

# Intrigue at the White House

In an Administration that has performed one about-face after another on economic policies, one of the few irreversible forward-march orders left standing has been to oppose any thought or mention of a tax increase. In fact, part of President Nixon's Phase I economic program was a sizable tax decrease, and one of his most frequently repeated campaign promises in 1972 was that he would stand firm against any new tax bites. At his most recent press conference, Nixon said that the present Congress could not possibly pass a "responsible" tax-reform bill, and his second State of the Union message to the Legislative Branch reiterated "strong opposition" to a tax increase.

Last week one more Nixonian "never" became inoperative. Domestic Affairs Chief Melvin Laird suddenly announced that the President was "seriously considering" a variety of tax measures for some time in the future, including a "refundable" increase in personal and corporate income taxes.

As outlined by Laird, the increase would take the form of an income tax surcharge of approximately 10%. But instead of going to finance new spending programs or other Government business, he said, the \$18 billion or so that would be raised if the measure became law in 1974 would in effect be held in escrow, then refunded dollar for dollar to individuals and corporations at some later time when the economy needed a spending boost. A second idea under study is to change the investment tax credit—which currently allows businessmen to write off 7% of their expenses for new capital equipment—to flexible levels, varying from 3% to 15% of such investments. Again, the idea is to stimulate the economy in slack periods by letting firms deduct a big chunk of their new investments, and to slow it down in overheated times by withholding the credit privilege almost entirely.

**High Pique.** No one seemed more astounded by the President's latest turn-about than his chief economic adviser, Treasury Secretary George Shultz, who happened to be attending an international trade meeting in Tokyo. Normally granite calm in any circumstance, Shultz put on a show of high pique from across the Pacific. Laird, said Shultz, "can keep his cotton-pickin' hands off economic policy." The tax plans described by the domestic-affairs chief were "out of tune with everything that had been discussed" before Shultz left on his trip. Moreover, said the Treasury Secretary, "Laird always sounds off about economic policy when I'm away."

In fact, the Great Tax Drama was eerily reminiscent of an episode involving many of the President's same advisers last spring, when Shultz was

attending an international bankers meeting in Paris. Just before leaving, he had drafted what he thought would be a swift transition from the collapsing Phase III to Phase IV. Suddenly Laird, then newly appointed, entered the scene, remarking for the first time in public that tighter controls were under consideration. The idea of a temporary freeze was especially favored by former Treasury Secretary John Connally—who last week just happened to hold his first face-to-face meeting with Nixon in months. The President, of course, eventually decided to accept Connally's recommen-

a valuable fine-tuning mechanism in U.S. fiscal policy. Perhaps more to the point—taxes being one issue that is guaranteed to attract attention—Nixon may have spotted a chance to appear to be seizing the initiative, fighting inflation, attending to "the business of the people."

How serious the President is about pushing his new tax schemes is quite another matter. In his rather rambling and contradictory statement, Laird admitted that the currently hostile temper of Congress and the pressure of its other business ruled out any likelihood that the program would be enacted this session. Laird seemed willing to wait. The ideas were being considered, he said, in an Administration move toward "discussing ideas in the open." Even Shultz's outburst, he said later, was part of a new



GEORGE SHULTZ



ARTHUR BURNS



MELVIN LAIRD

*A trans-Pacific confrontation over a White House trial balloon.*

date over that of Shultz, and a 60-day freeze was announced on June 13.

The first tip-off to the latest economic intriguing came from Federal Reserve Board Chairman Arthur Burns, who remarked casually before the House Banking and Currency Committee that Nixon had shown "considerable sympathy for raising taxes." That was the first anyone had heard of such feelings, but economic analysts quickly noted that Burns might have his own reasons for divining them. In trying to keep the nation's highly charged economy from spinning out of control, Burns has been forced to engineer a cost-of-credit squeeze of historic proportions; last week some banks raised their prime lending rate for businessmen to 10%, higher than it has ever soared in the U.S. Thus the chairman of the Federal Reserve, who is known to believe that interest rates could notch downward if some of the nation's excess spending power was absorbed by higher taxes, may have been trying to force Nixon's hand.

Nixon and his advisers had some reason to follow Burns' lead. For one thing, the variable tax plans could be

give-and-take. "This is the kind of thing I am trying to encourage."

It did not seem to be the sort of thing that Congress intended to encourage. Recovering from a back operation in Arkansas, House Ways and Means Chairman Wilbur Mills—without whose support any tax proposal is doomed—said he doubted that the President actually intended to introduce the tax program. His stand-in on Ways and Means, Democratic Representative Al Ullman, fully agreed. "I don't believe that these are serious suggestions," said Ullman. "They are a trial balloon and a weak one." He added that they would fall on "deaf ears in the committee." Congress is in the process of trying to straighten out its own budget procedures, said Ullman, and is in no mood to deal with "willy-nilly suggestions from downtown." Nor is it at all anxious to add to presidential power, however much economic sense Nixon's ideas might make. Thus for all the angry words, bruised feelings and wily maneuverings of the week, there was no sign that the nation was any closer to a tax increase.