

Banking by Kathy Burdman

A portrait of Preston Martin, Ph.D.

Will the new Fed Vice-Chairman push zero growth for America's housing and thrift institutions?

Below is part of the track record of Preston Martin, the 58-year-old California real estate professor and financier who was nominated by the White House Jan. 11 for a four-year term as Vice Chairman of the Federal Reserve. Martin is now high on the list to succeed Fed Chairman Paul Volcker in 1983. He is being played up as a pro-housing Reagan man, having been California Savings and Loan Commissioner in 1967-69, and Chairman of the Federal Home Loan Bank Board under President Nixon from 1969 to 1972. The press says that he comes recommended by Reagan's kitchen cabinet, particularly by San Diego Savings and Loan Chairman Gordon Luce.

But "Pres Martin's nomination came straight from the Federal Reserve itself," Anthony Frank, chairman of San Francisco's giant First National S&L and close personal friend of Martin, told me. "The Fed wanted someone who thought their way about economics, and they moved way before the White House did. In fact it was the Fed who surfaced his name to the press, pushing the White House."

Fed chief Volcker has vowed to shut down S&L credit for housing. Asked if Martin's views were compatible with Volcker's, Frank told me, "Martin has his own views, but he's not an S&L man. He's not a pro-housing advocate."

Martin, he said, is rather an advocate of the "re-industrialization"

theory, which holds that America must spend much less capital on housing, and more on "wired society" industries like computers. Martin, he said, in fact advocates a plan to "double corporate investment" in such new industries by "taking it out of housing." Under the plan, being pushed by Volcker and Budget Director David Stockman, America's \$100 billion in annual mortgage net lending would be slashed in half to \$50 billion by new taxes to discourage second mortgages and mortgage refinancing in general.

Preston Martin himself is quoted as saying that the American standard of housing has got to shrink. "We're going to have to go back to the 1930s ratios" of housing costs, he said.

Martin's training is in real-estate speculation. Martin received his Ph.D. in Monetary Economics from Indiana University, where his colleague Prof. George von Furstenberg first developed the "re-industrialization" theory.

Martin then moved to the University of Southern California in Los Angeles, where from 1954 to 1966 he was Professor of Finance. There he authored the famous real-estate text *Principles and Practice of Real Estate* (1959), and developed the first degree programs in real estate, emphasizing "leveraging" and other speculative policies.

Named in January 1967 as Governor Reagan's Savings & Loan

Commissioner, Martin set up the first S&L deregulation and S&L shrinkage programs in the country. During 1967-69, he introduced the Variable Rate Mortgage, which lets mortgages reach 20 percent-plus interest rates. His former Deputy State Commissioner William Harrison told me, "Pres rationalized that with lower population growth and lower economic growth, fewer S&L branches could be supported. So he made the branch application system much tougher. There were very few branches granted in his tenure."

Martin did the same on a national level as Chairman of the Federal Home Loan Bank Board from 1969-72, according to Thomas Bowmar, a Martin appointee to the Board. "Pres was the man who changed the philosophy of the Board from protection of S&Ls to deregulating them as rapidly as possible," Bowmar told me.

In 1972, Martin went into real-estate speculation personally, founding PMI Mortgage Insurance Company in San Francisco. In 1973, he sold the company to All-State Insurance, owned by Sears, Roebuck. Martin then moved quickly up at Sears, which is one of the most avid supporters of zero growth among U.S. companies. Sear's Rosenwald family not only helped found the University of Chicago, home of Volcker's monetarism, but has funded the Aspen Institute, the center of environmentalism in America.

From 1973-80, Martin became a top Sears executive in Chicago, and Chairman of Sears' real estate holding company, Seraco. He is currently a director of Sears, and private consultant to Sears Chairman Edward P. Telling.