in policy would be desirable and that interest rates are less important than previously thought in creating an effective monetary policy.

In contrast to the apparent willingness of those who hold this viewpoint to focus greater, if not complete, attention upon money supply growth, the annual report of the retiring Council of Economic Advisers went out of its way to point out the undesirable effects of a simple rigid rule related to the growth of the money supply by pointing out the undesirable effects upon the interest rates that could be produced under certain situations.

The American Bankers Association has no wish to endorse a particular viewpoint in monetary theory. We do see definite advantages to the cause of economic stabilization in a less volatile monetary policy and therefore less precise concern over interest rates levels per se. Such a course, however, requires reducing the institutional rigidities imposed by various interest rate ceilings incoroprated by law and regulation in many parts of the financial system. Ceilings on interest rates paid to savers at various institutions, rate ceilings on Treasury bonds, maximum lending rates on insured and guaranteed mortgages, student loans and small business loans, and imposed ceiling rates on consumer loans as well as mere tradition or convention all tend to make interest rates unusually important in the present financial system. Since a high employment economy is likely to produce interest rates near or even above legally imposed ceilings or ceilings fixed by lack of timely administration, it is likely that until many of these restrictions are removed monetary policy will have to be cognizant of sharp and irregular effects set off by slight changes in interest rates. Therefore, it would seem entirely appropriate for the committee to bear in mind the inconsistency of advocating policies favoring relatively stable monetary growth but continuing to favor the institutional rigidities imposed by legal interest rate ceiling on various types of instruments.

As a case in point, the banking industry should point out that the hoped-for gentle attack against inflation may be turned into a serious credit crunch by failure to take appropriate action to increase the ceiling rate on large certificates of deposit issued by commercial banks. Certainly the current course of interest rates suggests that instruments other than bank certificates are more attractive to sophisticated large investors and wholesale "disintermediation" could well spread as it did in 1966. Immediate action should be devoted to removing, placing on a standby basis, or raising this sensitive rate ceiling. Such a move would not lessen the anti-inflationary stance but would reduce the threat of another serious credit crunch emanating from serious "disintermediation."

IV

Recent years have seen a considerable atmosphere of innovation in banking practices, questioning of existing operating and regulating procedure, and the invention of new methods of organization. In such areas as savings instruments, underwriting of revenue bonds, capital instruments, credit cards, provision of Federal Reserve discount facilities. Loan production offices, provision of noncredit services by banks, and limits on loans of particular types such as mortgages, the commercial banking industry has become restive with previous arrangements. In the past year the diversification movement in the commercial banking industry, generally taking the form of financial congenerics,