

without having an increase in spending that will be totally out of balance with the savings of businesses and individuals, which the economy would need and require.

Chairman PROXMIRE. What concerns me is your capacity to really restore the construction industry, especially the homebuilding industry, for several reasons. One reason is because it is so much harder to get long-term rates down. It takes longer to do it.

No. 2, I am told by some people in the homebuilding industry that the money is there. It is coming in.

Mr. MARTIN. Right.

Chairman PROXMIRE. However, the demand doesn't seem to be there, and if we are going to get the demand there, it is hard to get it there if we are going to increase taxes, if we are going to follow a restrictive policy fiscally. So it is not easy as you have said so often, I think very persuasively. You can't push a string. You might lower these interest rates some but unless we have demands for homes it is going to be hard to revive that industry.

Mr. MARTIN. It is going to be hard to revive it but I think it will come. The rigidities in the housing market are what we have to deal with here. It is not as flexible as other areas of the market. The thrift institutions, the financial intermediaries that channel funds into housing are not as flexible in the use of these funds as they might be, and I think it is very important that we cooperate in every way with the builders and the building industry to improve the secondary mortgage market, and to get a more flexible balance of funds in the industry.

Chairman PROXMIRE. Isn't it true as it has been reported that the situation in other countries, in Europe particularly, is such that the lower interest rates there would seem to be more feasible than they have been in the past, and that for that reason, with the good work of Secretary Fowler, in working with foreign finance ministers, that this might be more promising if we could persuade some of these countries to moderate their interest rates and get away from the kind of high interest competition we have had.

Mr. MARTIN. I think Secretary Fowler's visit to Chequers and the group that have been participating in this have unquestionably performed a useful service in tackling this problem, but we must never forget that interest rates can't be ordained. You can't just pull levers.

Chairman PROXMIRE. That is why I say isn't it true that the domestic situation in these countries is such with less pressure on resources.

Mr. MARTIN. That is right.

Chairman PROXMIRE. So that interest rates may be able to moderate there.

Mr. MARTIN. I think that it depends on environment. The danger is that you can get the idea that you can just have a meeting and lower interest rates. This, I don't think is possible. If the conditions in the countries are such that they can, and I think they are at the moment, Senator Proxmire, then this can be a very helpful exercise.

I think the interrelationship of all of these countries is such that when they restrain or when they expand, it has an effect on other countries, and that all of us have got to take into consideration the united effects of these moves. Therefore, I think any closer cooperation between finance ministers and central bankers in the Western World that we can get is going to be beneficial.