Connally Urges Phase IV 'Guidelines'

6/21/73

By Hobart Rowen
and Peter Milius
Washington Post Staff Writers

Former Treasury Secretary John B. Connally yesterday called for the speedy transformation of the current price freeze into a Phase IV relying on guidelines that are as "specific as possible so people will know what to expect."

But he warned at the same time that the public schould not expect the Nixon administration "to come up with any magic formula" that will solve the problem of inflation for the United States.

Coincidentally, in an interview with a group of Washington Post reporters, Cost of Living Council Director John T. Dunlop agreed that controls should be considered only " A limited purpose tool."

Dunlop reiterated his long-held view that "you don't use a (an exact) number as a single wage standard. The real problem is what kind of administrative machinery you design—that's the problem."

The COLC director stressed that a wage policy for Phase IV cannot be evolved "until we decide what to do on the price side, and that question is up for grabs."

Connally, who has been playing an advisory role here for the past several weeks, stressed repeatedly that the freeze and subsequent Phase IV would not solve the United States' complex economic problems.

At best, he suggested, "we're going to live with the problem, and I think we're going to have to be patient and understanding about it."

Even with a strong controls program which should be "mandatory . . . on various industries where the greatest problems exist over a longer period of time," Connally said, reliance has to be placed on traditional fiscal and monetary discipline.

But "as a politician," he rejected the notion of a tax increase, which he said "would be grossly misunderstood by the American people" and im-

See ECONOMY, A9, Col. 1

ECONOMY, From A1

possible, in any event, "to get through Congress at this time."

The former Treasury chief, although identifying himself as a "low interest man," implied that monetary expansion under the direction of the Federal Reserve Board may have been too liberal last year and thus a major cause of inflation.

He predicted, although "I hate to see it," that high interest rates would "prevail through the summer months because it's a deterrent that can slow the economy down."

Connally said that "one of the great weaknesses we found ourselves in" was that Phase II had been dropped "too quickly," and that Phase III "did not work as it was anticipated it would work."

Connally professed bewilderment at the "depressed" state of the stock market, where "solid securities are selling at only 5 or 6 times their annual earnings. But he volunteered, at another point, that people "abroad have some question as to whether this government can be governed in a time of crisis.

"No doubt about it," Connally continued, "this is having an impact, and people are staying out of the market in droves."

Pessimistic evaluations of economic prospects are unjustified, he said. "I have never heard so much unjustified prognosis of gloom and doom," Connally declared.

"Here we are in the middle of a broad economic expansion of enormous proportions, yet there are people constantly talking about, 'Well, it's just temporary, but we're facing a recession.' Now, I don't know how you answer these things."

Connally's and Dunlop's recollections of how the President's price freeze decision had been evolved were at slight variance. Connally, asked if he supported the freeze, answered by saying that the President's advisers, himself included, proposed options ranging "from doing nothing to a total freeze," but that no one of the group "came down in support of any single position."

Dunlop, on the other hand, said that the group of advisers met and agreed on a program which was largely based on tightening up Phase III and which stopped short of a freeze. When the President rejected that program, the group at his request came back with a very tough set of recommendations. Dunlop was not specific on the content of this second program, but commented: "You could freeze everything." Ultimately, Dunlop said, the President decided "on something in between."

Dunlop has been warning not to expect too much from controls ever since he took office in January.

His argument is that government ceilings on price and pay increases worked as well as they did during last year's Phase II because there was still slack in the economy. Many companies, he noted yesterday, found they could not raise their prices last year to the full limits the government allowed; demand was too weak to support such increases.

But this year, he said, "when you've got everybody up at a capacity, it's a very different kind of world."

The problem, he said, in such key and inflationary areas as food, fuel and "primary" industrial materials, is that worldwide demand is greater than supply.

Those, he went on, "are kinds of . . . factors I don't believe you can possibly grapple with in short periods of time."

"My notion," he said at another point, "is that when the economy gets this high you've got to act on the supply side of things."

He quickly added, however, that he was not saying there is "no place at the present time" for controls. "My view of these matters is not doctrinaire."

He noted, for example, that controls can slow down the speed at which manufacturers pass along increases in the prices of their primary materials.

Dunlop called a freeze "a very blunt, inequitable economic tool" which he said the press and politicians "have helped to romanticize." He said he wants to get away from the freeze and into Phase IV "as soon as we can," and suggested that this might be done one sector of the economy at a time rather than "in one fell swoop."

Dunlop has always been opposed to the use of flat numerical limitations on either pay or price increases. He thinks such numbers are too rigid, and said again yesterday, "I do not believe a policy can be encompassed in a number." There may be numbers promulgated in Phase IV, he said, "But you don't use a number as a single standard."

The most famous number in Phase II was the 5.5 per cent per year limitation on pay raises, which is nominally still the standard. Dunlop said Phase IV's wage standard, number or not, will depend on its price standards. He said he did not know yet what those might be.