

STATEMENT OF J. L. ROBERTSON, VICE CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. ROBERTSON. Thank you, Mr. Chairman.

I appreciate this opportunity to present the views of the Board of Governors on S. 2923 and S. 3133. Senate bill 3133 would extend for 2 additional years the provisions of Public Law 89-597, which would otherwise expire September 21 of this year. This statute provides the authority for coordinated regulation of the maximum rates payable by federally insured financial institutions to attract savings funds. It also fixes a 10-percent statutory maximum on reserve requirements for member banks on time and savings deposits—in place of the former 6-percent maximum, and authorizes the Federal Reserve banks to buy and sell in the open market obligations of any Federal agency. Senate bill 2923 would extend for 2 years the authority for Federal Reserve banks to purchase up to \$5 billion of obligations of the United States directly from the Treasury.

In the 6 months or so that have passed since the Congress voted to extend Public Law 89-597 for 1 year the need for continuation of the rate ceiling authority provided in that statute has increased rather than diminished. Interest rates in the money market have risen, and banks have had to raise their offering rates on large negotiable certificates of deposit. Banks are paying the 5½-percent ceiling rate on shorter and shorter maturities in an effort to avoid sizable runoffs in funds. The rise in yields available on market instruments also has contributed to a marked slowing over recent months in the inflows of consumer savings to banks and other depository-type institutions, compared with the very high rates of increase experienced last spring and summer.

Under these conditions, the competition for savings funds has tended to intensify. From the January 31 survey of time and savings deposits at insured banks we have thus far been able to process returns for the 700 banks that are most active in this business. The survey shows that the great majority of those banks are paying the maximum permissible rate for consumer-type deposits—4 percent on savings accounts and 5 percent on most varieties of time deposits under \$100,000. And we have the impression that the same situation exists with respect to savings banks and savings and loan associations—that most active competitors, desiring to protect their existing funds and stimulate the maximum inflow of new savings, are offering the maximum rates allowed currently by the regulations.

The situation obviously is one in which some institutions, if unrestrained by rate ceilings, would see an advantage in offering somewhat higher returns to savers. And if such competition were permitted, I have no doubt that a rate war would develop. Furthermore, I see no reason to expect a diminution of pressures on the funds position of banks and savings institutions any time soon. It may become necessary to adjust the structure of ceiling rates if financial markets continue to tighten, in order to make it possible for the institutions to compete with the market and attract a reasonable share of new savings flows. But if such a change does become necessary—and I hope it will not—surely it would be best to limit the extent and nature of