Now, it has been amazing to a lot of people why housing starts have gone up in the recent past when interest rates and cost of closing loans generally have been very, very high.

The information I get from over the country is that it is based upon one argument to buyers or prospective homebuyers that if they don't buy now although interest rates are excessive you will have to pay more later.

Do you agree with that, Professor Klein?

Mr. KLEIN. I think the inflationary psychology has been with us, certainly, and very much of an issue in the last 6 months.

We have found, however, in the case of home buyers that when credit is available, even though rates are high, house purchasing still goes on.

The one instance in which we found high interest rates and a marked reaction downward in the housing market was in 1966 when the tight money conditions were associated with lack of funds for mortgage lending.

I think if we are in a situation where interest rates are high and construction costs are high but funds are still available for mortgage lending then we won't see such a strong reaction in the housing market as we did in 1966.

Chairman PATMAN. I believe the argument that if you don't buy now, it will cost you a lot more later is a very persuasive one, and I suspect it is the main argument that leads them into signing contracts to buy at such high rates of interest and such other real extortionate charges in addition to the high interest rates.

I would like to ask each of you gentlemen to respond to a question that concerns me.

Last week representatives of the administration told this committee that they favored continuation of the surtax plus a tight money policy, in order to achieve less inflationary pressure in the economy. They also conceded under questioning that this would increase unemployment.

Will you gentlemen please comment on this policy. Do you agree? Professor Williams, suppose we start with you first on that.

Mr. WILLIAMS. I think I can agree with that in general. However, it should be pointed out that if the surtax were not extended, and this was the point that I would like to make quite strong, the monetary policy would have to be tighter than otherwise. So it is a question of combining the surtax with a tight money policy or the lack of a surtax with a much tighter monetary policy, which I would not like to see.

I think there is a point at which housing might be affected adversely by tight money. I think that unlike 1966 housing will expand with the present high interest rates. As you indicated, money is available now, but I think the ceiling on the amount the savings and loan associations can pay, for example, at the present time would possibly lead to disintermediation with very high interest rates.

Chairman PATMAN. Professor Perry, do you believe you can stop inflation just by increasing interest rates?

Mr. PERRY. That would be only one indirect, initial result of a monetary policy aimed at slowing inflation. Certainly, too, today's higher interest rates partly reflect the existence of inflation and inflationary expectations.

Chairman PATMAN. I believe that the higher you put the interest the higher you put prices. Therefore, the higher the price is the more infla-