Lacking adequate fiscal restraints, monetary policy was forced to shoulder the major burden of restraining inflationary pressures in 1966, with the well-known and not soon-to-be-forgotten results. As the Council notes, the impact of severe monetary stringency, soaring open market interest rates and intensified commercial bank competition for high-yielding savings certificates "fell heavily on thrift institutions," sharply reducing the availability of mortgage funds and causing a drastic decline in new housing activity. One result of these developments, of course, was the imposition of across-the-board ceilings on savings interest rates, for the first time in history.

Looking back at the experience of 1966, it seems clear that monetary policy should never again be forced to assume such a disproportionate role in restraining inflationary pressures in a high-level economy. Hopefully, the painful lesson of 1966 has been learned and fiscal policy will assume an increased and more flexible role in Government stabilization programs.

The 1966 experience has also dramatized the need for other basic changes to improve the long-run stability of the economy. Foremost among these, as the Council states, is the need for structural changes in the financial area that would lessen the vulnerability of thrift institutions and housing markets to the uneven impact of monetary policy. Moreover, as the Council points out, the sharply increased competition for savings from commercial banks since 1957 has "gradually tended to curtail the flow of funds to the mortgage market," adding to the long-run need to strengthen mortgage-oriented thrift institutions. In this regard, I strongly agree with the Council's assessment that "there is every reason to believe that thrift institutions will continue to feel strong competition from banks, and must hereafter operate in a very different environment from that prior to 1957."

Given the short-run vulnerability of mortgage flows to cyclical disturbances and the long-run diversion of funds from the mortgage market resulting from increased commercial bank competition for savings, the Council has correctly emphasized the need for developing new avenues through which the general capital market could be tapped for mortgage funds, and for strengthening the long-run ability of mortgage-oriented thrift institutions to compete for individuals' savings. In this regard, it is gratifying that the President in his 1967 Economic Report has renewed his recommendation, first made in his 1966 Economic Report, that Federal charters be provided for mutual savings banks, in order "to enlarge and strengthen our system of thrift institutions."

Similarly, the Council has noted in its report that "while broadened investment privileges of federally chartered mutual savings banks might initially divert some funds from the mortgage market, such chartered banks would improve the efficiency of thrift institutions, strengthen them in competition with banks, and thereby ultimately benefit the mortgage market." Moreover, through its conversion provisions, the Federal charter bill would provide the most expeditious means for savings and loan associations to achieve investment flexibility. In this regard, it should be noted that conversion into federally chartered mutual savings banks was the route specifically recommended by President Kennedy's Committee on Financial Institutions for savings and loan associations desiring broader and more flexible