

I assume you are referring in part to the problem of the large money market banks whose 90-day certificates of deposit are already selling in the open market at 5.70 percent, whereas all banks are restricted to 5.50 percent on new CS's. It is obvious that these banks are finding it difficult to attract new inflows at 5½ percent.

But why should the Federal Reserve Board be concerned about raising the rate to relieve the banks? In the interest of counter cyclical monetary policy, shouldn't the rate be maintained level or even reduced? If less money flows into the banks, wouldn't this force the banks to curtail their lending activity to the business sector? And wouldn't this reduce the level of investment spending and reduce inflationary pressure?

Mr. ROBERTSON. The purpose of restrictive monetary policy would be to reduce the amount of money extended. Consequently, the ceilings in my personal opinion should not be raised to enable banks to obtain more funds, purchased funds, for the purpose of making more loans. The question is whether or not if monetary policy becomes more restrictive, there would be such a large drain on the banks by virtue of market rates, that this would cause a panicky situation, resulting in banks dumping Government securities out of their portfolio into the market in order just to maintain their position.

Consequently, there is a possibility that if the situation arose whereby banks were losing funds that you might have to raise those ceilings merely to enable them to retain what they have rather than to gain more.

Senator PROXMIRE. And if you sold the Government securities and in anti-inflationary—

Mr. ROBERTSON. That is the reason they hold Government securities. This is their liquidity.

Senator PROXMIRE. And if you sold the Government securities and the price of Government securities drops, the interest rate increases?

Mr. ROBERTSON. That is right.

Senator PROXMIRE. Yield increases. And this slows down investment and slows down the economy, which you want to achieve?

Mr. ROBERTSON. That is right. But you don't want it in great gobs.

Senator PROXMIRE. What you are talking about is not a matter of providing more overall investment to stimulate the economy more, but the reverse. You recognize the wisdom at the present time of slowing it down. But you say it should be more orderly?

Mr. ROBERTSON. That is exactly so.

Senator PROXMIRE. So as not to upset the present situation?

Mr. ROBERTSON. Exactly.

Senator PROXMIRE. A kind of selective intervention. Maybe you can do the same for the housing market.

I would like to ask Chairman Horne whether the existing interest rate differential between banks and savings and loan associations enable savings and loans to compete for savings? Your testimony and the record of what has happened in the last few months suggests that they are having difficulty now. I notice a substantial dropoff in inflows for savings and loan, and as you said, a negative inflow in January. This concerns us because of course this committee is not only interested in financial institutions but we are very deeply interested in housing.