CUNA INTERNATIONAL, INC.

By J. Orrin Shipe, Managing Director

As our economy nears the end of the first quarter of 1968, with many of the same inflationary factors in force as in the last half of 1967, the primary concern of our Nation's credit union movement is inflation. By slowly eating away at the value of their small savings and by increasing the cost of practically everything they buy or want to buy, inflation robs credit union members of every extra penny they have earned through their daily practice of thrift.

Inflation encourages families to act directly opposite to credit union teachings. Why save, if the dollars you save immediately begin to lose their full value? Why bother to shop wisely, if the dollars you save by shopping wisely are lost to inflation during the time it takes you to do your shopping? Why exercise restraint in buying on credit, if, by buying now and paying later, you can pay off your debts in dollars of lesser value?

Attempts to curtail inflation solely through monetary policies also hurt credit union members by seriously affecting their credit union's operations. Tight money causes higher interest rates. Higher interest rates increase credit union operating costs. Increased operating costs must be passed on to the credit union's members, through higher interest charges on their loans and/or lowered dividend rates on their savings. Higher interest rates also force credit unions to operate in a tight cost-price squeeze. By law, the maximum income a credit union can earn on a loan is 1 percent per month on the unpaid balance, or a true annual interest rate of 12 percent. Higher interest rates force credit unions to pay higher dividends to their members in order to compete with the interest rates being offered by other institutions, and to pay higher costs for borrowed money. Either one pushes credit unions into a tight squeeze between the maximum income they can earn on their loans and the interest rate they must pay to continue to attract savings or to borrow. Because credit unions are dependent almost entirely on member savings for their operating capital, they are severely affected by the tight money-high interest rate effects of anti-inflationary monetary policies.

The credit union movement supports all efforts to hold inflation within reasonable bounds. Rather than relying solely on monetary practices, however, it supports the full utilization of all methods, including necessary fiscal measures. In addition, we would urge continued research into monetary polices so as to bring about a greater refinement in their implementation in such areas as timing and coordination of action.

Proper steps in this direction will, we believe, do much to help this Nation put into practice the same wise management of its resources as we expect of our credit union members. As a matter of fact, the Pres-