

Statement of
Wm. McC. Martin, Jr., Chairman,
Board of Governors of the Federal Reserve System,
before the
House Committee on Banking and Currency,
on H. R. 12080
July 17, 1962

H. R. 12080 would exempt foreign official time deposits from the interest ceilings now imposed under the Federal Reserve Act and the Federal Deposit Insurance Act, in order to give U. S. commercial banks greater freedom to compete with banks in other countries for such deposits. As indicated by Mr. Roosa in his opening testimony in support of the bill, it is a limited step toward reducing the pressures we have experienced on our gold reserves until more basic measures can bring our international payments accounts into balance. It will not, of course, reduce the balance of payments deficit that underlies these pressures. It can be tried without jeopardizing sound management of the relatively few banks that are in a position to compete for these deposits.

Foreign central banks hold their international reserves partly in gold and partly in reserve currencies. In general, they do not decide on the distribution of their reserves as between gold and currencies on the basis of interest rates. But they may let international interest-rate differentials influence their decision on the distribution of their currency reserves as between the dollar and other currencies. Therefore, the bill may add to the amount of reserves held by foreign central banks in dollars, and correspondingly reduce requests for redemption of dollar holdings in gold.

Under the present law the Board is not authorized to fix different interest-rate ceilings for foreign official deposits than for other similar deposits, foreign or domestic. Within this framework, it is not

feasible, in my judgment, to set ceilings which achieve the objectives of the underlying law with respect to deposits of domestic origin and, at the same time, permit active competition by American banks for foreign accounts.

It seems preferable to waive restrictions completely for these foreign official deposits, rather than to authorize the Board to fix higher ceilings applicable only to them. The number of banks involved is small, and only a small percentage of the deposits of these banks will be in the form of foreign official time deposits. I see no danger, therefore, in letting these banks determine for themselves the rates that they can prudently offer.

One additional point should be mentioned. In a number of States, including New York, State banks are limited as to the rate of interest they may pay on time deposits, either by State statute or by regulations of the State banking authorities. Section 24 of the Federal Reserve Act prohibits any national bank from paying interest on time or savings deposits at a rate in excess of that authorized by State law to be paid upon such deposits by State banks in the State in which the national bank is located. Consequently, enactment of H. R. 12080 would not relieve member banks (either State or national) or insured nonmember banks from interest rate limitations applicable under State law or regulations unless appropriate action is taken by the State authorities.