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FINAL

HARVARD BUSINESS SCHOOL CLUB OF WASHINGTON

FEBRUARY 26, 1976

IT IS A SPECIAL PRIVILEGE FOR THIS LAWYER FROM THE OTHER NEW ENGLAND UNIVERSITY TO CONFER WITH YOU BUSINESS EXPERTS FROM THE BANKS OF THE CHARLES. TO BORROW A PHRASE FROM FEBRUARY 16TH NEWSWEEK: "GOOD EVENING EMBATTLED BUSINESSMEN!" I AM GRATEFUL FOR THE OPPORTUNITY TO EXCHANGE VIEWS WITH THE QUALITY OF MANAGEMENT TALENT GATHERED IN THIS ROOM TONIGHT.

I WAS INVITED TO DISCUSS HUD'S "BUSINESS ORIENTED" PROBLEMS. IN THAT CONTEXT I MIGHT START BY SEEKING YOUR ADVICE ON HOW TO MANAGE THE 96,000 UNITS OF HOUSING THAT HUD NOW HOLDS BY DEFAULT -- AS A LEGACY OF THE 1960'S.

BUT, OUR ROLE AS FEDERAL LANDLORD IS JUST AN ISOLATED RESULT OF PAST NATIONAL POLICIES THAT HAVE TURNED THIS BICENTENNIAL ERA INTO THE ERA OF THE SERIOUS AFTERTHOUGHT.



AND, IN AFTERTHOUGHT, WE HAVE LEARNED -- AND PAID DEARLY FOR THE LESSON -- THAT NO MATTER HOW MUCH WE MAY WILL IT -- A "SOCIETY" IS NOT SUDDENLY MADE "GREAT" THROUGH WELL-MEANING PROGRAMS WHOSE SOLE SOURCE OF SUSTENANCE IS THE FEDERAL EXCHEQUER.

SO, LET ME SUGGEST A BROADER SCOPE FOR OUR DISCUSSIONS.

IT IS ALL TOO EASY TO SEE BY HINDSIGHT WHAT HAPPENED TO AMERICA IN THE PAST TEN YEARS -- A DECADE WHICH THE KNOWLEDGEABLE SEERS OF THE SIXTIES HAD FORESEEN AS AN ERA OF GOOD WILL AND GOOD LIVING FOR ALL AMERICANS.

IN THAT DECADE WE SQUANDERED OUR RESOURCES, DECIMATED OUR CITIES, ROLLED UP A STAGGERING \$350 BILLION FEDERAL DEBT, FIRED A RAGING INFLATION, AND GENERATED A PAINFUL RECESSION -- AND IN SO DOING, WE HAVE SEVERELY SHAKEN PUBLIC CONFIDENCE IN THE CREDIBILITY AND STABILITY OF BOTH BUSINESS AND GOVERNMENT.

INDEED THE WITHERING OF VOTER CONFIDENCE IN EITHER THE PUBLIC OR PRIVATE SECTORS TO FIND ECONOMIC SOLUTIONS HAS PLACED OUR FREE ENTERPRISE SYSTEM IN SERIOUS JEOPARDY.

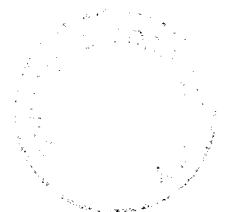


IT IS STILL VERY "AMERICAN" TO SING THE PRAISES OF OUR FREE ECONOMY THAT HAS MADE AMERICA THE ENVY OF THE WORLD. AND, RECENT POLLS FINDING THAT MOST AMERICANS WOULD MAKE SACRIFICES TO PRESERVE THE SYSTEM, MAKE WARM READING.

BUT, WHAT WE SAY ABOUT FREEING OUR ECONOMIC SYSTEM FROM THE SHACKLES OF FEDERAL REGULATION AND WHAT WE ACTUALLY DO DIFFER MEASURABLY.

TALK OF LIMITING "BIG GOVERNMENT" HAS INCREASED ON BOTH SIDES OF THE POLITICAL AISLE; BUT, SO HAS THE FLOW OF LAWS, REGULATIONS AND APPROPRIATIONS THAT INCREASE GOVERNMENT INTERVENTION AND INFLUENCE.

TALK OF CUTTING GOVERNMENT EXPENDITURES WHICH NOW COUNT FOR ABOUT 40 PERCENT OF OUR GROSS NATIONAL PRODUCT HAS INCREASED, BUT JUST A FORTNIGHT AGO, 321 CONGRESSMEN, REPRESENTING A MAJORITY OF THE AMERICAN PEOPLE VOTED A \$6 BILLION BILL TO EXPAND PUBLIC WORKS AND PUBLIC SERVICE JOBS -- A COSTLY ELECTION YEAR PORK BARREL BY ANY HISTORIC STANDARD.



TRADITIONALLY, POLITICAL CAMPAIGNS HAVE BEEN WAGED AND WON ON THE PROMISE OF "MORE FOR EVERYBODY". RESTRAINT AND REASON HAVE NOT BEEN THE RHETORIC OF MOST CANDIDATES.

AND, IN FACT, MANY STILL SINCERELY BELIEVE IN THE POWER OF GOVERNMENT TO RIGHT EVERY WRONG IN SPITE OF THE EVIDENCE. YOU MAY RECALL THE CONTRAST BETWEEN SENATOR MUSKIE'S RESPONSE TO THE PRESIDENT'S STATE OF THE UNION WHEREIN HE SAID:

"WE CAN HAVE CONFIDENCE THAT GOVERNMENT CAN . . . PUT PEOPLE BACK TO WORK.

WITH THE PRESIDENT'S THEME THAT MORE REAL AND LASTING JOBS ARE CREATED THROUGH THE PRIVATE SECTOR.

THE AMERICAN PUBLIC CONFRONTED BY THIS CLASH IN IDEOLOGY MUST MAKE A PROFOUND CHOICE GROUNDED IN ECONOMICS.

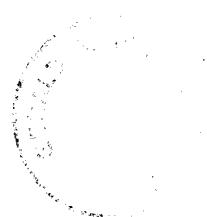
AND, IF IT IS VAGUE ABOUT THE FINE POINTS OF THE BUSINESS PROFITS STRUCTURE -- AS POINTED OUT IN THAT OPINION RESEARCH POLL QUOTED BY NEWSWEEK -- THERE ARE NEW SIGNS OF AN INTENSE INTEREST IN CURRENT ECONOMICS ON THE PART OF THE PEOPLE.

THOSE SIGNS CAN BE SEEN IN MOST LIVING ROOMS OF THE COUNTRY ON THE NIGHTLY NEWS SHOWS, AS ON-SCENE REPORTERS AND ANCHOR MEN COVER THE BUSINESS AND FINANCIAL SCENE WITH AS MUCH CARE AND DETAIL AS THEY GIVE TO THE TOP-BREAKING NEWS EVENTS.

THE GNP; THE DOW JONES; HOUSING STARTS; STEEL OUTPUT; DETROIT PRODUCTION; THE UNEMPLOYMENT RATE; THE PRESIDENT'S BUDGET; MORTGAGE RATES -- ARE NOT JUST "ECONOMIC" NEWS STORES, BUT NATIONAL NEWS.

SURELY, THE LEADERS OF AMERICA -- BOTH PUBLIC AND PRIVATE -- MUST BE CHALLENGED BY THIS NEW CURIOSITY OF AMERICANS IN ECONOMICS, DISHEARTENING AS IT IS TO CONCLUDE, AS WE MUST, THAT A GOOD MEASURE OF THE INTEREST STEMS FROM CYNICISM ROOTED IN A GROWING DISTRUST OF ALL INSTITUTIONS.

IT IS NO CREDIT -- EITHER TO GOVERNMENT OR TO INDUSTRY -- THAT MORE AND MORE AMERICANS SEEM TO SEE THEIR OPTIONS NARROWED TO A CHOICE BETWEEN EVILS: EXPANSIVE GOVERNMENT WITH UNPRODUCTIVE INDUSTRY OR LIMITED GOVERNMENT WITH IRRESPONSIBLE INDUSTRY.



UNLESS WE CAN TAKE STEPS TO MAKE THE ALTERNATIVES MORE ATTRACTIVE, SOONER OR LATER THE GROWING WEIGHT OF THESE CHOICES WILL BREAK DOWN THE FREE SYSTEM, WHICH WE ALL ENDORSE, AND CREATE A CLIMATE IN WHICH EXTREME CALLS FOR ECONOMIC RESTRUCTURING WILL SEEM LESS STRIDENT AND MORE SENSIBLE.

THE TRUTH IS THAT OUR MAJOR NATIONAL PROBLEMS MUST BE SOLVED IN PARTNERSHIP, FOR BOTH GOVERNMENT AND INDUSTRY HAVE ALREADY PROVED THAT THEY ARE INCAPABLE OF SOLVING THEM ALONE.

IT SOUNDS IN HORSE-AND-BUGGY ABSOLUTES TO ASK: HOW MUCH OR HOW LITTLE GOVERNMENT DO WE NEED? THE ANALYSIS SIMPLY MUST BE MORE QUALITATIVE: WHAT KIND OF GOVERNMENT WILL WE HAVE IN THIS NATION'S THIRD CENTURY? WHERE, HOW QUICKLY, AND HOW FAR DO WE MOVE THE BALANCE OF POWER FROM PUBLIC TO THE PRIVATE SECTOR?

CERTAINLY, GOVERNMENT MUST BE HUMANE, AND RESPONSIVE. BUT, UNLESS IT IS PROPERLY COMPATIBLE WITH THE FREE ECONOMY OF THIS NATION, THOSE ARE NOTHING BUT "BUZZ" WORDS.

OUR PRIVATE ECONOMY CANNOT SUSTAIN AN AWESOME FEDERAL DEFICIT OF TODAY'S MAGNITUDE WITHOUT THE EROSION OF THE VERY FINANCIAL RESOURCES THAT ARE VITAL TO THE GROWTH AND PRODUCTIVITY OF OUR FREE ENTERPRISE SYSTEM.

HOW, FOR EXAMPLE, WILL AMERICA BUILD AND BUY HOMES IN WHICH TO LIVE IF GOVERNMENT IS THE BIGGEST COMPETITIVE BORROWER OF AVAILABLE MORTGAGE MONEY?

HOW WILL WE ACHIEVE REAL ECONOMIC GROWTH IF THE GOVERNMENT CONTINUES TO COMPETE WITH THE PRIVATE SECTOR FOR DOLLARS TO BUY PUBLIC SERVICE JOBS WHEN WE KNOW THAT JOBS CREATED IN THE PRIVATE SECTOR HAVE A FAR GREATER AND MOST LASTING IMPACT?

TO SAY THAT THE GOVERNMENT SHOULD STOP THE WORLD AND GET OFF -- AT THIS POINT IN OUR COMBINED HISTORY -- IS A TURN-OF-THE-CENTURY ABSURDITY. WE KNOW FEDERAL STIMULANTS CAN BE USED TO BOOST SAGGING SECTORS OF THE ECONOMY WHEN AND WHERE NECESSARY TO SMOOTH OUT DISLOCATIONS WITHOUT FEDERALIZING THE ECONOMY.



IN HIS STATE OF THE UNION ADDRESS, PRESIDENT FORD CALLED FOR "COMMON SENSE" GOVERNMENT. AND, HE PROPOSED A FEDERAL BUDGET FOR FISCAL 1977 THAT "PROMISES NO MORE THAN WE CAN DELIVER", YET, PROVIDES THE MEANS TO "DELIVER ON ALL THAT WE PROMISE".

IT IS REALLY THE JOINT CHALLENGE OF BUSINESS AND GOVERNMENT TO DEVISE COMMON SENSE PROGRAMS AND INITIATIVES THAT ALLOW US BOTH TO DELIVER ON OUR PROMISES.

COMMON SENSE DEMANDS A GENUINELY COOPERATIVE ACTION PROGRAM TO KEEP GOVERNMENT GROWTH TO AN ABSOLUTE MINIMUM, -- BECAUSE SOME GROWTH IS INEVITABLE AS THE COMPLEXITIES OF EXISTENCE INCREASE. WE NEED TO REFRAIN FROM ISSUING NEW REGULATIONS AND TO DO AWAY WITH REGULATIONS NOW ON THE BOOKS THAT SERVE NO DEMONSTRABLE PURPOSE.

THIS TAKES A CONSTANT DIALOGUE. WHERE WE HAVE HAD STRONG AND OPEN LINES OF COMMUNICATION WITH THE PRIVATE SECTOR, WE HAVE SUCCEEDED. WHERE WE HAVE NOT, WE HAVE COMPOUNDED THE PROBLEMS.

TAKE OUR EXPERIENCE WITH THE REAL ESTATE AND SETTLEMENT PROCEDURES ACT, WHICH HAS JUST UNDERGONE LEGISLATIVE REVISION.

OBVIOUSLY, HOMEBUYERS ARE ENTITLED TO PROTECTION IN PROPERTY PURCHASES. INDEED, THE MOST VOCAL CHAMPIONS OF THAT RIGHT ARE THE REALTORS THEMSELVES.

BUT, THE INITIAL STATUTE TYPIFIED REGULATION, WELL-INTENTIONED IN CONCEPT BUT UNREALISTIC IN IMPLEMENTATION, PRECISELY BECAUSE IT WAS ENACTED WITHOUT THE NECESSARY INTERCHANGE OF IDEAS ON THE PROBLEMS ADDRESSED OR THE SOLUTIONS FASHIONED. AS A RESULT, WHAT STARTED OUT TO CURB THE ABUSES OF A FEW, ENDED UP STIFLING THE LEGITIMATE OBJECTIVES OF THE MANY.

CONVERSELY, TAKE OUR APPROACH TO CONDOMINIUM REGULATION.

LAST YEAR, YOU MAY RECALL, THERE WAS TREMENDOUS PRESSURE FOR FEDERAL REGULATION OF THIS NEW "WONDER CHILD" OF INDUSTRY.



WE MOUNTED A HUD/INDUSTRY FACT FINDING EFFORT. DURING ITS COURSE WE TALKED TO MANY REALTORS AND STATE OFFICIALS, AND HELD CONSUMER HEARINGS AROUND THE COUNTRY. WE FOUND ABUSES -- SOME OF THEM EXTREMELY SERIOUS -- BUT NOT NEARLY AS COMMON OR WIDESPREAD AS THE COMMOTION THEY CAUSED.

BASED UPON THAT JOINT STUDY, IN SEPTEMBER I WAS ABLE TO TESTIFY BEFORE SENATOR PROXMIRE'S BANKING COMMITTEE, BACKED BY DETAILED DATA, THAT FEDERAL CONDOMINIUM REGULATION SHOULD BE MINIMAL. AND, THAT DETAILED REGULATION SHOULD BE LEFT TO THE STATES WHICH ARE BEST EQUIPPED TO TAILOR REGULATORY LAWS TO LOCAL CONDITIONS.

THAT STUDY TOOK A LOT OF WORK IN BOTH THE PRIVATE AND THE PUBLIC SECTORS. BUT, IT WAS VERY MUCH WORTH IT, PARTICULARLY FOR THE AMERICAN CONSUMER WHO PAYS THE BILL WHEN GOVERNMENT REGULATION RAISES INDUSTRY'S COST OF DOING BUSINESS.

EQUALLY IMPORTANT, THIS KIND OF EXERCISE IN COMMONALITY OF PURPOSE, GIVES EACH PARTNER A MORE INTIMATE LOOK AT EACH OTHER'S REALISTIC LIMITS.

AND, THAT KNOWLEDGE IS ESSENTIAL TO THE ULTIMATE SUCCESS OF THE PARTNERSHIP IN ITS SEARCH FOR THE QUALITATIVE ANSWERS ABOUT GOVERNMENT. HOW OFTEN HAVE WE HEARD THE ADVERSARIES ON HIGH IN THE COUNCILS OF BOTH SECTORS CLAIM THAT "THOSE PEOPLE JUST DON'T UNDERSTAND OUR PROBLEM", WHICH, OFTEN AS NOT, IS TRUE.

IN FACT, THAT PROBABLY IS WHY WE TEND TO COMPROMISE EACH OTHER'S ESSENTIAL INTEREST IN DECISIONS WE MAKE INDEPENDENTLY.

AS SECRETARY OF HOUSING AND URBAN DEVELOPMENT, I HAVE A VERY POINTED INTEREST IN THE SUCCESS OF OUR COOPERATIVE MISSION, FOR NOWHERE HAS OUR NATIONAL ECONOMIC CRISIS BEEN MORE SEVERELY FELT THAN IN THE HOUSING INDUSTRY.

BY 1975, THE LONG INFLATION COMMENCED IN THE 1960'S HAD GENERATED STAGGERING NEW COSTS ACROSS THE BOARD IN EVERYTHING IT TAKES TO MAKE A HOUSE A HOME -- LAND, LABOR, BASIC MATERIALS, FINISHED PRODUCTS -- TOPPED BY HISTORICALLY HIGH MORTGAGE INTEREST RATES WHICH TENDED TO JUMP AT ANY MOMENTARY SIGN OF INCREASED INFLATION.



POTENTIAL BUYERS AT MIDDLE-INCOME LEVEL, WHO ARE VITAL TO INDUSTRY HEALTH, LITERALLY, WERE PRICED OUT OF THE MARKET. NEW HOUSING STARTS WHICH ALREADY WERE LOW, FELL EVEN LOWER IN LATE 1974 AND EARLY 1975.

RENTS HAD RISEN FASTER THAN TENANTS' INCOME AND "RENT CONTROL" BECAME A SAD REALITY FOR APARTMENT OWNERS IN MANY URBAN AREAS.

WE SAW THE FIRST SIGNS OF A POSSIBLE NEW TREND TO "DOUBLING UP" -- WITH FAMILIES SHARING HOUSING UNITS, A PHENOMENON THAT HAD BEEN IN STEADY DECLINE SINCE THE EARLY 1900's.

WITH HOUSING STARTS OF ALL KIND CURTAILED BY THE INFLATIONARY CYCLE, CONSTRUCTION UNEMPLOYMENT BECAME ANOTHER PAINFUL SIGN THAT A SERIOUS RECESSION HAD JOINED THE INFLATION.

WHILE THE INDUSTRY WAS COUNTING, AMONG ITS OTHER PROBLEMS, ALL OF THE COSTLY CODES, RESTRICTIONS AND REGULATIONS LAID ON IT BY ALL LEVELS OF GOVERNMENT -- HUD WAS COUNTING THE FAILURES OF PREVIOUS GOVERNMENT EFFORTS TO SOLVE THE CHRONIC SHORTAGE OF LIVABLE LOW-INCOME HOUSING.



AMONG OUR "SOUVENIRS" WERE ENORMOUSLY EXPENSIVE SUBSIDIZED HOUSING PROJECTS WHICH HAD PROVIDED SO LITTLE FOR SO MUCH.

AND, HUD'S PORTFOLIO OF RECLAIMED PROPERTIES GREW TO THE 96,000 FIGURE I MENTIONED AT THE OUTSET, A PHENOMENON RESULTING FROM UNWISE INITIAL LOANS COUPLED WITH A SINKING ECONOMY WHICH ACCELERATED THE INCIDENCE OF RECLAMATION.

ALTHOUGH ONE OF HUD'S PRIMARY JOBS IS TO HELP PROVIDE DECENT HOUSING FOR OUR POORER CITIZENS, OUR CONCERN, NOW, HAD SPREAD TO THE TRADITIONAL NEW HOME BUYERS IN THE MIDDLE-INCOME LEVELS AS WELL.

SURELY, WE COULD ACCOMPLISH NONE OF HUD'S OBJECTIVES UNLESS WE FIRST HAD A HOUSING INDUSTRY HEALTHY ENOUGH TO HELP SUSTAIN AND CARRY OUT OUR PROGRAMS.

THE QUICK ANSWER -- AND PRESSURE -- LAST WINTER AND SPRING FOR SOLVING THE ECONOMIC DILEMMA CAME IN A RASH OF PROPOSALS TO "SPEND" THE PROBLEM OUT OF EXISTENCE WITH MASSIVE USE OF FEDERAL FUNDS -- WHICH TRANSLATED INTO MORE BORROWING, AND ULTIMATELY, ANOTHER INFLATIONARY WAVE ON TOP OF THE ONE THAT GOT US THERE IN THE FIRST PLACE.


INSTEAD, WE STEPPED UP LAUNCHING OUR RENTAL SUBSIDY PROGRAM TO ASSIST VERY LOW INCOME FAMILIES SECURE DECENT DWELLINGS. THIS PROGRAM RELIES ON THE PRIVATE MARKET FOR ITS SUCCESS AND DE-EMPHASIZES FEDERAL LANDLORDSHIP.

AND, WE TARGETED SHARPLY FOCUSED PUBLIC FUNDS TO GET THE PRIVATE HOUSING INDUSTRY MOVING AGAIN.

FIRST, PRESIDENT FORD APPROVED THE RELEASE OF MORTGAGE PURCHASE ASSISTANCE FUNDS TO CUSHION THE DEVASTATING EFFECT OF INFLATION ON SINGLE-FAMILY HOME BUYERSHIP.

OVER TWO YEARS, HUD HAS OFFERED TO BUY FOR RESALE \$15 BILLION WORTH OF MORTGAGES BEARING BELOW-MARKET INTEREST RATES ON SOME 500,000 NEW HOMES -- ENOUGH TO CRANK UP THE SINGLE-FAMILY HOUSING INDUSTRY, WITHOUT CRANKING UP MORE INFLATION.

SECOND, IN OCTOBER, THE PRESIDENT APPROVED HUD'S USE OF \$264 MILLION TO REACTIVATE ITS HOMEOWNERSHIP SUBSIDY PROGRAM UNDER WHICH WE SUBSIDIZE DOWN TO 5 PERCENT MORTGAGES IN THE RANGE OF \$20,000 TO \$25,000. THIS TRANSLATES INTO ASSISTANCE FOR ABOUT 250,000 LOW AND MODERATE INCOME HOMEBUYERS, GENERATES \$6.5 BILLION IN CONSTRUCTION ACTIVITY AND PUTS 500,000 PEOPLE BACK TO WORK.



THESE PROGRAMS SOUGHT NOT TO FEDERALIZE A SICK INDUSTRY BUT RATHER TO ENCOURAGE RECOVERY THROUGH PRIVATE ENTERPRISE.

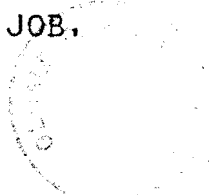
AND, THEY WORKED. TODAY, THE SINGLE-FAMILY MARKET IS BACK ON THE ROAD TO ROBUST HEALTH, WITH INDUSTRY ECONOMISTS REVISING THEIR FORECASTS FOR 1976 WELL UPWARD FROM THEIR END-OF-THE-YEAR ESTIMATES.

AND, LAST MONTH, TO REMEDY THE LAG IN THE RECOVERY IN THE MULTI-FAMILY MARKET, PRESIDENT FORD APPROVED HUD'S RELEASE OF \$3 BILLION FEDERAL FUNDS TO PURCHASE MULTI-FAMILY MORTGAGES, -- WHICH COVERS ABOUT 120,000 HOUSING UNITS.

AGAIN, THE OBJECTIVE IS TO SPARK RECOVERY WITHOUT RE-FIRING THE INFLATION.

BUT IN ALL INSTANCES, IT IS PRIVATE INDUSTRY HELPED BY GOVERNMENT THAT IS RESTORING OUR HOUSING ECONOMY -- NOT THE OTHER WAY AROUND.

AND, SO IT IS WITH BUSINESS AND INDUSTRY ACROSS THE BOARD -- AS PRESIDENT FORD STICKS TO HIS GUNS IN LIMITING THE FEDERAL PRESENCE TO PROVIDING JUDICIOUS STIMULANTS WHERE ABSOLUTELY INDICATED AND IN STAVING OFF FURTHER INFLATION SO THE PRIVATE SECTOR CAN GET ON WITH ITS RIGHTFUL JOB.





AS A RESULT, CONFIDENCE IS RETURNING -- TO THE POINT WHERE FORTUNE'S LEAD EDITORIAL IN THE CURRENT ISSUE TELLS US WE'RE DOING EVEN BETTER THAN WE THINK.

BUT, WE STILL HAVE A GOOD WAY TO GO BEFORE WE CAN HAVE THE LASTING CONFIDENCE THAT COMES FROM STRONG ECONOMIC STABILITY -- AT ALL LEVELS OF THE INCOME LADDER.

PUBLIC CONFIDENCE IN GOVERNMENT AND INDUSTRY IS IN DIRECT PROPORTION TO THE BREAD-WINNER'S CONFIDENCE IN HIS OR HER CHANCE TO MAKE IT, MULTIPLIED BY ALL THE BREAD-WINNERS IN THE NATION.

THE CHALLENGE OF OUR DECADE IS TO MAKE OUR SYSTEM OF FREE ENTERPRISE WORK, HAMPERED NOT SO MUCH BY A HARSH ECONOMIC CLIMATE AS BY SAGGING PUBLIC CONFIDENCE.

THAT SHOULD BE CHALLENGE ENOUGH FOR US TO FORGE AND CULTIVATE A SOLID PARTNERSHIP BETWEEN BUSINESS AND GOVERNMENT.