

the rate increases, and thus to avoid the threat of competitive rate escalation.

If the legislation before you were permitted to expire, of course, the Federal Reserve and the Federal Deposit Insurance Corporation would retain authority to establish ceiling rates on the interest rates offered on savings and time deposits by member and nonmember insured banks, respectively. But we would lose a great deal of flexibility in distinguishing among types of deposits, and it was this flexibility that permitted us to establish a lower rate ceiling on time deposits under \$100,000. No matter what you think of such a distinction philosophically—and I, for one, find it objectionable—the realities of today's market absolutely require some scaling in maximum rates by size of deposits if banks are to compete for funds in the money market without at the same time disrupting the more traditional markets for small savings. Moreover, as a practical matter, I think that we would find it very difficult to continue limiting the interest rates paid by banks for savings if their competitors—the savings banks and savings and loan associations—were left free to post any rate they wished.

For these reasons, the Board believes it essential that Public Law 89-597 be extended, and we recommend that the authority be made permanent. The need for effective rate limitation is especially acute under present circumstances, but the case of extending this legislation need not rest on current market conditions. Indeed, it is difficult to envision circumstances under which the Congress would find it advisable to allow this statute to terminate. If the underlying causes of today's stresses in financial markets are corrected, and rate ceilings are no longer needed, the statute contains authority for their suspension. On the other hand, as long as ceilings are needed, it seems advisable to continue the flexible, coordinated approach embodied in the statute for establishing them.

If the rate ceiling authority is made permanent, the present statutory exemption for foreign official time deposits should be allowed to expire as scheduled on October 15 of this year. This exemption was originally adopted in 1962, before enactment of the present flexible authority over rate ceilings, and it was intended to permit banks to compete for foreign official funds and thereby to help alleviate the balance-of-payments situation. Since that situation has not improved during the intervening years, the exemption of foreign official deposits from interest-rate ceilings continues to be justified. In recent amendments of their regulations, the Federal Reserve and the Federal Deposit Insurance Corporation have made clear their conviction that in present circumstances foreign official deposits should be free from interest-rate ceilings. As improvements in the international payments position of the United States are achieved, however, the need for special treatment for foreign official deposits should be reviewed from time to time in order to make sure that the discrimination involved is continued only as long as it is needed. If Public Law 89-597 becomes permanent law, the Board will then have the authority to continue, modify, or terminate this exemption administratively in the light of changing circumstances.

The authority in Public Law 89-597 for Federal Reserve purchases and sales of agency issues in the open market should also be made permanent. The objectives of this authority—to “increase the potential