and since housing is an important objective of Mexican policy, therefore they don't want to let the creators of money escape entirely or almost entirely from the job of providing credit for housing. How would you suggest reforming our financial institution structure so that something which most Americans think is very worthy; namely, homebuilding, doesn't get socked on the head every time, for good and sufficient reasons, we have a high-interest-rate structure?

Mr. TOBIN. Well, in the worthiness of homebuilding is something that has been recognized by numerous other actions of public policy, subsidies, insurance of mortgages, and so on. And I don't think you can argue for special treatment for homebuilding ad infinitum just because owning homes is a desirable thing.

Lots of things are desirable; but once you have decided that they are worth a certain degree of subsidy, then they have to compete with other uses of resources, just like everything else.

Now the structural problem last year, it seems to me, is related to the fact that we have created this one set of institutions, the savings and loan associations which play such a strategic role in the mortgage market. They were permitted to, and they did, expand both their extremely short term, almost demand type liabilities and their mortgage assets parallel at a very rapid rate. They ran into a situation where the only way they could keep their deposits, or so-called shares, was by raising the interest rates they paid to a point where their portfolio of old mortgages with lower rates wouldn't yield enough to keep them from dipping into their reserves. It seems to me that it was wrong that they had a structure of assets and liabilities that made them so vulnerable to this kind of situation. They should have had a more diversified set of assets, including secondary reserves, so that they would not have been quite so vulnerable to sudden changes in the attractiveness of their deposits relative to those of banks and other institutions and to market securities.

They should have developed over the years—and the regulatory authorities should have encouraged them to develop—liability instruments of a more diverse and varied kind, so that not all of their liabilities were demand obligations.

Representative REUSS. Like long-term certificates of deposit?

Mr. TOBIN. Long-term certificates of deposits.

Representative REUSS. Anything else? You said "secondary reserves." What do you mean by that?

Mr. TOBIN. Well, reserves of Government bills or bonds which would give them some leeway so that they wouldn't be completely loaned up in mortgages at all times but would have some room for maneuver.

Furthermore, I don't think it would be a bad idea if the savings and loan associations and other institutions offered to borrowers the option, not an exclusive option but one option, of a mortgage loan with an escalated interest rate related to their deposit rates or to some index of market interest rates.

This would mean that they wouldn't be stuck with 5-percent mortgages when all of a sudden they found they had to pay more than 5 percent to keep their money. On at least some part of their portfolio they would be able to raise the charges along with the general tightness of money.

Now any of these things, or these things in combination, would have put the mortgage market and the housing industry in a better de-