long run, if interest rates just fluctuate instead of going permanently to a higher level.

Representative REUSS. By this structural defect, I take it you mean the inability in the recent past of savings and loan associations, which are par excellence the contributors to housing, to attract long-term investments like CD's, and so on, and I agree this is a structural defect which ought to be remedied.

But, if you had had that structural reform, I think all you would have had is the bank and the savings and loans competing to see who could pay the highest interest rate for this money, which is all right—I'm for it. But I think you would have priced homebuilding out of the market, and I think in addition to that—and I don't sweep that suggestion from the table—we really need some method of seeing that housing, which is certainly regarded as desirable, gets built. And our existing structure is full of subsidies and good thoughts, but it doesn't come to grips with the central $64 question of how much interest you have to pay on your mortgage.

Mr. WALLICH. Congressman Reuss, housing tends to get stopped out of the market earliest. It is in the nature of the market that the party with the most elastic demand loses out. We try to counteract this by subsidy legislation.

One part of our subsidy legislation actually makes the situation worse, and that is the ceilings on VA and FHA guarantee and insurance. It is designed to be a protection to the homeowner. He isn't supposed to pay more interest. The result of this protection is that he gets no mortgage at all. If we could make that ceiling more flexible, we would have a better flow in times of high interest rates.

As for making credit unavailable, I think if we tied the loan rate to the deposit rate, then mortgages made at times of very high rates would come down in interest as the interest rates on deposits declined, and you would, over the years, bring them down to a more normal level. So people would be less concerned about making contracts at times of very high interest rates.

Representative REUSS. My time is up. Perhaps I shall have a chance to return.

Chairman PROXMIRE. Senator Javits?

Senator JAVITS. Gentlemen, first let me apologize for not being here when you made your statements, but I have been brought up to date on them, and I have just one question I would like to inquire of Mr. Wallich, and one from Mr. Lekachman.

Mr. Wallich, I regard with the greatest interest the statements you have made in which you deal with guideposts, to which I have also been addressing myself.

I notice the suggestion for a tax as a penalty imposed on corporations that exceed wage guideposts. That would contemplate, would it not, that the guideposts would begin to be mandatory, and that therefore you would, or I ask therefore would you be espousing a planning operation really, something which, generally speaking, the American people have not looked at with favor.

In order to make it one question, I know you are well able to keep up with it, may I add also the question as to what you think about a restoration of the system of economic goals for which the Eisenhower