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**ECONOMICS, LABOR & BUSINESS**


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As in domestic banking in the United States, a bank holding Eurocurrency lends money, then counts the loan as a liability, the borrower's IOU as an asset. But Eurobanking differs from domestic U.S. banking in that loans need not be backed by cash reserves. Audits are not required, and no governmental authority stands ready to make good on depositors' claims if a Eurobank fails.

At present, outstanding loans far outweigh the Eurobanks' reserves, Zevin writes. Although loans to multinationals have been repaid out of profits, some \$500 billion in loans to developing countries remain unpaid—and largely unpayable. Interest on these loans totals \$60 billion annually. Eurobanks handle the problem by "rolling over" the debt—making new loans to help the debtors pay off the old ones.

As long as depositors don't ask for their money, the banks and the Eurocurrency system are safe. But, Zevin warns, the system "is being strained to the breaking point by political pressures"—e.g., the debate over whether to declare Poland in default—as well as by international economic ills and "the growing unease of the major participants."

The world's central banks must step in, says Zevin, to guarantee deposits and impose order.

### *Another Boom in Housing?*

"From Boom to Bust in the Housing Market" by Lynn E. Browne, in *New England Economic Review* (May-June 1982), Research Dept., Federal Reserve Bank of Boston, 600 Atlantic Ave., Boston, Mass. 02106.

Inflation giveth and inflation taketh away—that could be a capsule history of the American housing market over the last decade, according to Browne, vice-president of the Federal Reserve Bank of Boston.

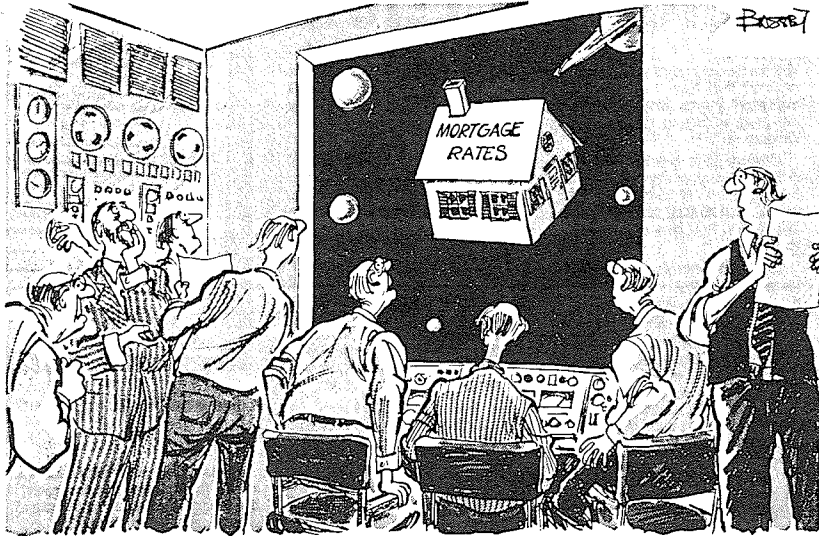
Housing prices were rising five percent annually by the end of the 1960s, but mostly because buyers were demanding higher quality homes. But during the '70s, "people were paying more for the same house rather than buying more house."

Between 1975 and 1978, new home prices rose each year by 14 percent, and existing homes increased in cost by 12.5 percent. Yet total sales climbed from 2.1 million to 3.3 million annually. By 1981, however, both price increases and sales had been cut in half. What happened?

One source of upward pressure on prices was the coming of age of the "baby boom" generation. During the 1970s, the population of 20-to-34-year-olds—the prime ages for first-time home buyers—grew by 40 percent. In 1970, only 26 percent of married couples under age 25 and 48 percent of those between 25 and 29 owned their own homes; by 1979, the proportions were 37 and 59 percent, respectively.

Rising inflation encouraged families to buy a home today for fear it would be out of reach tomorrow. Meanwhile, inflation, combined with the federal tax code's provisions for deducting mortgage interest costs,

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The caption reads: "Latest Picture from Voyager 1."

greatly reduced effective interest rates. Home-buyers in high tax brackets actually enjoyed negative rates of real interest.

Then inflation showed its other face. Mortgage funds dried up and rates finally caught up with inflation, growing from 9.5 percent in 1978 to an average of 14.75 percent in 1981. Between 1975 and 1980, the size of monthly mortgage payments doubled, while family income increased by only 54 percent. In 1975, payments took 21 percent of monthly income; by 1980, 30 percent. Fewer families could muster the financial resources required to qualify for a mortgage.

Because today's large pool of young adults still needs housing, Browne believes the market will recover as soon as interest rates decline. But the boom of the 1970s, she says, is over for good.

### Trustbusters Change Course

"Reagan's Antitrust Line—Common Sense or an Invitation to Corporate Abuse?" by Michael Wines, in *National Journal* (July 10, 1982), Government Research Corporation, 1730 M St. N.W., Washington, D.C. 20036.

The Reagan administration's antitrust enforcers say big business is not necessarily bad business. This has roused the ire of small businessmen and liberals who claim the new stance gives a green light to anticom-