

the largest on record for a January. Mutual savings banks and commercial banks did somewhat better in January. Savings flows held up rather well in February. But, in view of recent financial developments here and abroad, it would be foolish to assume that this will necessarily last. Market interest rates have been rising significantly and in many areas are already nearing, or have passed, the peak yields of August-September 1966. The threat of a large-scale movement of funds into market instruments and a competitive scramble among financial institutions is by no means remote.

As your committee is well aware, the legislative authority for ceiling interest rates is far from a panacea, and ceilings may not be a desirable long-term feature of the financial landscape. In particular, these ceilings will not prevent rising market rates of interest from exerting their pull. It is possible to conceive of a situation in which market rates were rising so significantly that the regulatory authorities would have little option but to make some upward adjustments in ceiling rates. But, even then, this authority could be used so as to promote an orderly adjustment.

The best insurance against further rises in market rates and a tightening credit situation would be prompt enactment of the President's tax proposals and rigorous restraint of expenditures. In the absence of that broader action, this particular legislative authority, while still useful, cannot be expected to work wonders. We would be better off with this authority than without it, but the home financing and housing industries would still face difficult adjustments.

With fiscal restraint and reasonable balance in financial markets, a substantial savings inflow to mortgage lenders should continue. In such a setting, the extension of authority in S. 3133 will provide the regulatory authorities with tools that have proven their value in the past year and a half. If a more difficult situation is encountered, these tools will still be useful. Your prompt and favorable action is requested on a 2-year extension of the existing authority.

With respect to S. 2923, Mr. Chairman, I have a short statement here. I think the point of it is that we have had this authority since 1942, renewed at 2-year intervals. It has proved useful, and has been exercised with restraint. In the last 2 years we have had it, it has been used four times.

The maximum outstanding at the Federal Reserve held on direct purchase from the Federal Treasury was \$169 million for a period in 1966. We used it three times for a total of 7 days in 1967, and so far not at all in 1968.

It is a very useful adjunct to the Treasury. I hope you will renew it for 2 years.

I will put the statement in the record, Mr. Chairman, if it is agreeable.

Senator PROXMIRE. Thank you very much.