

The Council's comments with respect to a similar proposal last year remain valid. The more flexible rate authority, which was originally enacted in 1966, has proved very valuable in permitting the regulatory authorities to restrain, in a coordinated manner, excessive rate competition among different kinds of financial institutions during periods of exceptional pressures in financial markets.

As we have stated before, we do not believe that continuous use of interest ceilings on savings accounts is desirable. But interest rates in the open market remain high and continue to threaten the competitive position of many thrift institutions. And so long as enactment of the President's proposed tax surcharge continues to be delayed, the dangers for these institutions and indeed for our whole economy only increase. Thus, we believe that further continuation for a limited period of the present flexible authority to regulate interest rates on savings deposits is a prudent course of action.

We are opposed to making permanent the existing authority to regulate interest rates on savings deposits. The Council has already set down in its 1967 *Annual Report* (p. 67) its views concerning the proper course of action with respect to permanent legislation governing regulation of interest rates on savings accounts. The necessary regulatory authority "could be provided for in either of two ways: (1) through standby authority to impose rate ceilings under particular circumstances; or (2) through permanent ceilings set sufficiently high that they would become effective only in unusual instances."

It is also our view that the existing flexible authority for adjusting reserve requirements and for conducting open market operations in agency issues constitutes a useful supplement to our tools of monetary and debt management and should be continued.

The Bureau of the Budget has advised that it has no objection to the submission of this report and that enactment of S. 3133 would be consistent with the Administration's objectives.

Sincerely yours,

ARTHUR M. OKUN, *Chairman.*

FEDERAL DEPOSIT INSURANCE CORPORATION,
Washington, D.C., March 29, 1968.

Hon. JOHN SPARKMAN,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Corporation with respect to S. 3133, 90th Congress, a bill "To extend for two years the authority for more flexible regulation of maximum rates of interest or dividends, higher reserve requirements, and open market operations in agency issues".

The Act of September 21, 1966 (80 Stat. 823), among other things, provides a statutory flexible basis for regulating interest and dividend rates which may be paid by insured banks and insured savings and loan associations on time and savings deposits or shares or withdrawable accounts. Additionally, the Act authorizes the Board of Governors of the Federal Reserve System to increase reserve requirements on time and savings deposits to a maximum of 10 percent and authorizes Federal Reserve open-market operations in obligations of agencies of the United States Government.

The provisions of the Act originally were effective only during the one-year period which began on September 21, 1966, the date of enactment of the Act. The authority conferred by the Act was extended for an additional one-year period by the Act of September 21, 1967 (81 Stat. 226). S. 3133 would extend the authority conferred by the Act for an additional two-year period.

The greater flexibility accorded to the banking agencies by the Act to vary interest-rate ceilings on time and savings deposits on different bases and the extension of interest-rate ceilings for the first time to insured institutions of the Federal Home Loan Bank System and to mutual savings banks insured by the Federal Deposit Insurance Corporation have strengthened significantly the ability of the financial supervisory agencies to moderate excessive competition between various types of financial institutions for savings. The actions taken by the regulatory agencies pursuant to the authority contained in the Act of September 21, 1966, have served to limit escalation of interest rates paid by commercial banks and other financial institutions in the competition for consumer savings.