As our institutions are now set up, the only real way you can get enough money to the housing industry to validate a mortgage rate structure which people can afford, if they want to buy a house, is by making money easier, generally, and this does not help our international balance of payments, and it may create easier money than we need even for domestic purposes, as was evidenced last year and the year before for a time, when credit was used to build up unnecessary inventories, and perhaps to validate some capital expenditures which may not have been particularly necessary, at a time when housing was being squeezed.

In places like Mexico and France, to name two countries that come to mind, they don't go into a decline over this problem. The central bank simply tells the banking system that the banking system must devote a minimum—in Mexico's case, I believe 30 percent of their credit facilities—to housing, and by doing that, they thereby see that other elements of the economy not so currently meritorious don't get an excess of credit.

The Fed tried the reverse of this in a very timid way last September, when it sent a letter to the banks saying "Don't lend so much to the wrong people." They didn't say who the "wrong people" were, which would have been more helpful if they had. But I suppose they meant people who are building up inventories excessively, or making capital investments which are socially a lot less desirable than housing.

But what can we do? I think Henry Wallich took a stab at it in his statement this morning by saying the building and loan associations ought to get more long-term capital, but one of the difficulties there is that they have to charge more on their mortgages if they were able to compete, and that would in and of itself, I am afraid, produce a chilling of the housing industry.

But I would welcome any comments any of you may have on this, and specifically what is so awful about what they do in Mexico?

When I was down in Mexico a few months ago, I saw homes being built all over the place at low cost and not so low cost, at a time when Mexico had a tight money situation. Why are we so helpless, Mr. Wallich?

Mr. WALLICH. I think it is probably wise for a government to interfere in the structure of credit supply. If it is a national decision that housing be subsidized, as we do in effect in many ways, then let us create that supply structure.

It is another question whether we should have the central bank from time to time going into the market and saying, "We know better than the market. We will allocate resources to housing and take away from something else." This may sometimes lead to good decisions. Evidently, the Fed thought that it knew something about that when it issued its letter. At times, this ad hoc intervention may not lead to good decisions. If we have a market system, I would say, let the market system do the detail work.

I say this, particularly, because the trouble last year came from a basic structural defect and not from any particular malfunctioning of the market. That structural defect ought to be remedied. A proposal to that effect is combined in my statement. I don't think it would raise mortgage costs per month. It would not even raise them in the