

# Fed raises interest rates again

WASHINGTON (AP)—The Federal Reserve boosted interest rates Wednesday for the seventh time in a year, triggering higher borrowing costs for millions of Americans and charges of monetary overkill from critics.

The Fed's half-point increase in two key rates was followed immediately by a similar boost by major banks in their prime lending rate, pushing it from 8.5 percent to 9 percent, the highest level for this benchmark rate since early 1991.

Many home equity and credit card loans are tied to the prime, as are certain business loans, especially for small and medium-sized firms.

In a brief announcement at the end of two days of closed-door discussions, the Fed said it was increasing its discount rate, the interest the bank charges on direct loans to commercial banks, from 4.75 percent to 5.25 percent.

The central bank said it was increasing its target for the more important federal funds rate, the interest that banks charge each other, by a half-point to 6 percent.

When the Fed began this cycle of

interest rate increases on Feb. 4, 1994, the funds rate stood at 3 percent. The latest increase means it has now been doubled in just 12 months, even though the underlying rate of inflation in the country has actually declined during the same period.

"The Fed is reacting not to inflation, but to the fears of inflation," protested Robert Brusca, an economist at Nikko Securities in New York. The year of rate increases is enough "that we could see a recession in 1996," he said.

Wall Street, which has at times reacted wildly to the Fed's rate increases, had a mixed reaction Wednesday.

The Dow Jones industrial average closed up 3.70. The bond market slumped on fears that the Fed's statement could mean the central bank will stop raising interest rates before it has decisively controlled inflation. The 30-year Treasury bond rose to 7.75 percent, up from 7.69 percent on Tuesday.

As it has in the past, the Fed defended its actions as necessary to head off inflation in an economy that is beginning to push up against capacity constraints and tight labor

markets.

"Despite tentative signs of moderation in growth, economic activity has continued to advance at a substantial pace, while resource utilization has risen further," the Fed said. That referred to the fact the economy grew at a rapid 4.5 percent annual rate in the final three months of the 1994 while factories operated at their highest capacity rates in 15 years.

"In these circumstances, the Federal Reserve views these actions as necessary to keep inflation contained and thereby foster sustainable economic growth," the statement said.

Fed critics, however, said the latest rate increase ignores the fact that the substantial credit tightening already engineered is just beginning to be felt. Others defended it and predicted it could well be the last or next-to-last, especially if the economy slows as expected this year.

But Democrats in Congress charged that the Fed was favoring Wall Street investors at the expense of an economic slowdown that will mean rising unemployment and layoffs in such key sectors as housing and autos.

# Mideast summit planned

JERUSALEM (AP) — The leaders of Israel, Jordan, Egypt and the Palestinians will meet for an unprecedented summit Thursday to find ways to break the stalemate in Mideast peace talks.

The four-day meeting will take place Thursday afternoon in Cairo, Prime Minister Yitzhak Rabin's office said Wednesday.

The summit was called to rescue the peace process, which has been shaken by attacks by Muslim militants on Israelis and by Israel's settlement building policy.

Foreign Minister Shimon Peres, in Cairo for talks with Egyptian President Hosni Mubarak, said the meeting would be "a real attempt to create a coalition for peace and not let the coalition against peace stop it."

"This is the first time a peace

coalition is meeting, consisting of three countries and one autonomy," he said in other remarks broadcast on Israeli radio.

"This is certainly an unprecedented attempt in the annals of the Middle East."

In a nod to Syria, Peres said "this coalition remains open for others who want to join the peace process."

The stalled negotiations between Israel and the Syrians will also be on Thursday's agenda, officials said. However Egyptian Foreign Minister Amr Moussa said in Cairo that Syrian President Hafez Assad had not been invited.

Palestinian officials confirmed today that PLO leader Yasser Arafat would attend. There was no immediate comment from Jordan's King Hussein.

## Daily Nebraskan

FAX NUMBER 472-1761

The Daily Nebraskan (USPS 144-080) is published by the UNL Publications Board, Nebraska Union 34, 1400 R St., Lincoln, NE 68588-0448, Monday through Friday during the academic year; weekly during summer sessions.

Readers are encouraged to submit story ideas and comments to the Daily Nebraskan by phoning 472-1763 between 9 a.m. and 5 p.m. Monday through Friday. The public also has access to the Publications Board. For information, contact Tim Hedegaard, 436-9258.

Subscription price is \$50 for one year. Postmaster: Send address changes to the Daily Nebraskan, Nebraska Union 34, 1400 R St., Lincoln, NE 68588-0448. Second-class postage paid at Lincoln, NE. ALL MATERIAL COPYRIGHT 1995 DAILY NEBRASKAN

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