

Mr. SUTTS. I am not an authority on the existence of Federal Reserve controls, Mr. Patman, as you no doubt are.

Chairman PATMAN. Well, I have been disappointed because, of course, that would take a little profit away from the banks if they did that. But why shouldn't the banks come in this and sacrifice to help stop inflation. That certainly would be an effective way.

Mr. SUTTS. Indeed.

Chairman PATMAN. Don't you agree?

Mr. SUTTS. Indeed.

Chairman PATMAN. Don't you agree, Dr. Klein?

Mr. KLEIN. I would say, Mr. Chairman, that we are called here this morning to talk about the economic outlook and we have put our assessments—

Chairman PATMAN. That is all right, I apologize for getting you off the track.

Mr. KLEIN. Well, we put our assessments in terms of the policies that are usually followed, and I think the discussion is very circumscribed. We think of interest policy and we think of tax policy, and I would say that the thinking is a bit unimaginative. Surely there are other ways to stop inflation than having a rise in the unemployment rate, and I think there is a good deal of merit in your suggestion about considering reserve requirements as well as traditional discount and open market policies.

And I would like to say, in addition, that there has been very little thinking about ways of stimulating private savings. If we can drive the economy at a high rate of production and simultaneously induce people to save a higher portion of their income I think we could have a chance of reducing the pressure on prices and, at the same time, keep employment at a high level.

Chairman PATMAN. Thank you, sir.

Mr. Brock?

Representative BROCK. Thank you very much, Mr. Chairman.

I am intrigued by your last comment, Professor Klein, and I would like to pursue it a bit.

What would be the impact on interest rates if you raised the reserve requirements?

Mr. KLEIN. Well, I think we could equate things like changes in the discount rate of a point, and an open market operation of a billion dollars and a change in reserve requirements probably of 1 or 2 percentage points, as equivalent impacts on supply of money. I think if we would consider changing the reserve requirements behind either time or demand deposits, by a full point from the present levels, that would be a step in the direction that we would want to consider. We are now considering discount rate moves of a half point or so and this would be in the same order of magnitude.

Representative BROCK. What you are saying is that you have to have a balanced program and, in effect, the balance would reallocate the monetary resources to some degree particularly in the area of residential construction. For example, if you did this you would make more money available to savings and loans and less available to banks.

Let's just take the first question I asked you. If, taken by itself, you raised the reserve requirements of banks would it not have an effect of increasing interest rates?