

## Eye on Washington by Nicholas F. Benton

### Real-estate lobby: tax reform hurts 'little guy'

The National Association of Home Builders held a panicky press conference here May 20 to warn that the impact of the radical Packwood tax reform proposal on the real-estate sector would be devastating, especially on the low-income renter and regional banks confronted with mass defaults from a collapse in property values.

The real-estate sector is targeted by the tax reform to be especially hard hit, under the guise of going after "tax shelters," since the new bill would remove the ability of investors to deduct their losses from unprofitable ventures.

The new bill has the enthusiastic backing of the President because it allegedly helps the "little guy." But the Home Builders make a strong case that it is the low income sector that will be hurt most.

Kent W. Colton, speaking for the Home Builders, said that commercial real estate and multiple-occupancy real estate will be hardest hit, since these involve the highest risk for developers.

In the latter case, he warned, the new law would prejudice against the very people—those in the lower income brackets—that it would claim to help, by driving up rents by about 15%, and slowing the rate of new rental construction.

For example, he said, households with \$10,000 annual incomes would save \$115 a year on taxes, but would

pay \$540 more per year in rental payments.

He said the elimination of various tax incentives would also result in a reduction in new construction of about 350,000 rental units during the first year of enactment alone, translating into the loss of 377,000 man-years of employment in construction and related industries.

All this has been on top of the fact that budget authority to subsidize new housing for the poor and elderly has been reduced sharply in the federal budget over the past five years, he noted.

Property values on rental properties could collapse by 20% and more, and produce widespread defaults, particularly in cases where investors are obligated to make continuing cash payments but would be unable to deduct rental losses from other income. Some estimates are that this could wipe out as many as 10,000 regional thrift institutions.

This, he said, adds up to "a tax meltdown as far as rental housing is concerned."

He projected a scenario of rising rents met by local rent control laws. This, in turn, would lead to conversion of rental to sale properties (condominiums), which the low-income dwellers could not afford.

The reform would also moderately increase the cost of new single-family dwellings, but this would be somewhat offset by the mortgage interest deduction retained in the new law.

However: "Interest rates alone will not sell houses where there are no jobs," he said. The 377,000 construction jobs tax reform would take away certainly aren't going to help any on that score, either.

"You have to weigh the euphoria of concepts against the actual impacts of legislation," he warned.

### Take note Mexico: U.S. plans drug-war cuts

While the U.S. State Department and Sen. Jesse Helms (R-N.C.) are attacking the Mexican government for ineffective action on drugs, State now warns that its own International Narcotics Matters Office faces a major funding cutback in the Fiscal Year 1987 budget as a result of Gramm-Rudman.

The department was formerly headed by Jon Thomas, a law-enforcement veteran dedicated to achieving U.S. cooperation with Ibero-American countries in the war on drugs. He had good things to say about Mexico's role in the effort. Thomas, sent into the State Department by the White House, resigned about a month ago over frictions with State's civilian careerist bureaucracy.

Nonetheless, State is now warning that Congress is planning to cut its anti-drug program severely, reducing its ability to provide aircraft for marijuana and coca spraying programs where needed. According to an official State Department reply to this reporter's question on the subject May 15, these cuts "would be particularly disastrous for the program at a time when solid gains have been made in eradication in Burma, Thailand, Jamaica, Belize, Panama, Ecuador, and Peru, and when our programs are severely challenged to slow the pace of illicit production in Mexico, Bolivia, and Pakistan."

Question of the week: Who sat next to Secretary of State George Shultz when he addressed the American Jewish Congress May 15? Answer: Sol Linowitz, director of the Inter-American Dialogue, whose 1986 report calls for the "selective legalization of drugs" in certain Ibero-American countries.