for the addition of productive capacity. During the next six months additional steel capacity will be completed, the output of machine tools, railroads and power equipment, and building materials will be increased, and copper production will be stimulated. We will then be in a better position to meet further increases in demand without running into bottle-necks. That we can look forward with some degree of confidence to further increases in incomes and production in 1938 is indicated by the still large backlogs of demand in the durable goods fields. Even the volume of residential building this year, for instance, will not be sufficient to match normal growth requirements.

Policy indicated

1. Monetary policy. No particular measures appear to be called for at this time. Since the beginning of the year demand deposits have declined by some $700 million. It appears safe, therefore, to permit banks to utilize some of their excess reserves in increasing their commercial loans and their holdings of Treasury bills. As deposits expand and currency in circulation increases a gradual absorption of the present volume of excess reserves will take place. It still appears desirable to work toward the absorption of excess reserves and a temporary stabilization of the volume of money somewhere around the present levels. The ammunition of increased reserves and deposits should, as far as is practical, be reserved for the time when there appear to be signs that the production of durable goods is likely shortly to falter.

2. Gold policy. In view of the uncertain course of business in the next six months it would appear inadvisable to attempt either a unilateral or multilateral cut in the price of gold. The deflationary psychological repercussions might prove too severe. What can be done, however, is to impose additional taxes on foreign capital. By shutting off some of the capital inflow, England will be called upon to absorb more gold. If she lowers her buying price the rise in sterling will temper the anticipated fall in the price of our agricultural exports. Then, by the time the recovery movement is resumed vigorously in this country, we can either lower our buying price for gold or come to terms with England with respect to joint action.

3. Budget policy. In the appraisal of current prospects it was estimated that the decline in the government's contribution to the growth in total community expenditures from the fiscal year 1937 to the fiscal year 1938 would amount to some $3 billion. This should operate to slow up very considerably the rate of recovery. Despite this fact there is a very strong feeling that the budget should be balanced. The immediate problem, therefore, is whether the anticipated technical deficit (exclusive of sinking fund requirements of some $400 million) can be wiped out without curtailing total community expenditures still more.

It is obvious that the solution most generally favored, a contraction of expenditures, would reduce total expenditures and the total demand for goods. This would be particularly true if the contraction took place in relief expenditures. An increase in certain types of taxes would also reduce consumer expenditures. Other types of taxes, however, would do so only to a minor extent. Thus, taxes on incomes that would otherwise be saved would not reduce consumer expenditures nor, with the present superabundance of loanable funds, diminish appreciably projected capital expenditures. If additional taxes were imposed on incomes above $5,000 ($10,000 better) it appears probable that in most cases the payment of such taxes would not result in a curtailment of expenditures but, rather, a reduction in savings. Various fragmentary studies summarized in America's Capacity to Consume indicate that savings amount to an appreciable part of income in the case of incomes of $5,000 and up.

I shall not attempt to suggest rates or estimate yields for additional income taxes. I should like to call attention, however, to the possibility of working out a schedule of vanishing exemptions. It could be provided, for example, that for every $2 of gross ($10,000) income above $5,000, $1 less exemption will be allowed. In this way exemptions of $2,500 would disappear at $10,000. This proposal ($[illegible],000) would allow full exemptions in the lowest brackets where they are presumably needed and yet would remove them entirely from the higher brackets where they are not needed. Such a change should result in some $60 to $70 million additional revenue. Another suggestion is to abolish the exemption of estates from the capital gains tax. The exemptions of insurance from estate taxes should also be abolished. Additional revenue could be derived from increased taxes on foreign security holdings.

In general I should prefer that the yield of additional taxes be devoted at this particular time not to debt retirement but to a continuation of adequate relief and in making a start toward a farm tenancy and housing program. The relief and the housing problems are considered below.

I will now turn to some reflections of a more general nature on the budget situation.

There has been a good deal of loose talk about the increasing proportion of the national income being taken by the federal government and of the decreasing proportion of "productive" activity as compared with the "non-productive". In this connection a distinction should be drawn between expenditures which absorb labor and resources that might be occupied in producing other things, and expenditures that represent a mere transfer of money within the community. In 1929 the expenditures of the first type, which we may call "exhaustive", amounted to $1.8 billion, while expenditures representing transfers amounted to $1.5 billion. The exhaustive expenditures amounted to 2.2 percent of the national income.

The regular continuing expenditure of the government that may be expected to absorb labor and resources even when a condition of full employment is reached will amount in the fiscal year 1938 to $2.1 billion, or 2.6 percent of the 1929 national income. Although we may expect a larger national income than in 1929, the exhaustive expenditures of the government may also experience some increase. In any case, it is apparent that the proportion of the community's activity devoted to satisfying needs through the federal government is not only very small but will, when full recovery is attained, show little increase as compared with 1929. The bulk of the increase in expenditures apart from recovery and relief have been of the transfer character. Such expenditures will amount to $2.8 billion in the fiscal year 1938, as compared with $1.5 billion in the fiscal year 1929.

While transfer expenditures from the point of view of <u>real</u> effects do not involve any net cost to the community, they may from the business cycle point of view prove of importance in sustaining buying power. This depends, of course, on whether the transfers are from individuals and institutions who would not otherwise spend the money to individuals who will spend it.

<u>4. The problem of relief</u>. As of March 1937 there were 3,790,000 families and unattached individuals, eliminating duplications, receiving relief in various forms from the Federal and local governments. This compares with 4,809,000 for the corresponding month of 1936. These figures do not include 500,000 unemployed youths receiving relief from the National Youth Administration, nor 350,000 young men in the C. C. C. The number of relief workers employed by the Federal Government alone through the W. P. A., C. C. C., and other agencies (exclusive of the National Youth Administration)

work?

was 2,792,000 on May 1st. This compares with 3,318,000 in May 1936. The W. P. A. on its own projects was affording employment for 2,100,000 on the 1st of May, a reduction of 300,000 from May 1, 1936. The general picture that emerges is that a substantial reduction has been made in the past year in the number of relief workers employed by the Federal Government.

Turning to expenditures, the budget estimate for work relief for the fiscal year 1938 is $1.5 billion. Of this amount $75 million is to be allocated to the National Youth Administration, $75 million to Rural Rehabilitation, and $38 million for audit and accounting. This leaves $1.3 billion for work projects carried on by the W. P. A. and other government agencies. A comparable figure for the fiscal year 1937 is $1.85 billion, so that the new budget estimates entail a reduction of roughly $550 million, or 30 percent.[1/] At the present time the W. P. A. is employing on its own and other work projects 2,280,000 persons. The sum of $1.3 billion will permit at present rates of pay average employment of only 1,670,000 persons, or a reduction of 560,000 from the present level.

The proposed reduction appears excessive. The level of unemployment is still between eight and nine million, and 600,000 more workers will be added to the total supply next year. It is not to be expected, therefore, that an increase in employment will result in a corresponding decrease in W. P. A. rolls. Moreover,

1/ In addition, the C. C. C. appropriation is reduced from $380 million to $350 million.

the process of absorption will presumably become slower as the more efficient secure private employment. Finally, the prospects are for a relatively modest increase in employment for the remainder of this year. It seems very likely, therefore, that most of the people dropped from the W. P. A. rolls will be thrown back on the states and municipalities, or on private charity. The scale of local relief is deplorably low, so that a net decrease in consumer purchasing power and demands will result.

A more important consideration, however, is that such a development will be indefensible on grounds of common decency and social justice. The Administration has assumed some responsibility for slowing up the rate of recovery and it can be argued that this policy is very desirable from the viewpoint of the maintenance of an orderly recovery. Since, however, the policy should contribute to the welfare of the whole community in the long run, it is most unjust that some 400,000 or 500,000 individuals should bear the brunt of the cost. Moreover, there is no necessity of it. No grave financial crisis confronts the community. In money terms the ability to provide adequate relief is greater than in any year since the depression started. The tax burden on the well-to-do is still small compared with that in other advanced countries.

Very good.

It is strongly recommended, therefore, that the Federal Government continue to provide work relief for those currently working on various projects who do not secure private employment. This course, however, would almost certainly require a deficiency appropriation later in the fiscal year. An amendment passed by the House Appropriations Committee, directing that the $1.5 billion appropriation should be allocated throughout the year, would make this very difficult to secure. As it is an expression of the will of Congress, the W. P. A. and the Treasury would be virtually forced to drop a large number from the rolls at the beginning of the fiscal year. In view of the probable slackening of business activity this summer, few, if any, of these people would secure employment. The immediate objective, therefore, should be to have this amendment struck from the bill before its final passage.

5. The housing problem. As I am no expert in this field I can do little more than present some general impressions derived from reading some articles and talking with people in the field. Mr. Garfield is presenting a more detailed analysis.

In connection with the trend of building activity I received the impression that the advance in costs, serious as it has been, will not prevent an increase in building until the supply of skilled labor is fully absorbed. From November to March building material costs, as measured by the B. L. S. Wholesale Price Index, advanced almost ten percent. Labor costs, as indicated by the B. L. S. Index of Average Hourly Earnings in Building Construction, have averaged an increase of one percent monthly for the past six months. The F. H. A. recently dispatched a telegraphic inquiry to its sixty-four branch offices, asking the staff architects to give their opinion as to the increase in building costs in the three months' period January 1st to April 1st of this year. Replies differed widely, but the modal increase appeared to be ten to fifteen percent.

There are some grounds for believing that building costs should advance little over the remainder of the year. Approximately one-half of the advance in building materials costs during recent months has been due to lumber prices alone, and since the settlement of the maritime strike lumber prices have shown a tendency to soften. A considerable part of the advance not accounted for by lumber is attributable to the rise in metal prices. Steel prices will show no advance in the third quarter and non-ferrous metal prices have declined.

It is difficult to secure accurate information on the supply of skilled labor in the building trades. A recent questionnaire by the F. H. A. to its branch offices on the question of labor shortages in the communities in which they were situated indicated an existing shortage in one-third of the communities, an expected shortage in a few months in another third, and no expected shortage in the immediate future in the remaining third. That a current or imminent labor shortage should exist in two-thirds of these communities at a time when building activity is still much below the level it should attain if we are to avoid an acute housing shortage indicates the gravity of this aspect of the housing problem.

Something is now being done in the way of training apprentices. An amendment recently adopted by the House Appropriations Committee provided for ten hours' vocational training a week in C. C. C. camps. The Federal Committee on Apprentice Training in the Department of Labor has set up committees in 1,200 communities, and reports encouraging progress in getting cooperation between the builders and the unions in inaugurating apprentice programs. This, however, will not relieve the situation in the skilled trades in the next couple of years. The effectiveness of the available skilled labor supply could be greatly increased if the unions would relax their rules as to admittance, jurisdiction, and as to working with non-union labor, but there seems little prospect that they will do this voluntarily.

Although the condition in the skilled building trades is bad enough, it must be remembered that this type of labor constitutes only one element in the cost of building and that the situation is equally bad in the other elements of cost. On the basis of estimates presented by A. C. Shire, Technical Editor of the Architectural Forum, I have calculated a breakdown of costs for a typical city home. Although there are possibilities for great variation in relative costs, this particular breakdown will serve to show the general picture and bring out the surprisingly low percentage of costs attributable to labor on the job:

		Percent
Land		20
Construction		70
Materials	19½%	
Equipment	19	
Labor	21	
Overhead	10½	
Financing and miscellaneous		10
		100%

The housing problem, as I see it, has two main aspects: one is cyclical and is concerned with getting an adequate amount of building to avoid a building boom on the basis of very high costs and rents, which would be followed by a drastic collapse. A further substantial advance in rents will give rise to agitation for rent restriction acts, which would merely serve to intensify the situation. The other, a closely-related problem, is that of securing such a rate of increase in the efficiency of the housing industry as to permit of decent housing accommodations for the low -income groups. I see little prospect that either of these problems will be solved by the industry itself. It is highly disorganized and shot through with graft, vested interests, and gross inefficiency. It is essentially a handicraft industry 1/ and permeated with monopolistic elements. As now constituted it seems very doubtful if the vested interests in the field will permit it to develop

1/ "If we examine an ordinary house in process of construction we find there are delivered to the site on which this house is being built, twenty thousand to forty thousand parts or pieces of material, to be handled, assorted, rehandled, fitted, and fastened together. We find that there are over a thousand items--kinds of material--to be ordered, received, checked, invoiced, and paid for; that there may be a hundred men working directly on the design and construction of that house; that these hundred men represent twenty different kinds of skills and specialized work; that as many as one hundred different firms studied the plans and prepared estimates of the cost of certain parts of the work; and that about fifteen different contracts were drawn up with the fifteen successful bidders." A.C.Shire, The Annals of the American Academy of Political Social Sciences, March 1937, p. 37.

naturally into a large-scale mechanized industry, which appears to offer the only hope of any substantial increase in efficiency.

In these circumstances it appears to me that the best line of attack from the long-range point of view is for the Federal Government to enter the field directly. Only if the Federal Government assumes some responsibility for housing and acquires a large stake in the field does it seem to me possible to expect a sufficient mobilization of public opinion to permit a loosening of the multitude of restrictions that now impede progress. Advances can then be made in the direction of organizing the industry on a large-scale basis and in breaking up the present unholy alliances between unions, politicians, building supply dealers, builders, and lenders.

It might be possible for a sufficiently large renting project to substitute for temporary employment at high hourly rates yearly contracts with an annual wage. It may not be fanciful to hope that such workers could be organized by the C. I. O. on an industrial rather than a craft basis. I should like to see incorporated in the Wagner Housing Bill a provision that would permit federal purchases of all materials for all the projects as an opening wedge in breaking up collusion between equipment and material manufacturers, building supply dealers, and local unions. Large-scale renting projects would offer a means of reducing to a minimum the possibility of "blight" (deterioration of a neighborhood), which renders the purchasing and financing of individual homes so hazardous.

The other recommendation I would make concerns financing costs under the F. H. A. While I do not feel that they are excessive for an 80 percent mortgage, some provision might be made for lower charges on lower mortgages. Perhaps something along the following lines might be worked out:

Mortgage	Maximum rate	Service charge	Insurance charge	
80%	5%	$\frac{1}{2}$%	$\frac{1}{2}$%	) On outstanding
70	$4\frac{3}{4}$	"	2/5	) balances rather
60	$4\frac{1}{2}$	"	3/10	) than an original
50	$4\frac{1}{4}$	"	1/5	) principle.

Perhaps also the period of the amortization might be extended for homes financed with mortgages of less than 80%. As an example of the importance of financing costs I may cite the following: "Equal annual payments of $240 for 20 years will sustain a capital expenditure of approximately $2,700 when interest rates are $6\frac{1}{2}$ percent, and the same annual payments over 30 years with interest rates of $4\frac{1}{2}$ percent will sustain a capital expenditure of approximately $3,900." 1/

1/ L. J. Chawner, The Annals, March 1937, p. 33.