This same legislation was originally enacted September 21, 1966, for a period of 1 year. A request for its extension for 2 years was favorably reported by your committee last July and the bill passed the Senate in that form. As finally enacted, shortly before it was to expire, the extension was for 1-year period, with no other changes in the basic legislation. A 2-year extension is again requested. A permanent extension is not requested because the interest-rate ceiling part of the authority was only intended initially to meet a special set of circumstances. The need for, and desirability of, such ceilings under more normal circumstances remains an open question.

There is no need to review in any detail the circumstances which initially brought this legislation into being. During 1966, a very aggressive competition for funds developed among financial institutions. This aggravated an already difficult situation in the money and credit markets. Thrift institutions could not, in all cases, safely pay the higher rates on savings which were required to attract new funds and hold old ones. The flow of savings into mortgage markets fell off abruptly, and the housing industry suffered a sharp decline. Not all of these difficulties were due to uninhibited interest-rate competition, but it was an important factor in the total picture.

These interest-rate ceilings were one part of a coordinated program which successfully alleviated strains and reduced upward rate pressures in the financial markets by late 1966. As soon as the enabling legislation was passed, the regulatory authorities moved promptly to apply interest-rate ceilings. They found it possible to reduce some of the highest rates that had developed during 1966. At the same time, care was taken not to press the ceiling rates down in a fashion which might have choked off the reflow of funds to thrift institutions. The regulatory agencies, themselves, will be in a better position to comment upon the details of their experience with the administration of these ceilings.

During 1967, there was a remarkable improvement in savings flows. The total inflow at commercial banks, mutual savings banks, and savings and loan associations was around $39 billion. This was about double the inflow in 1966 and exceeded the $32 billion inflow in 1965 and the $29 billion inflows in the previous 2 years. As a result, the position of lending institutions was greatly improved. Savings and loan associations were able to repay a large volume of advances to the Federal Home Loan Bank System which is, itself, now in a much better position to render assistance to member associations.

With the improvement in savings flows, the housing industry made a vigorous recovery. New private housing starts rose from a seasonally adjusted annual rate of a little over 900,000 units in the fourth quarter of 1966 to a rate of more than 1,400,000 units in the fourth quarter of 1967. Residential construction expenditures rose from a seasonally adjusted annual rate of $20.9 to $27.6 billion—a rise of nearly one-third. Housing starts and permits have shown further strength this year.

But there is another side to the story. The rate of gain in savings inflows slackened more or less steadily during the course of 1967 although monetary policy was generally expansionary. In January of this year, while savings and loan associates fared better than many had expected, they did experience a net outflow of some $250 million,