

Chairman PROXMIRE. I think it would be very helpful because we do have a problem trying to get money into the housing industry, which is most serious now and is going to continue to be serious, in my view, for months and years to come unless we work something like this out.

Mr. WALLICH. If the housing industry were given this leeway while, say, other intermediaries were also under constraint, this might make for better distribution.

I would like to add one thing to the discussion of whether we cannot ignore the balance of payments. There is just one way by which one can do that, and that is to cut loose from gold and let the dollar float. It will always float low enough so that we can pursue any domestic policy we please and not have to worry about a disequilibrium.

If we do it in any other way—interest equalization tax, direct controls on corporations, tourist tax, surcharge on import—I would predict that independent domestic policies that do not pay attention to what happens to the balance of payments, and particularly the trade balance, as Professor Modigliani said, will within 5 or 10 years get us to where some European countries were during the 1930's: one needs a license for every single international transaction. A tourist gets 10 units of the local currency as he departs and he can then see how he makes out abroad; direct investment is stopped, all foreign assets are under control and possibly being sequestered by the Government. That makes for a perfectly horrible situation.

Chairman PROXMIRE. So we come back to a situation where, in view of the international balance-of-payments situation, no matter what we do with fiscal policy, we are going to have a reasonably tight—continuing tight monetary policy. At least interest rates cannot be expected to fall very rapidly.

Mr. WALLICH. We live in this world and we have to watch the balance of payments.

I agree with what has been said that tighter fiscal policy will help on interest rates. Whether it will bring them down very much, I do not know. But in the absence of a tax increase, I foresee very substantial escalation at the short end and some escalation, say 7½ percent or so, on bonds at the long end, a crunch on housing again, not quite of the same kind as last time because the market learns to defend itself.

In general, I foresee again this overuse of monetary and underuse of fiscal policy.

Mr. CHANDLER. Might I comment on two things here? First, with respect to the ceilings on the total amount of credit extended by a bank—this may work with more or less success in a country that has anywhere from five to 20 banks. Just contemplate the situation with 13,700. And even if you exempted the bottom 2,000, you would still have a problem.

On your question about wage—

Chairman PROXMIRE. Why? More banks, but why any harder?

Mr. CHANDLER. It is much harder primarily for this reason: You then have the problem of allocating your overall quota among the different banks. If one thing is certain, it is that demand for credit will behave very differently at the different banks. The only way it could work with anything like satisfactory allocation would be if one bank had some way of transferring its quota to another bank. Perhaps