

partly because of lower prices for copper and steel scrap.

Consumer prices have displayed an even sharper advance over the years because of the greater importance in the index of the cost of personal services, retail distribution, and other activities with a high labor content. April consumer prices were 4.0 per cent higher than a year earlier, in contrast to the advance of 2.5 per cent in the preceding twelve months. The past year's increase is the sharpest year-to-year rise in over 16 years.

The large chart dramatizes the wide variety of price movements that go to make up a 4 per cent rise in the cost of living. Year-to-year changes range from the 19 per cent rise in postal charges to a 2 per cent decline in the price of television sets. It is clear, however, that the bulk of the items which have had the largest advances are those involving personal service, where increased compensation is difficult to offset through improved productivity, whether the person involved is a surgeon, a letter carrier, a maid, or a restaurant worker.

On the other hand, in items for which augmented capital investment has been able to improve output per man-hour and where competition is keen—notably in durable goods such as new cars, refrigerators, and television sets—price changes have been small. The broad inflationary pressures of the past year are evident in the fact that three out of five of the prices charted here increased more sharply than in the preceding year. Some, including prices of refrigerators, drugs, meats, fruits and vegetables, which had been declining in 1966-67 have recently increased. The 1966-67 decline in food prices was a reaction from the unusually sharp rise in late 1965 and early 1966. However, the costs of residential telephone service and baked goods, which had been rising in the earlier period, have since declined.

Unfortunately, no letup in inflationary pressures is in sight. Wage contract settlements have been growing larger, and the prospect is that the average first-year raise during the current quarter will equal or exceed even the first-quarter mark of 7.4 per cent. The steel settlement in late summer could ignite a whole new pattern of increases.

Of equal importance are the growing acceptance and anticipation of inflation which are being built into individual and business decisions on spending, saving, and investment. So far, the degree of monetary restraint which is feasible while there is a massive Federal deficit to finance has not been enough to stop the price advance from accelerating. Congress has not yet been willing to supplement the efforts of the monetary authori-

ties with aggressive fiscal restraint. As CEA chairman Arthur Okun reported to President Johnson late last month: "Even with tax action, the route back to price stability will be long and difficult . . . But it is crucial that we begin that journey now."

A Nervous Money Market

Uncertainties about U.S. fiscal and monetary policies and the international monetary system continued to plague the money market last month. With each rumble from Washington about improvement or weakening in the prospects for a tax increase, interest rates would ease down a little or rise. On balance, however, the general movement of rates was upward. Nevertheless, the stock market was quite strong.

Commercial banks have special reason for feeling some uneasiness these days as yields on Treasury bills, commercial paper, and other short-term liquid assets approach or rise above the maximum rates banks are permitted to pay on time deposits under Regulation Q. Large banks are now offering the ceiling rates on large CDs but are unable to stem a gradual decline in the volume outstanding. Consumer-type certificates of deposit, on which the ceiling rate is 5 per cent, and ordinary passbook savings, hobbled by a 4 per cent limit, have stopped growing or are declining at many banks.

Loan demand, on the other hand, is rising, as improvement in business increases working capital requirements of corporations. Furthermore, there is some apprehension about the possible effect of an increase in corporation taxes upon business borrowing. If taxes are increased, it seems entirely likely that companies will borrow more, as well as let more CDs run off, to pay the taxes.

As they did in 1966, when Regulation Q restricted their ability to obtain CD funds in the United States, many banks are increasing their use of dollars gathered in the Eurodollar market. Eurodollar rates, consequently, have risen to very high levels. This has the unfortunate effect of putting the pound sterling under pressure, although it also tends to mop up dollars that might otherwise have to be absorbed by European central banks.

The high level of interest rates in this country is commonly attributed to the current restrictive monetary policy and the general expectation that, if there is no tax increase, monetary policy will become even more restrictive. The Federal Reserve is, of course, now holding expansion of bank credit and money supply to a slower rate than in 1967. This moderation is highly desirable and is necessary if price inflation is to be slowed