

tion, but which will add to unemployment and slow down economic progress in this country. As we shall subsequently show, measures of economic restraint in a period when the economy still has slack in it have not controlled inflation in the past, here or in other countries; and at the same time there are countries in the free world which have succeeded in maintaining full employment at levels which we have not been able to approach, and have done so without suffering sharp increases in price levels. We shall come back to this subject with some proposals as to how the U.S. economy could enjoy the benefits of full employment without serious inflation.

As this is written, the "prime rate" has just been raised again, from 7 to $7\frac{1}{2}$ percent. The prime rate is the interest rate charged by the large banks to their most credit-worthy customers. This rate has been increased four times in the last 3 months. It was raised from $6\frac{1}{4}$ percent at the beginning of December to $7\frac{1}{2}$ percent on March 18, an increase of $1\frac{1}{4}$ percentage point.

This means a further rise in the cost of living as other interest rates increase in accordance with the rise in the prime rate. The rise in interest rates for mortgages will tend to increase housing costs, and the rise in interest rates for installment credit will raise the cost of cars, furniture, electrical appliances, and a host of other consumer goods.

In addition to the increases already effected, there are rumors that the Federal Reserve Board intends to raise its discount rate once more, which would almost certainly boost all interest rates still higher. We strongly oppose such a move, because there is a serious danger that this would start another round in the upward inflationary spiral.

Instead, we urge the Federal Reserve Board to raise the reserve requirements if further tightening of the money supply is needed. On the basis of past experience, the Board can be counted upon to cut reserve requirements during a recession, but it prefers to raise the discount rate rather than raise reserve requirements during periods of inflationary pressure. Such a one-sided policy coincides with the selfish interest of the bankers but it does not reflect the best interest of the general public.

The policy of the Board is well illustrated by what has happened in the current business cycle. During this period the discount rate nearly doubled. It was increased by $2\frac{1}{2}$ percentage points from 3 percent in February 1961 to $5\frac{1}{2}$ percent in March 1969. Reserve requirements, on the other hand, for demand deposits were raised by only one-half of 1 percentage point and this increase was limited to large banks with deposits in excess of \$5 million. The reserve requirement for savings accounts was cut by two-fifths, and although this cut was partly offset by an increase of reserve requirements for other time deposits, nevertheless, overall reserve requirements for all types of time deposits have declined, thus adding to the inflationary pressure.

THE PROSPECT BEFORE US

Unless there is a change in policy, it may be expected that restraints on economic expansion will be tightened in the immediate future. They are already tighter in 1969 than they were in 1968 after the imposition of the income surtax. The reasons are that (a) social