

I think I would agree with Governor Robertson to a point, that there are devices we can use to insulate our economy. I do not think the insulation is ever going to be complete. The interest equalization tax, after all, is one that works on long-term bonds, on long-term instruments.

Chairman PROXMIRE. Why not? Why can you not devise an interest equalization tax that will work on everything? Whatever you have to have, you provide that kind of tax.

Mr. MODIGLIANI. I would be very much in favor of the extension of the interest equalization tax. I was an early proposer of that tax. I think one could try, although problems get more and more complicated as you move from more formal instruments like securities to less formal instruments like loan arrangement.

But I think this is very much worth pursuing, and I think it would be a perfectly good idea to give attention to increasing the interest equalization tax if it becomes necessary. I think this is within the range of desirable changes.

But I do not think one can completely disregard the foreign aspects, either at the level of interest rates or at the level of the effect of domestic demand and prices on foreign trade. Unless we make recourse to quotas or additional import duties, there is no way in which we can prevent higher domestic prices from affecting adversely the balance of payments and, in this case, balance of trade, which is of course the mainstay of the whole thing.

Chairman PROXMIRE. Let me ask you gentlemen if you all oppose under present circumstances imposition of either price controls and so forth or credit controls.

Mr. WALLICH. By credit controls, Mr. Chairman, do you mean a credit ceiling, such as—

Chairman PROXMIRE. No, of course we have, as you know, considerable controls in that respect. I was referring to a limitation on a requirement for a downpayment that would be a certain proportion of the cost of an automobile, for example, and that payment would have to be over a limited period of time so that we could tend to restrain the inflationary tendencies in that area.

Mr. WALLICH. We have tried those and it looks as though they were appropriate at a time when the housing industry was overextended, the automobile industry overextended. Then they served a purpose on a temporary basis.

In the long run, they tend to be undermined if liquidity runs high—people begin to buy with their own money what they cannot buy on credit.

At the present time we have what is called a balanced imbalance. All sectors are a little overextended and I see no reason particularly to hit at the housing industry, which is in great jeopardy from tight money. Automobiles are not visibly overextended.

If we went to direct credit controls, I would favor what has always been used abroad when they really meant business to tighten and that was, in addition to high interest rates and tight money, a ceiling on overall lending. Each bank is told, "You can increase the volume of your credit by only 1 percent per month or a half percent per month," and let them then allocate among different customers so that the allocational function of the market is not completely destroyed.