Fed boosts two interest rates

WASHINGTON (AP) — The Federal Reserve launched its most aggressive attack on inflation in more than five years Tuesday, boosting two key interest rates by a half percentage point each.

The action triggered similar increases by commercial banks in their prime lending rates, meaning that short-term borrowing costs will be rising for millions of Americans.

But it also brought cheers from Wall Street where both stocks and bonds posted impressive rallies - a sharp contrast to three smaller Fed hikes earlier this year that sent financial markets into tailspins.

The Dow Jones industrial average shot up 49.11 points while the Treasury's benchmark 30-year bond posted an impressive price gain that sent the yield down to 7.29 percent.

Analysts attributed the turnabout in market sentiment to a belief that the Fed's moves meant the central bank was through for the time being.

"This is the decisive action that markets were looking for. The Fed has cleared the air," said David Jones, an economist at Aubrey G. Lanston & Co. in New York.

Analysts said the Fed's latest increases may be a mixed blessing for consumers, driving up short-term borrowing costs including home equity loans that are tied to the prime rate but at the same time lowering the cost for long-term borrowing because of the rally in bond markets.

The cost of 30-year mortgages hit a two-year high of 8.77 percent last week, but analysts said mortgage rates should now retreat to around 8.25 percent.

In a brief statement, the Federal Reserve said it was boosting the discount rate, the interest the central bank charges on loans to commercial banks, from 3 percent to 3.5 percent. It marked the first increase in the discount rate since 1989.

The central bank said it also was raising the federal funds rate, the rate banks charge each other, from 3.75 percent to 4.25 percent. Earlier this year, it had boosted the funds rate three times in quarter-point moves.

It marked the first time the central bank had raised both its discount rate and the funds rate by one-half point since Feb. 24, 1989. The Fed said it was making the two credit moves to "maintain favorable trends in inflation and thereby sustain the economic expansion."

The Fed statement was issued at the end of a regularly scheduled meeting of the Federal Open Market Committee, the group of Fed board members in Washington and regional bank presidents who meet eight times a year to set interest rate policies.

The Fed said it believed its latest rate increases had "substantially" removed the looser credit stance the central bank had maintained all of last year. Economists said this was a strong signal the central bank was through for several months.

Bruce Steinberg, an economist at Merrill Lynch in New York, said the central bank could remain on the sidelines for the rest of 1994, especially if the current benign inflation performance continues.

He said he was forecasting that even with the credit tightening that has occurred "economic growth should remain solid but not excessive."

President Clinton insisted before the Fed announcement that he did not believe the credit tightening would increase the risks of a new recession.

"I have every confidence that we're still going to have another good year this year and that we will be able to offset any modest increase in interest rates with increased growth," Clinton said.

Laura D. Tyson, the president's chief economic adviser, said the administration "respects the independence of the Federal Reserve and neither criticizes nor endorses its actions." She said the Fed's action did not alter the administration's belief that the economy was "on a path of sustained growth, strong employment creation and low inflation."

However, some congressional Democrats expressed alarm that the latest rate hike ran a serious risk of shoving the country into a recession by 1996, the year of the next presidential election. They said the central bank was ignoring recent government reports that showed economic growth slowing from the torrid pace set late last year and price pressures abating.

"The behavior of the Fed is an outrage," said Sen. Byron Dorgan, D-N.D. "The Fed is responding more to the interests of money center banks than to the interests of the productive sector of the American economy."

"The Federal Reserve is once again putting the brakes on the nation's economic recovery and in doing so hurting hard-working Americans," said Sen. Jim Sasser, D-Tenn.

Senate Majority Leader George Mitchell and six other senators from New England, a region that has been hard hit by a sluggish economy, released a letter to Federal Reserve Chairman Alan Greenspan contending that "in our part of the country, there are no fires of inflation that need to be dampened."

Man urges banning of un-American books

NEW YORK (AP) — A school board member is seeking to ban books several books from district libraries, including a biography of Martin Luther King Jr., because he says they promote racial separation.

Frank Borzellieri said the books prevent students "from being proud to be Americans."

"We are a white, Christian, British, Protestant nation," he said.

"Where does it say we have to focus on other cultures?"

Borzellieri, who was elected to the nine-member District 24 school board a year ago, objects to the King book, *Young Martin's Promise*, because "it doesn't say he was a leftist hoodlum with significant Communist ties."

"King was a hypocritical adulterer," he told New York Newsday.

Other books on Borzellieri's hit list include *I Hate English*, about a Chinese girl's struggle to learn English, and *Jambo Means Hello, the Swahili Alphabet*, a picture book with Swahili words.

The New York City school system is composed of a central Board of Education and 31 district school boards that run the elementary and junior high schools.

Borzellieri plans to make his presentation at a District 24 board meeting Thursday night. He did not return a call placed through the district office Tuesday seeking comment.

His home phone number is not listed.

"As far as we're concerned these books are educationally appropriate and we fully believe that they have a place in our schools' libraries," said John Falco, deputy superintendent for District 24, which is in the borough of Queens.

Borzellieri's proposal is the latest in a series of fights over multicultural education in the school district.

In 1992, the district objected to the proposed "Children of the Rainbow" curriculum, complaining that it taught children to respect gay people.