Nixon Nominee Blames Government for Inflation

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President Nixon's newest nominee to his Council of Economic Advisers said yesterday that the White House and the Federal Reserve Board overstimulated the economy last year, a mistake that helped produce the present high rate of inflation.

"Under pressure from their opponents" in last year's election, government policy-makers pumped up the economy too fast, "and only belatedly did they shift to restraint," said William J. Fellner, Mr. Nixon's most recent choice to be a member of the three-person council.

Fellner laid out his strict, almost fundamentalist views in a new study, "A New Look at Inflation: Economic Policy in the Early 1970s," published yesterday by the American Enterprise Institute for Public Policy Research here. The study was written well before his nomination by the President earlier this week.

The study, in addition to blaming the White House for helping to cause the present high inflation rate, took issue with the use of freezes and controls to combat it.

The President, said Fellner, was "ill-advised" in first freezing prices in June, and then replacing the looser Phase III with the tighter Phase IV of wage-price controls.

"Even prior to June 13," the date of the freeze, said Fellner, "we all were aware that in some circle the step that has now been taken was regarded as 'good politics'—even though those holding this view would have had a hard time refutingt he proposition that trying to cope with an excess-demand situation in this way is 'bad economics.' "

"I find it difficult," he

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went on, "to imagine that the step will not also prove to be 'bad politics.' "

When the economy is hot and overall demand is heavy, Fellner wrote, "then price-control measures purporting to be 'anti-inflationary' can do no more than to suppress symptoms." For all the headlines they make, they cannot do much about inflation, he argued.

The White House, despite the steps it took in June, has been saying all year that price controls are not the answer to inflation. The real solution, it has said, lies in a tight budget and tight money—dampening demand —and controls are to be phased out as soon as possible. So Fellner has no basic quarrel with present policies, a point he made in several general ways at a press conference at the AEI yesterday. He does, however, have quarrels with the past.

The White House has dwelt on such things as world demand and disappointing harvests as the primary causes of the high inflation rate. These are things over which it had limited control, at best. But, Fellner said, "inflation flared anew" this year "only partly because of adverse factors—hopefully temporary ones—affecting the supply side of raw-material markets. In good part we are now confronted with the consequences of overambitious expansionary policies."

The central issue in all this is how far the government can go in pumping up the economy—and driving down the unemployment rate—without touching off runaway inflation. It used to be thought that the flashpoint was an unemployment rate of 4 per cent, which is the rate traditionaly defined as "full employment."

Fellner thinks it is unsafe to aim much below 5 per cent. The White House has been saying much the same thing over the last year, though not as bluntly. The problem is that women and teen-agers now make up a greater percentage of the labor force than they used to, and that women and teenagers have chronically higher unemployment rates than men. It thus takes much more priming of the pump to get the overall rate down to 4 per cent than it used to.

Fellner, who was Sterling professor of economics at Yale before his retirement and is a figure of considerable stature in his profession, must be confirmed by the Senate. His views on the trade-off between unemployment and inflation are likely to embroil him with some senators.