

I think the high interest rates were caused by the excessive expansion to which the monetary policy contributed. But, to an important extent, high interest rates also arose from the fiscal policy. If you had more normal fiscal position, the Government would have been taking, I suppose, something close to \$10 billion less out of the credit market. Also, the investment credit, of course, so far as it had an effect in buoying business investment financed in the credit market meant that credit was diverted in that direction. So, credit was directed both to financing Government and to financing business that otherwise to a considerable extent would have gone into housing.

Representative REUSS. Whatever the cause, I take it both you gentlemen agree that it was not satisfactory to have our homebuilding industry as flat on its back as it was for much of last year. That is not the ideal.

Mr. CULBERTSON. It was not ideal, but I want to know the alternative before I would buy it. I think there are things that would have been worse.

Representative REUSS. I now want to put something to both of you, because when I was in Mexico a couple of months ago, talking with the Mexican Central Bank people, I pointed out what they already knew, the fact that our housing industry at a time when Americans needed more homes was simply not producing, ostensibly because of tight money. And I pointed out that this, too, was at a time when banks in the United States were making large-scale and frequently inflationary loans to businesses to overbuild up inventories, and very marginal business activities and investments.

The Mexicans interrupted me to say that they had solved all of that south of the border. The Central Bank of Mexico, by regulation, has long since provided that a percentage, say 30 percent, of bank credits shall be made available to the housing industry, either to private industry or the public or cooperative housing industry, and thus in a tight money, close-to-full employment situation, they manage to channel necessary credits to housing, and by so doing, they avoid overchanneling of credits to sectors of the economy where in a given situation there may be inflationary pressures. What do you think of the Mexican solution and its possible applicability here?

I should add that the Mexican central bankers agreed to come up and instruct Chairman Martin if there was any disposition for that to happen.

Mr. TOBIN. I don't think that would be a good idea, because on the whole, I think we ought to have credit markets in which the importance of different uses of credit are measured by the prices that borrowers are willing to pay. There should be shifts in the composition of credit from time to time, depending on which things are more postponable. I wouldn't like to see a quota of that kind.

I do think that the concentration on the effects of tight money, especially the degree of tightness we had last year, on the homebuilding industry is unfortunate. But this could be remedied by some structural reforms in our financial system, which wouldn't subject it to quotas of the kind you are talking about.

Representative REUSS. What the Mexicans have, in effect, is a structural reform in their credit system. What they are saying is that since banks are the creators of money in Mexico as in the United States,