

in our GNP forecasts at this table are about the same order of magnitude as the statistical discrepancy in the account, and it makes a lot of difference.

Of course, it is a question of the residual items in the account, and one of the things like inventory and inventory evaluation, and savings and profits, those numbers are very weak in this kind of situation.

Representative CONABLE. One last question. What do you think has had the greatest impact on housing starts lately, variations in the interest rate or variations in the cost of construction? I think we tend to overemphasize interest rates as a factor here, and to ignore the tremendous increases that have been occurring in the cost of construction services and materials. Isn't it true that these have had a substantial impact on housing starts? Which would be of the greater order of magnitude, in your view?

Mr. KLEIN. I would say that construction costs are a less flexible item in the house-purchase decisions because in the case of interest-rate variations there are other dimensions such as the length of the amortization period and the amount of the down payment; and the thing that many homeowners look at is the average payment they are going to have to make on the mortgage every month, and this is easy to move around in the case of financing by stretching out the amortization period or changing the down payment to compensate for movements in the interest rates.

It is less easy to do this in the case of the overall price of a house.

Therefore, I would attach a good deal more importance to the construction costs.

Representative CONABLE. The same psychological factors apply to car sales, of course.

Mr. KLEIN. Right.

Representative CONABLE. Psychology plays a very large element in the study you gentlemen made, I am sure, and this is one of the great problems. One doesn't know what the psychological climate is going to be regardless of what the long-term trend may be.

Thank you, that is all, Mr. Chairman.

Senator PROXMIRE (now presiding). Mr. Bolling?

Representative BOLLING. Thank you, Mr. Chairman.

I would like to comment very briefly on the colloquy—or not colloquy—between the chairman and the panel on forecasting. My own experience has been rather more satisfactory than apparently the chairman's has.

I have found that in the years that I have been on this committee that the forecasting by certain groups has become really very excellent. My own experience is that the independent economists, be they academic or members of the staff of the Joint Economic Committee, or other independent economists, tend to be a great deal more accurate than those who represent a particular interest. For some reason unknown to me the interest economists seem to project policy and the independent economists seem to project predictions based on economic facts, and I have had a very satisfactory experience in the last 18 years on forecasting. I think it has improved substantially and I think the performance of the economy of the last 8 or 9 years has indicated that the improvement is very substantial.

One thing that interests me about the study which I only had an opportunity to examine very quickly, is I can't find out what publica-