

Remarks at a Meeting of the National Association of Home Builders

May 16, 1983

The President. Thank you, Harry, and thank you all for a very warm welcome.

You know, I've said on occasion out on the mashed-potato circuit that it's always important to see if you can't find something that aligns you with the audience or that you have in common that would kind of justify your being there. Well, the first summer job that I ever had, I was 14 years old, and I was hired by an outfit that had bought a number of rundown houses and was remodeling them and making them into new houses. I don't think under some of the rules and regulations that this could happen today, but before the summer was over, I'd laid hardwood floor, I'd shingled roof, I'd painted.

But I do remember that one day, along toward noon, I was using a pick, doing some pick-and-shovel work. And I had that pick right up for another blow when the whistle blew. And I just loosened the handle and stepped out from underneath it. [Laughter] And right behind me, I heard some rather profane language, and I turned around, and the boss was right behind me, and the pick was stuck right between his two feet. [Laughter] Another lesson I learned: If you've got the pick up there, swing it. [Laughter]

Well, I consider it a great privilege to be here with you today, for America's home builders are the heroes of today's economy. You and your industry have just struggled through your toughest, most painful time since the Great Depression; and you did it without bailouts, boondoggles, or big brother. And here you are today leading America's economic recovery by the strength of your nerve and the sweat of your brow.

You've stood by us as we've sought to reform the spending and taxing excesses that threatened to destroy the American dream. You've worked with us in our effort to cut back on the bureaucracy, regulations, and redtape that have been strangling the marketplace. You've believed in our principles and our people, knowing that, given a chance and some common sense in Washington, our country and the economy can and will be great again.

On behalf of the millions of your fellow countrymen now free from the ravages of soaring inflation and skyrocketing interest rates, I thank you. You've done and are doing so much already, I only hope we can continue to count on the National Association of Home Builders in the critical months ahead.

Together, we've accomplished much. But much still remains to be done to ensure that our recovery is both strong and lasting. These are days of great hope for your industry and all our people. But the Congress must work with us to do what is right and necessary if we're to keep those hopes from being dashed on the rocks of partisanship and runaway government spending.

If the Congress can summon the discipline needed to rein in the budget monster, we can have the kind of hale and hearty recovery that could become a way of life again, instead of just another blip on the boom and bust roller coaster of the past.

You know what's happening. Inflation, when we took office, was at 12.4 percent. For the last 6 months, it's running at an annual rate of only one-half of 1 percent. The prime rate, once as high as 21½ percent, is down to less than half what it was, and we intend to get it lower still. Mortgage rates, which peaked at 18½ percent the month our economic program started -- and some said it was because they'd started -- now average less than 13 percent, and we're going to do still better. Just last week we dropped the interest rate ceiling on VA and FHA financing to 11½ percent -- the lowest rate in nearly 3 years.

Now, I don't have to tell you what kind of relief those kinds of numbers are bringing to your industry, or what they mean to American families. Our policies are based on the essential right to private property. And in private property, nothing is more important than home ownership.

In October of 1981, just before the pillars of our economic recovery package were put in place, a family needed an income of \$43,000 to afford a \$60,000 mortgage. Today, a family can afford that same mortgage with an income of \$31,000 per year. So, millions more Americans are finding it possible to own their own homes. One indication of this is the surge in FHA loan applications. For the last 6 months, an average of 78,000 families applied for FHA mortgages, compared to 23,000 per month last year. That's an increase of more than 200 percent.

As you may recall, in December, I proposed increasing the limit of FHA mortgage insurance by \$6.1 billion, and the Congress quickly approved. Well, because of our success in reducing inflation and interest rates, it now appears that this higher ceiling will not be enough. I soon will ask the Congress to provide another \$5 billion for FHA mortgage insurance. And that will be for the balance of 1983, and I will urge them to act quickly on this request. These FHA increases will complement the rebound in housing activity and will accommodate homeowners who want to refinance their homes at the lower mortgage rates.

Our administration is also, with the help and support of the N.A.H.B., taking important steps to increase cooperation between the FHA and the private sector, especially in the area of deregulation. We're delegating FHA processing to lenders, which will save weeks of waiting, and we're revising minimum property standards, lifting the overlay of Federal requirements and deferring to local codes for single and multi-family dwellings. That should help make housing more affordable. Other steps include removing FHA rent controls for unsubsidized multifamily projects, streamlining environmental regulations, relaxing regulations on retirement communities, and accepting more local government certification for land development.

We think America's builders spend too much time filling out forms and waiting for the wheels of bureaucracy to turn. We're determined to bring you relief.

Perhaps the most exciting program that we've begun is the Joint Venture for Affordable Housing. Spearheaded by Secretary Pierce and you in the N.A.H.B., that experiment is proving home prices can be brought down when industry and local governments cooperate. Unnecessary

building and zoning regulations often add to the cost of housing by preventing the use of innovative building and land development techniques. Our goal is for industry and government to determine which requirements can be set aside without harming health, safety, or quality of life.

As we begin the new building season, we can see that our initiatives and success with the economy are having an effect. Construction permits for the past few months are up 75 percent over last year, near the one-and-a-half million mark. New housing starts have been running at an annual rate of 1.7 million units. That's up 82 percent. Each new housing start means more construction workers hired, more materials ordered. Each new home completed means more purchases in furniture, appliances, floor coverings, and the like. Streets must be built, sewers laid, and utilities connected, and all that means more jobs.

We estimate that [for] every 100,000 new single-family homes, 64,000 construction jobs are created. About 78,000 jobs are stimulated in related industries like manufacturing, wholesale trade, transportation, services, mining, forest products, and others. That makes a grand total of 142,000 jobs. If housing starts continue at the rate they are running, by the end of the year it would mean some 2 million construction and construction-related jobs, and some \$41 billion in wages. Yes, I think it's safe to say we all have a stake in your success. And that's why the recent upsurge in housing is good news for all Americans.

But there remains one threat to the prosperity that you've risked so much and worked so hard to achieve -- those deficits looming on the horizon. Now, there's a lot of moaning about deficits up on Capitol Hill, a lot of confusing talk about where they come from, and even some argument about how important they are. Well, let there be no mistake about that: Deficits do matter. Deficit spending represents one of the most alarming dangers to our Republic and to the prosperity of our people.

Deficit spending spurs inflation and crowds the private sector out of the credit market. This, in turn, could squeeze up interest rates like toothpaste through the tube. Deficit spending and budget-busting bailouts are no solution. If we're to have long term improvement in interest rates, the Congress needs to join in a bipartisan effort to cut irresponsible spending.

Now, working together, we can and must reduce these intolerable budget deficits that have haunted us for so many years. But while there's a lot of talk about reducing deficits these days, I can't see much evidence that very many people are really serious about it. The root cause of deficits is runaway government. Yet, most of the deficit-reduction proposals I've seen would simply raise taxes and balloon spending. When you clear away the rhetoric, the issue is quite simple: Deficits are the symptom; the disease is uncontrolled spending; and the cause is an addiction to big government.

Let me put it in more human terms. You and your spouse probably sit around the kitchen table sometimes, periodically, to go over your budget. If you realize that you're coming up short every month, do you decide to go out and make more purchases to get out of debt? Well, that's what some people in the Congress are proposing. They've got a credit card that's run out of credit and

are asking the American people to raise the limit. But we must answer with one word -- an overwhelming, unequivocal ``no."

In 1982 the Congress promised \$3 in budget savings for every additional dollar in revenue that we agreed to. And so I swallowed hard and reluctantly went along with a tax reform package last year that would raise about \$100 billion over a 3-year period. And guess what happened? They aren't keeping their pledge to reduce spending by the \$300 billion over the same period. Indeed, they are urging added spending that will further increase the deficits.

We should know by now, from painful experience, that simply raising taxes is not the answer to our problem. Tax revenue doubled between 1976 and 1981, yet during the same period the government ran record deficits. We jumped off the spend-and-spend, tax-and-tax merry-go-round, which resulted in back-to-back years of double-digit inflation, the highest interest rates in 100 years, and an American homebuilding industry knocked to its knees. Washington's idea of business as usual just about drove you out of business. And we must never allow them to do that to you again.

Yes, the deficit doctors have their scalpels out all right, but they're not poised over the budget. That's as fat as ever and getting fatter. What they're ready to operate on is your wallet. [Laughter] And right now, they're eyeing tax hike numbers that may seem painless because they're so vague. But I'd like to read you a list of specific revenue proposals considered by the Democratic Study Group in the House. They're entitled: ``Revenue Options for Fiscal Year 1984."

The proposals include reducing the deficit by capping the mortgage interest deduction. How does that sound?

Audience. No! Boo! No!

The President. How about taxing 10 percent of capital gains on home sales?

Audience. No!

The President. Lengthening the building depreciation period to 20 years? -- --

Audience. No!

The President. -- -- eliminating tax credits for rehabilitating older buildings, and eliminating capital gains treatment for timber? I don't have to tell you -- you've told me -- what kind of legislative agenda, what that would do to your industry and to America's homeowners. If you'd enjoy that, you'd love getting hit on the head with two-by-four. [Laughter]

You don't deserve to be on anyone's enemy list. Yet those ideas have been advanced in the Congress as serious alternatives to finance more spending. Other proposals would be just as devastating to other vital industries. Another suggestion is to repeal the third year of the tax cut and indexing. But repeal of those two measures would result in a massive, \$273 billion tax

increase during the next 6 years. And that would be the unkindest hike of all, because about three-quarters of that burden would fall on the lower- and middle-income taxpayers.

Indexing, especially, is a blessing for average, working families who are pushed into higher and higher tax brackets by inflation. Tax brackets are most narrow at the lower end of the scale, where inflation once worked its darkest deeds. You see, government more than kept up with inflation. It actually made a profit from it. When workers got cost-of-living raises, government often bumped them into higher tax brackets, taking larger and larger bites from their paychecks. For every 10-percent rise in prices and wages, the individual tax burden went up by 17 percent. Government now clears 7 percent in real revenue growth due to inflation-induced bracket creep, which indexing will offset.

And if anyone here thinks the extra revenue has gone to reduce the national debt, please raise your hand. [Laughter] No, government has continued to spend every dollar it could rake in and then some. And that's how, with inflation at historic levels in the late seventies, everything went haywire. The Federal Government became America's largest growth industry, and recession became inevitable. The indexing provision that we passed in 1981 will end government's hidden profit on inflation. To repeal or delay it now would once again give the Congress an incentive to fire up inflation so that it can continue to spend and spend and spend. Well, we cannot and will not let that happen.

Yes, we need to bring down the deficit, and, yes, we've proposed a way to do that. But there are some who apparently think the American people, and you in the homebuilding industry, have caused the current deficit. They think you don't pay enough taxes. You've been tried and found guilty of not contributing enough of your wages and profits to the government. The sentence they want to impose is a lifetime of higher and higher taxes. Well, I say you're not guilty.

And I've got a news flash: The Federal Government did not run up a trillion dollar debt because it failed to tax enough. We're saddled with a trillion-dollar debt because the government spent too much.

Now, what we don't need is more reckless spending and what we don't need is more taxes. And I ask for your help again this year in making that message clear. We must reduce deficits, but we will not abide any attempt to repeal, rescind, or delay tax indexing or the final installment of the tax cut.

Now, this battle is not between Republicans and Democrats. It must not be, for it'll take all of us, working together in a bipartisan spirit, to ensure a strong, lasting recovery. But let us recognize that we're engaged in a struggle between the proponents of big government and the vast majority of Americans who put their faith in our basic values and our free system of democratic capitalism.

I appeal to you today, not just as homebuilders, but as men and women who have bet their livelihoods on small business and the American dream. Your membership is filled with people who started with nothing more than an idea and the intestinal fortitude to make it work. Gary Kramlich, for example, founded his company 20 years ago with \$345. He built one house in

1964, five more in 1965, and by 1975 was putting up more than 100 a year. He's now the largest builder in North Dakota. Clarence Buerman started building houses with his father about 25 years ago in Albany, Minnesota. He's now the owner of a housing manufacturing plant with more than 30 dealerships in four States. And your first vice president, Pete Herder, was a football and wrestling coach 25 years ago, when he and his wife decided to go into construction -- saving money by living in unfinished houses while they were building them. And now he's building 250 units a year. I could go on and on, because probably almost all of you, your stories are similar to those.

Small business men and women like yourselves are the risk-takers in America. Who better to explain [to] Washington's political elite that America's prosperity was never a gift from government or anyone else. It was earned with imagination, invention, and backbreaking labor. Free enterprise, not government, is the source from which our prosperity has flowed, and we will settle for nothing less than policies that will restore it.

Send away the handwringers and doubting Thomases and bring on the capitalists and entrepreneurs. Once again free enterprise is breathing life into our economy and we will not tolerate a return to the old ways of profligate spending and taxing that threatened to snuff it out.

I've relied on your support in the past, and on behalf of all those in America who yearn for the day when we can balance the Federal budget, I'm calling on you again. Make sure your Senators and Congressmen understand you know where deficits come from. Every dollar in those deficits was voted into law through one spending bill or another, and it's got to stop. We're not even asking to cut spending below current levels; we just propose slowing the rate of increase to a saner level. And, while you're at it, explain to your Representatives that your families, businesses, and employees already pay enough taxes.

Above all, call on them to put aside partisan politics and join together in a common crusade to fulfill the will of the American people -- to limit the size, scope, and interference of the Federal Government. Our economic policies have begun to work because they're based on good, old-fashioned common sense. They're founded on solid, time-tested economic principles that have produced prosperity in this country every time we've tried them. And, lo and behold, once they've got America on the mend.

Two years ago, with your help, we built a bipartisan consensus around our program for economic recovery, and the Congress passed its basic reforms. Our task today is to hold the Congress to its words so we can keep our recovery on track and restore the American dream. And together, I know we can do it.

Thank you very much, and God bless you all.

Note: The President spoke at 11:15 a.m. in the International Ballroom at the Washington Hilton Hotel. He was introduced by Harry Pryde, president of the National Association of Home Builders.