

In these comments considerable has been said about the ineffectiveness and the moral wrong of trying to curb inflation by raising interest rates.

Therefore it is necessary to suggest how inflation can be kept within bounds by other, better, more effective, more direct, and more morally defensible means.

A number of such means are available.

First is the rather obvious step of reducing the money-creating power of the banking system. This the Federal Reserve Board can do at any moment by increasing the reserve requirements for demand deposits. In somewhat oversimplified terms here is what such an increased reserve requirement would mean. Whereas before the increase in required reserves the banks could create new money in the form of demand deposits at a ratio of 7 to 1 to their reserves, after the new ruling they would be able to do so only in the ratio of 4 or 5 to 1. Here is the most direct method in all our presently existing monetary system of dampening monetary inflation. Why the Federal Reserve Board has not used it, if it was so alarmed about inflation, would be hard to understand were it not for the fact that all the voting stock in the Federal Reserve System is owned by the very same banks whose money-creating power would be curtailed by such a move.

Nonetheless, an increase in reserve requirements would be a far more direct, immediately effective, logical, and economically defensible counterinflationary move than is raising interest rates.

Second, if anyone—repeat anyone—is really concerned about price inflation, overextension of credit, families living beyond their means, “heating up the economy” or any such matters, a quick look should be taken at the nauseating saturnalia of credit card promotion which is now being foisted on an all-too-gullible public. If anything on earth is inflationary it is to urge people to buy and buy and buy whether they have any money with which to pay for it or not. Once the Truth-in-Lending Act becomes effective on July 1 and credit card promoters have to advise their cardholders of the rate of interest they must pay on their outstanding balances, some of the enthusiasm may be cooled. But meanwhile it is hard to understand why a nation worried about rising prices and increasing cost of living takes no action to regulate this credit card craze.

There have been times when the Federal Reserve Board by regulation has restricted the extension of credit in the economy. Wisely used, this method could act as a controller on the use of “buy now—pay later” inducements to consumers to acquire gadgets they may not need at “financing charges” nobody ought to afford.

Here again such action would be straightforward, could be aimed at the exact place where credit is being overextended, and could have a much earlier effect on any inflationary trends than raising interest rates.

At least two States—Texas and Pennsylvania—have completely abolished the garnishment of wages as a means of collecting debts. Such action by the Federal Congress would end, once and for all, the harassment to which wage earners and their employers are so often subjected. It would also have the effect of cooling the present