

Mr. WALKER. I think the point is that they hoped to get a public interest return in terms of the educational system that the banking industry has organized.

Chairman PATMAN. Don't you think that the Federal Reserve can help the housing industry by fixing a low rate of interest, say at $4\frac{1}{4}$ per, and maintaining that rate for the construction loans of family-sized homes, and that is for families?

Mr. WALKER. For the reasons I went through earlier, I think it would be disastrous for the housing industry if the monetary authority created very large amounts of money, which in turn would force interest rates up, resulting in more disintermediation. This would be, I think, a highly self-defeating policy.

Chairman PATMAN. Can you see that we can continue to keep on paying the rate now and increasing it and survive?

Mr. WALKER. I think that interest rates are much too high. And that is why this administration is dedicated to ending the inflation which is the root cause of the high interest rates at the present time.

Chairman PATMAN. Don't you think higher interest rates cause inflation?

Mr. WALKER. No, sir. I think that inflation causes higher interest rates.

Chairman PATMAN. If you increase interest rates, say, to 10 percent, that is added on to the cost of all the goods on the shelves, added into every business in America, and that makes prices higher. High price is what causes inflation; isn't it?

Mr. WALKER. All economic analysts that I know of think that the impact of the growing money supply on the price level greatly swamps the cost effect of interest rate increases. I know of no reputable economic study that comes to any other conclusion.

Chairman PATMAN. You don't discriminate between necessary expansion or growth expansion?

Mr. WALKER. I would discriminate. I think I am on record with you, Mr. Patman—do you recall the letter I wrote you last summer with respect to the rate of monetary growth, commenting on the guidelines that came out of this committee, that I thought that a rate of monetary growth in a general range of 2 to 6 percent was not a bad idea, and that the Fed could properly be asked to explain aberrations from that rate, and they could under certain conditions—do you remember that I wrote you a letter on that subject?

Chairman PATMAN. I will look it up and read it carefully.

Now, before yielding to Senator Proxmire to ask some questions, before we close, I think we had better notify the Secretary of the Treasury that from the reports I have gotten from the other members, they would like to have him return at some suitable time in the future. So if you will keep that in mind I appreciate it.

Senator Proxmire?

Senator PROXMIRE. I would like to ask you whether the Treasury has had any chance to review Governor Rockefeller's suggestion that the surtax be kept over a period of time, and gradually be given to the States for educational purposes. Has the Treasury considered it already, or do you expect to give it consideration?

Mr. WALKER. I think we will probably take a look at it. We haven't considered it at this time. The sort of thing we would look at is whether