

the desire of the associations to escape the present legal requirement that the bulk of their funds be kept in real estate loans, while still retaining highly preferential Federal tax treatment. The Council's conclusion that there will be a diminished flow of funds into real estate loans only in the short run may have substantially underestimated both the amounts which would be lost to the residential loan market as well as the time over which such losses would extend.

In any event, the Council should spell out the reasoning underlying its proposal in greater detail. Thus far it is appropriate to question how a measure which would encourage lending by thrift institutions in areas other than home loans would in fact stimulate the flow of funds into home loans.

This is not the only questionable aspect of the proposal. Implicit in the Council's argument is the view that commercial bank competition with other thrift institutions was a major adverse force leading to the sharp reduction in mortgage lending in 1966. The record proves otherwise. The major competitor was the securities market, which attracted large amounts of individual savings in 1966. According to the Council's figures, individuals' savings in the form of Government, corporate, and other securities rose by \$14.9 billion in 1966, three times the 1965 increase and more than twice the expansion in 1964. On the other hand, growth in commercial bank time deposits—consisting of money market certificates (not individuals' savings) as well as savings certificates—was on a percentage basis less than half the 1965 increase and substantially below the 1964 increment.

Clearly, therefore, in 1966 the securities markets, through the process known as "disintermediation," provided the strongest competition for thrift institutions in 1966—for commercial banks as well as savings and loan associations and mutual savings banks. Federal chartering of mutual savings banks will do nothing to prevent this sort of competition if interest rates again rise to the extremely high levels of 1966.

The fundamental reason the flow of mortgage funds decreased so sharply in 1966 was not the securities market; it was not the actions of commercial banks; nor was it the failure of mortgage-lending institutions to react properly to emerging conditions. The fundamental reason was the inadequate fiscal policy of the Federal Government which, by default, left to monetary policy the greatest part of the task of restraining inflation. Inevitably, this led to extremely tight credit conditions and high-interest rates.

Rather than calling for far-reaching structural changes in the financial system, those who want to protect the homebuilding industry from such sharp drops in credit availability in the future should instead insist upon the application of a balanced mix of fiscal and monetary policies.

#### DEBT MANAGEMENT AND THE INTEREST RATE CEILING

Debt management is viewed by some as an important aspect of Federal economic policy; at the least, the economic and financial implications of handling a public debt of \$330 billion are worthy of attention and discussion. Consequently, it is extremely disappointing that neither the President nor his Council of Economic Advisers has discussed the matter in the 1967 report.