

ing industry and our balance-of-payments situation. If you have to follow a policy to keep capital from flowing out, of keeping short-term rates from going down much lower, or even increasing them, this obviously is going to mean that money will not flow from short term into long term, so that under these circumstances you are going to have to seriously limit the monetary policy. Which do you do? We have a depressed housing industry, we have a balance-of-payments problem. Would you favor under these circumstances perhaps even tighter capital controls of some kind, or how do you resolve this dilemma?

Mr. MARTIN. I will cross that bridge when I come to it. We have been dealing with this for a long time. I don't have the answer.

Chairman PROXMIRE. You will cross the bridge or will you jump off the bridge?

Mr. MARTIN. I may have to do both.

Chairman PROXMIRE. You don't see any way prospectively that we can resolve this problem. You think we have used selective Federal controls wisely. The President suggested a doubling of the equalization tax.

Mr. MARTIN. We have the equalization tax, that is right.

Chairman PROXMIRE. We may have to use even more stringent policies in order to overcome a most unfortunate situation. You recognize, I am sure, the devastating impact on the housing industry of high interest rates last year, and I mean devastating. It was a depression wasn't it of housing, of homebuilding?

Mr. MARTIN. Well, it was a decline, a serious decline. I don't know how you measure how devastating it was, because some of this decline did make it possible to correct some problems, such as overbuilding in some areas. There has been a population problem in housing also. There have been some other factors. As I testified a year ago when I was up here, I think the population trend is going to favor housing from here on out. I think it was against it a year ago. These are some of the considerations.

Chairman PROXMIRE. Let me ask you apropos of using monetary policy from an inflation standpoint, do you have any studies to show just what prices are interest sensitive? I have already raised the point in earlier questioning that the increase in the mortgage rate was a big element in the increase in the cost of services. We know, at least I assume—maybe I am wrong and you can correct me—that food prices are not very sensitive to an increase in interest rates. The most rapidly rising element other than mortgage interest last year was the cost of medical services. I would assume that those are not particularly responsive to interest rates. Do you have an analysis that shows what happens when you follow a stringent monetary policy, restrain demand, what prices do respond and what do not?

Mr. MARTIN. I don't think we have any analysis that we would want to pass on. Mr. Brill is the head of our research division. He works in this field right along. I question very much whether we have anything really of value on this.

Chairman PROXMIRE. Do you feel that it is possible to make a useful study here that would tell us under what circumstances that a stringent monetary policy would be wise and under which it would not? Clearly when the problem is food, medical services and so forth,