Another inflation vaccine dose?

market watch

John Vernier

The current atrociously high level of interest rates proves that "one man's cup of tea is another man's poison."

An acquaintance was recently complaining that his funds were tied up in a six-month bank certificate of deposit that was paying a much lower rate than what he could get currently in a money market fund.

He remarked, however, how nice it was that investors could expect current returns of 12 percent or more on certain short-term or daily interest types of investments.

IN THE SAME breath, however, he complained that he was having difficulty selling his home.

Recently retired, he plans to move out of state. When asked why he thought the real estate market has softened, he explained that, while the economy has shown signs of slowing, it was probably caused mostly by the high level of interest rates.

He admitted that mortgage money is practically non-existent. Where it is available, potential buyers are discouraged by the unprecedented height of interest rates.

The excessive cost of money makes the man both a winner and a loser at the same time.

How did all of this come about? Who do we blame for this dilemma?

THE CONDITIONS which caused this problem began fermenting slowly many years ago. The period of easy money that we enjoyed from the early 1930s began to show signs of ending in the late 1960s, and have continued to worsen ever since.

Some folks are quick to place the blame on President Johnson and his policy of intensifying the Vietnam war without calling for a tax increase or other measures to finance that infamous fiasco.

Others feel the trend toward higher interest rates was the natural result of years and years of deficit financing by the federal government.

Still others point out that, as Europe and Japan made massive economic recoveries from World War II, U.S. economic influence became less and less.

At the same time, the demand for money from the recovering nations was becoming increasingly intense. As the world demand for money and credit accelerated, a rise in interest rates was the natural result.

THERE IS LITTLE doubt that all those factors played their parts in the development of the problem. No doubt there are many other factors that can share the blame.

Regardless of the causes, however, interest rates are still at alarmingly all-time highs. The Federal Reserve discount rate stands at 12 percent and the bank's prime rate at 15.25 percent.

There has been no evidence so far to indicate that this staggering cost of money has had any discernible effect toward cooling the economy.

Paul Volcker, chairman of the Fed, has made it clear that he plans to maintain a tight money policy until there is some evidence that inflation shows signs of abating. His logic, of course, is that high interest rates will discourage borrowing.

Less borrowing, in turn, will reduce the demand for goods and services. If the natural laws of economics prevail, this will eventually ease the pressure on prices.

The entire approach is a massive dose of preventive medicine. If the medicine works, and the patient is able to overcome his illness, the thermometer of the nation's health — the stock market — should be the first to let us know.

The writer is with Manley, Bennett, McDonald & Co.

Big house price slash seen coming

A reduction in prices for some homes by as much as 10 to 15 percent may help move buyers into the market despite record high mortgage interest rates.

This hope was expressed by John Cole, president of the Western Wayne Oakland County Board of Realtors (WWOCBR). The reduction will apply particularly to homes valued above $50,000.

"With prices on many homes being slashed, these buyers will begin to reassess market conditions," said Cole.

Cole said he continues to recommend buyers seek loans that can be prepaid without penalty so that refinancing can be achieved if mortgage interest rates drop significantly.

"But our members and their home buying clients are becoming increasingly concerned with the reduction in funds available for mortgage loans," he said.

"Nationally, it is estimated that we will need nearly 30 million new housing units in the next decade to meet demand," he said. "Housing starts, off substantially this year from 1978, are expected to drop next year by as much as 20 to 50 percent."

Farmington Hills, Avon to top housing development in county

About one-third of Oakland County's residential development this year will occur in Farmington Hills and Avon Township.

That's one conclusion from a recently completed report prepared by the planning division of the county's Department of Public Works.

Farmington Hills accounted for 15 percent of the 10,279 building permits issued last year, while Avon Township accounted for 13 percent. Following were Troy, 10 percent, Southfield, 9 percent, West Bloomfield, 8 percent and Waterford Township and Novi, 6 percent.

The seven commnities accounted for 70 percent of the building permits issued county-wide last year.

As in recent years, the bulk of the county's new residential development will occur in the southeast section, said Planning Division Manager Philip Dondero. Southfield has the highest real estate value in the county, he added.