

Rowland Evans and Robert Novak

Phase III, Indicted

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A scathing indictment of President Nixon's disastrous Phase III anti-inflation program, his economic advisers and his detachment from his own economic programs has been lying inside the President's Oval Office like a ticking time bomb for five weeks, bearing the signature of Mr. Nixon's chief economic spokesman during last year's presidential campaign.

The author is Canadian-born Dr. Pierre Rinfret, the noted New York-based private consulting economist who has intimate ties to both Mr. Nixon and his newest White House aide, John B. Connally. The April 12 attack on the "currently disastrous rate of inflation" was the result of a specific request from then-presidential aide John Ehrlichman.

In making the request, Ehrlichman spoke for Mr. Nixon himself. In answering it, Rinfret proposed a return to mandatory controls, sharp limits on profits and a temporary 15 per cent income tax boost for both corporations and individuals.

Rinfret, regarded by some establishment economists as an irrepressible Peck's bad boy of the occult art, was a key author of the highly praised Phase II, which Schultz abruptly terminated last January. Rinfret refused to discuss his secret report with us beyond admitting his advice had been requested. His proposals, summing up in pungent language what many other economists are now starting to say were made available to us by sources close to the White House.

By coincidence, the disclosure of Rinfret's tough new anti-inflation proposals—essential, he said, to avoid other dollar crises, a probable recession and a loss of so much "credibility" that the economy could become "almost unmanageable"—parallels the re-emergence of Connally as a temporary White House aide in the Watergate disaster.

One of Mr. Nixon's first assignments for Connally (who spent Tuesday afternoon with the President) was to stop the current 10 per cent inflation rate on an annual, compounded basis. Connally's own proposals, building on his glittering success as author of the August 1971 wage-price freeze, are also expected to clash head-on with Secretary of the Treasury George Shultz's

free-market bias against tough inflation controls.

Thus, Rinfret's appeal for an immediate return to what he calls the "mandatory program" of Phase II is one more heady signal that the White House may be ready to dump Shultz's largely voluntary program.

The heart of Rinfret's plan is his novel 15 per cent income tax scheme. Dubbed an "anti-inflation tax," it would be collected and immediately sequestered—not to be spent until inflation ended. Receipts from this tax would funnel into a special "escrow account," patterned after West Germany's anti-inflation tax system. Rinfret wrote the President: "The funds could be refunded . . . when adequate restraint on the economy had been exercised and when the refund would help expand economic activity."

In addition, Rinfret advised the President:

- To grab the administration's economic reins in his own hands and not let anyone else get control (an obvious slap at Shultz). "The people need to know that the President cares about their economic welfare," Rinfret counseled. "He has to remain visibly involved."
- To end the mishmash of phony forecasting which has come from Shultz, Herbert Stein, chairman of the Council of Economic Advisers, and Roy Ash, head of the Office of Management and Budget, whose apparent ignorance about the true force of today's roaring inflation has become a bad Washington joke.
- To embargo the export of short-supply commodities, such as meat and chicken, logs and grains. Foreign buying, he told the President, is adding intolerably to the inflation spirals.
- More conveniently, Rinfret wants even deeper spending cuts and a more interventionist policy by the Federal Reserve system to slow the supply of new money. He would limit price increases to 1.5 per cent and wage hikes to 5.5 per cent a year.

Now that the President is reeling from the hammer blows of Watergate and has Connally pressing from inside and Rinfret from outside for a return to serious inflation controls, he may at last order Shultz to abandon Phase III—or decide to abandon Shultz.