For Release on Delivery
(Approximately 12 noon
Central Standard Time
March 30, 1961.)

# TWO FACES OF STABILITY IN RESIDENTIAL CONSTRUCTION

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Before the Des Moines Real Estate Board,

Des Moines, Iowa,

March 30, 1961.

# TWO FACES OF STABILITY IN RESIDENTIAL CONSTRUCTION

The conflict between instability of particular parts of the economy and of the whole is especially significant to residential construction. Its pace historically has been more uneven than is desirable. Here is an industry that has been stimulated by government when general recession threatens even though such stimulus may increase the building industry's own instability. Residential construction as well as highway construction have been used as counterweights.

The hope is that houses and roads, being needed anyhow, can be built at accelerated rates when the rest of the economy is in the doldrums and thus supply jobs for the cyclically unemployed. This hope assumes that unsatisfied demand for housing exists, which of course may not be the case in all recessions. Unfortunately, time lags have often resulted in the additional housing being built after the rest of the economy has recovered,--thus accentuating the strain on resources and the raising of costs. In fact, if house buying had not fallen off in 1949, 1953, and 1957, even higher construction costs might have pushed housing prices still higher than they are.

Any policy for stabilization of residential construction activity must consider what it is that needs to be stabilized: current additions to supply, or the capacity of the existing stock to satisfy consumer wants. During most of the postwar period these two considerations have not been in serious conflict. Changes during recent years in the amount and kind of household formation, the steady rise in vacancies, and the absence of pronounced urgency in market demand for housing suggest that we may have entered a period when the total stock of housing and its capacity to satisfy consumer wants is numerically more nearly satisfactory than before. If this is the case, attempts to maintain additions to the supply at recent levels may have serious effects on the market value of existing houses.

Undoubtedly, a substantial number of Americans are living in housing that should not be in use. Elimination of substandard housing, however, is not necessarily a direct consequence of building more houses than the market will absorb. In the auto industry, the building of more new cars than the market will absorb does not eliminate substandard vehicles from the road. Immediately after the war, an increase in supply--by repair, modernization and conversion, as well as by new construction--did result in many families moving from makeshift to acceptable housing.

But through the postwar period, boom activity in housing construction has not coincided with the general economic cycle. In a measure it was countercyclical in its fluctuations, but at times its effectiveness as a counterweight has been hampered by the inflexibility of mortgage interest rates. In part, such inflexibility is inherent in our mortgage markets, but in part it results from the inflexible ceilings of the FHA-insured and the VA-guaranteed mortgage programs.

Development of a freely functioning secondary mortgage market for conventional, as well as Federally underwritten mortgages, might help to remove some of the inherent inflexibility of rates by permitting general capital market developments to influence the conventional mortgage market promptly. Inflexibility in conventional mortgage rates may be attributable in part to the fact that competition from FHA and VA financing tends to decline as discounts rise. A more sensitive administrative flexibility of interest rates under these programs would thus help make all mortgage rates more flexible. This, in turn, should help to moderate the wide swings that have characterized activity in residential construction. It should be recognized, however, that this greater flexibility would mean the payment of higher interest rates at times and also would involve drawing funds from other capital markets, except to the extent that the higher interest rates stimulate increased savings.

Finance undoubtedly has had a great bearing on the demand for housing in the postwar period. Currently, however, other factors may be growing in importance. As the automotive industry has found, public taste does not stand still. In general, the public is demanding more basic value for the money it spends now that the more urgent shortages created by war have been satisfied.

Public taste in housing is difficult to fathom. Change, however, may be in the wind; witness how many mobile units are being used as homes and the increased interest in housing for special purposes, such as retirement. Though the magnitudes are still relatively small (as were foreign car imports a number of years ago), changes may be under way whose significance is still to be determined.

In summary, the demand for residential construction, still under the influence of financial stimulation, seems to be reflecting new consumer desires as well. The extra stimulation may have had the good result of increasing the supply of housing, and of enabling more families to hold title to their homes, even if many times the equity be thin.

However, every sweet hath its sour, and every benefit its tax, as Emerson observed. In this case the past use of this industry as a stabilizing factor for the economy as a whole may have heightened potential instability of the housing industry itself. The penalty is perhaps already appearing in the rise of unemployment among construction workers. In 1955 to 1957, 8 to 9 per cent of all construction workers were unemployed, whereas the 1960 figure was over 12 per cent despite the fact that non-residential construction was at record levels. Were Emerson still alive, he might glean from the experience of the housing industry still another example for his essay on Compensation.