United States Senate

COMMITTEE ON FINANCE

WASHINGTON, D.C. 20510

May 10, 1983

TO: Senator Dole

FROM: George Pieler

SUBJECT: Realtors Talk

Attached is an outline of remarks addressing the concerns of the National Association of Realtors on the budget and taxes. Also attached are talking points prepared by Sheila Bair on fair housing laws.

Attachments

NATIONAL ASSOCIATION OF REALTORS® RESOLUTION ON THE FEDERAL BUDGET

WHEREAS, today's long-term interest rates, at about 12 percent, remain 7 to 8 percent higher than inflation rather than dropping to their normal and historic levels of 3 percent above inflation.

WHEREAS, interest rates are of crucial concern to housing and the general economic recovery,

WHEREAS, we believe interest rates will remain at historically high levels, endangering the continuation of economic recovery beyond 1983, as a result of the projection of $200 billion deficits for years to come--until the problem is solved,

WHEREAS, we see no action being taken by Congress or the President to reduce those deficits,

BE IT HEREBY RESOLVED: The NATIONAL ASSOCIATION OF REALTORS® urges Congress and the President to take meaningful actions this year to cause budget deficits to decline from the $200 billion today down toward a balance, through:

- Keeping domestic discretionary programs the same as 1983 or lower after allowing for inflation.
- Permitting defense spending to grow no more than 5 to 7 percent per year after allowing for inflation.
- Curbing the growth of entitlement programs by legislative changes limiting the cost of living adjustments (COLAs), perhaps to the Consumer Price Index (CPI) minus 2 percent rather than continuing to allow a full CPI increase.
- Compromising on modest tax increases, but only if needed to further reduce the deficit and only if linked to these significant spending reductions.
- If necessary to promote agreement, tax increases must emphasize consumption and not deprive the economy of growth-promoting (savings and investment) incentives.

May 8, 1983

REMARKS

NATIONAL ASSOCIATION OF REALTORS

8 a.m.--May 11, 1983--Sheraton-Washington

I. The Budget

A. Our primary in concern in Congress still must be to get the budget deficit down in an equitable way, and to see that it continues to decline as economic recovery proceeds. Otherwise the risk remains that, in the years ahead, government credit needs will swamp the market and prevent the private sector from meeting their own credit needs at a reasonable rate of interest. The alternative risk is pump-priming and renewed inflation that will undermine all the progress we have made toward improving the climate for savings and investment in the interest of long-term, stable growth.

B. At the same time, it is clear that there are serious disagreements within Congress as to how we should reduce the deficit, and as to how much we should do in specific legislative action this year. Some want to wait and see how the recovery proceeds--the House prefers to bank on higher taxes, and even to make new additions to domestic spending--some want lower defense numbers, others point out that domestic spending has continued to rise and think the burden of cutting the deficit should rest there. With so many fixed positions, and a President clearly determined to defend his economic program with a veto pen, it is increasingly difficult to forge a consensus.

C. If we do succeed in getting a budget agreement through conference, we had better be sure it is one that we can implement. It has to have realistic and attainable revenue figures, a defense figure that we will adhere to when it comes to specific appropriations, entitlement reforms that we are likely to be able to agree on, and so on. Otherwise we will not be doing the financial markets any favor, and we will lose even what credibility we still have on the deficit question.

D. Even if, for some reason, we should fail to get a workable budget agreement, that does not mean the fight against the deficit is over. The President will use his veto to try to keep spending in line, and his like-minded supporters in Congress are likely to sustain him in many cases. Those of us in Congress will continue to work, line item by line item, to make reasonable spending decisions that can keep the deficit down and allow recovery to proceed--including revenue items where appropriate. A case can be made, in fact, that hand-to-hand combat over individual programs may be preferable to swallowing whole the House-passed budget, which increases domestic spending with tax increases and has no real, credible impact on the deficit.

II. Balanced Budget Amendment

A. The proposed balanced budget/tax restraint constitutional amendment still makes sense as a long-run measure to regulate congressional budgeting. Remember that it is essentially a procedural reform, requiring more than the usual majority to plan a deficit budget and requiring explicit votes on all increases in the level of taxation. The Realtors' concern that a special majority also be required to raise taxes is well taken, and this is an issue we will reconsider if the amendment comes up again for Senate consideration. As it stands now, however, the amendment (S.J. Res. 5) is a balanced, comprehensive proposal that got strong bipartisan support in the Senate last year (69 votes).

B. At the same time, everyone realizes that promises to adhere to a constitutional procedure regulating the budget won't carry much weight unless we demonstrate we can do something about the budget actually before us. However, congressional inaction on the budget could have the effect of giving new momentum to the drive for a fiscal responsibility amendment.

III. Taxes: Third Year and Indexing

A. The President has said time and time again that he will fight to retain the third year of his tax cut and indexing, and many of us will continue to support him, even if a veto is required. Thirty-four Senate Republicans and 146 House Republicans have signed letters to that effect. The reasons are quite simple: these measures are good for the economy, they are fair, and they give long-needed real tax relief to the hard-pressed middle income American.

B. Third year. Why is the third year important? First, most economists agree that the timing of this last stage of President Reagan's individual tax program is excellent in terms of giving the economy a boost on the consumption side as we emerge from recession. This is a sharp contrast with the past, when tax changes to counter recession were too little and too late.

Equally important, the third year is needed in the interest of fairness. Only the third year gives a full measure of tax relief to working people. For taxpayers with incomes $10,000 or less, repeal of the third year means a tax increase averaging 13.9 percent. For those between $20,000 and $30,000 in income it means a 12 percent jump in taxes. 72 percent of the benefit goes to Americans making $50,000 or less.

In dollar terms, repealing the third year would cost a taxpayer at $15,000 income $112 in FY 1984; at $20,000 income, it would cost $203 in 1984; at $30,000 income, taxes would be $410 higher in 1984.

C. <u>Indexing</u>. Indexing is crucial not just because it provides tax relief, but because it ensures truth in government: tax changes will have to be voted on openly and directly, rather than having Congress rely on inflation to raise revenues through the deception of bracket creep. Whatever attitude you take on the question of generating new revenues, it makes sense to keep indexing in place.

In addition, indexing is an important symbol of our commitment to fight inflation. Repealing it only generates significant revenues if you assume inflation will persist at fairly high levels. If we de-index, we send a signal that we are not committed to beating inflation--and that means bad news for financial markets, for interest rates, and for consumers and investors alike.

Finally, the tax relief provided by indexing is real and sustained. Indexing means $98 billion in tax relief between 1985 and 1988, assuming modest inflation. $78 billion of that goes to taxpayers earning under $50,000. This group now pays about 66 percent of taxes, but will get 80 percent of the benefit--proving that indexing is a truly progressive tax reform.

A median income family of four would pay $1,000 in additional taxes between 1985 and 1988 if indexing were repealed (assuming they earn $24,000 in 1982). Remember that consumers are homebuyers as well, and their after-tax income is as important as interest rates in determining whether they will buy.

IV. Other Tax Issues

A. Taxation and real estate. In connection with a possible mandate to increase revenues, a number of tax changes have been suggested from time to time that would affect the real estate industry. These include:

o Cutting back ACRS treatment of real property (e.g. changing from 15-year writeoff to 20 years).

o Limiting nonbusiness interest deductions in some way, including mortgage interest (e.g. $5,000 or $10,000 cap on mortgage interest).

o Reduce rollover benefit for capital gain on sale of a principal residence.

o Cut back on rehabilitation credits.

While any of these are possible in a revenue-raising package, there has not exactly been a groundswell of support for them when they have been suggeste in the past. There are no plans on the table to go into these areas, but of course all revenue-raising options will be fairly evaluated and weighed against each other when we have a better idea of what our revenue target may be.

B. Mortgage revenue bonds. The Finance Committee will hold hearings May 13 on proposals to eliminate the scheduled sunset of single-family issues at the end of this year. Some continued availability of these bonds after this year is possible, at least for lower-income single family housing. Revenue considerations will be important here: how much would a continuation cost?

C. Individual Housing Accounts. There have been suggestions that Congress adopt an IRA-type approach to encouraging savings for purchase of a principal residence through a tax deduction or deferral. This was the subject of Dole legislation in the 96th and 97th Congresses. The idea still has appeal both from the standpoint of encouraging savings and stimulating home ownership. Again, the cost to the Treasury will be a major issue--but if that can be kept under control, the idea could gain support.

D. Flat Rate Tax. The idea of a flat-rate or greatly simplified tax system continues to be quite attractive, as we see continued taxpayer frustration with the complexity of our system and with the idea that special exemptions or credits enable the well-to-do to 'game' the system in their favor. Walter Mondale has just endorsed the Bradley-Gephardt so-called "Fair Tax," so at least some believe the idea has political appeal.

The issues remain difficult to resolve, because any major change in the tax burden or in basic tax incentives mean taking from one group and giving to another--always a tough thing for Congress to do. The Bradley proposal is a careful political compromise designed to keep the most popular deductions and roughly duplicate the present distribution of the tax burden--but it is not clear whether this less-graduated system would stay that way (particularly when it is not indexed, and liable to bracket creep). What we need to do is continue to build towards consensus on a simpler system by better-informing the public and testing their attitudes. But everyone <u>does</u> seem to agree that we need to move toward lower rates and a broader base--the direction marked out by the 1981 and 1982 tax bills.

Fair Housing

-Another matter which I would like to address briefly concerns the need to strenghthen our fair housing law.

-Since the law's enactment in 1968, we have made significant progress toward eliminating discrimination from the housing market. The leadership and commitment of the National Association of Realtors has played an important role in that effort.

-However, our progress has been impeded because the 1968 law permits the government to bring suit only where a "pattern or practice" of discrmination can be shown. With regard to individual instances of discrimination, the government is empowered only to investigate complaints and seek conciliation.

-I have repeatedly expressed my support for legislation which would cure this defect in existing law. If we are to fullfill the promise of fair housing which we made fifteen years ago, we must give the government an effective enforcement tool.

-However, I also believe that a new enforcement mechanism must be fair to both parties, providing timely relief to the victims of discrimination, but also adequate procedural safeguards to protect those accused of discrimination against unjustified government action.

-The most important of these safeguards is the right to an impartial forum -- a right which I do not believe is secured by legislation which was introduced by Senators Mathias and Kennedy last week. This legislation would permit HUD to initiate suits before Administrative Law Judges placed under a Presidentially appointed Fair Housing Review Commission. Thus the Executive Branch would be investigator, prosecutor, and judge in fair housing suits, subject only to a very limited form of judicial review.

-I have been searching for some kind of middle ground: one which will strike an appropriate balance between the need for expeditious handling of housing bias cases and the need for impartiality and other basic procedural safeguards. I have been working with Al Abrahams and Bill North of this organization, and will continue to work with them and all other interested parties in finding a consensus solution to this problem and related issues.

-Two years ago while addressing this Conference, I asked the NAR to support fair changes in the fair housing law. Today, I repeat that request. By working together to develop constructive solutions to the issues, I am optimistic that we cann enact needed improvements to the fair housing law this year.