If the Act is not extended, the law reverts to the statutory provisions in effect prior to September 21, 1966. Expiration would mean a return to mandatory ceilings on interest rates payable by commercial banks without the authority to prescribe different rate ceilings on different amounts of time deposits, *no* authority of law to set ceilings on the rates payable on share accounts or on savings certificates of savings and loan associations and, perhaps, no ceilings on rates paid by mutual savings banks. Expiration would also mean the loss of the legislative directive for consultation among the Federal Reserve Board, the FDIC and the FHLBB before setting ceilings on interest rates and dividends.

We think we should make it clear that in supporting the extension of this legislation we do not look with favor on all of its provisions or on all of the actions taken under it. For instance, there is no justifiable reason for granting the Federal Reserve Board power to raise reserve requirements on time deposits to a level as high as ten percent. Legal reserve requirements against savings and time deposits have little function as a source of liquidity or as a device for credit control. Monetary economists generally agree that open market operations, discount policy, and changes in the reserve requirements for demand deposits provide adequate means for influencing the money supply and the cost and availability of bank credit.

In urging extension of the Act itself, the A.B.A. does not wish to be recorded as favoring the differential that exists under current regulations between rates that savings and loan associations may pay and those that commercial banks may pay on passbook savings. We believe the differential is too wide and we expect to work with the agencies in an effort to narrow it.

Notwithstanding our foregoing criticisms, we favor an extension of the Act for a two-year period, or preferably longer. Expiration would be particularly hazardous in view of existing inflationary forces that show no signs of abating. Because of inadequate fiscal restraint and undue reliance on monetary policy to contain inflation, interest rates have reached unusually high levels. Unless the Act is extended, a return to the money market conditions of the first nine months of 1966 is a distinct possibility.

Let me take this opportunity to point out that The American Bankers Association feels that The Interest Rate Control Act is an integral part of a total public policy package for stabilization of our dynamic economy. The Association strongly urges the Congress and the Administration to move with all possible speed to enact the most important of all the public actions for stability—a cutback in non-Vietnam spending and an income tax increase at least as large as the 10 percent surcharge requested by the President. Otherwise, this nation risks serious domestic inflation and further erosion of international monetary mechanisms. The Interest Rate Control Act must be extended but it must be bolstered by courageous fiscal action.

The American Bankers Association appreciates this opportunity to express to the Committee these views on S. 3133 and related matters, and we ask that this letter be made part of the record of this legislation.

Sincerely yours,

J. HOWARD LAERI,
President.

UNITED STATES SAVINGS & LOAN LEAGUE,
Chicago, Ill., March 28, 1968.

Hon. WILLIAM W. PROXMIRE,
Chairman, Subcommittee on Financial Institutions, Committee on Banking and Currency, New Senate Office Building, Washington, D.C.

DEAR SENATOR PROXMIRE: The United States Savings and Loan League endorses S. 3133, the proposal introduced by Senator Sparkman, to extend the existing interest and dividend rate control legislation for two years until September 21, 1970. The League represents over 97% of the total savings and loan assets in the nation.

The state of the national economy and the obvious monetary problems which our government is facing requires the extension of this law. The League is ever mindful of the chaotic conditions of 1966 which led to fierce savings competition and extremely high interest rates. This should not be repeated.

We want to emphasize to your Subcommittee that we still consider the present proposed extension a temporary one and we do not endorse the concept of permanent control. Except in unusual circumstances, such as exist today, savings