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Top Nixon Advisers Warn Of Anti-Inflation Actions

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WASHINGTON, July 7—President Nixon's two top economic advisers issued warnings today that the Administration might have to take drastic steps to combat inflation.

Kenneth Rush, the President's economic counselor, said in a magazine interview that "we may very well need again" some kind of voluntary machinery involving business, labor and the Federal Government aimed at restraining excessive wage increases.

In a television interview, Herbert Stein, chairman of the Council of Economic Advisers, said that Americans would have to exert much more discipline over the next few years in the fight against inflation. He said that while the Administration had no plans at the moment for a tax rise, an increase would be considered if Government spending were not reduced.

Mr. Rush said that since the end of wage and price controls on April 30, "we've had some cases of seriously inflationary wage increases negotiated by labor and management," and he added, "If such escalation continues, it would be a very serious matter."

Mr. Rush, who made his comments in an interview with U.S. News & World Report, was not specific about the kind of machinery that might be established. However, such efforts in the past have had little success.

He stressed that the Administration was not seeking a return to compulsory wage or price controls. But, he said, "we're working out a plan of

Continued on Page 20, Column 3

Continued From Page 1, Col. 6

consultation and discussion with labor and management."

While conceding that the term "jawboning" could be applied to the new effort, Mr. Rush said:

"I would expect these consultations would be more a case of discussion and education, a common perception of what is necessary to prevent inflation from continuing at the present very high rate."

He said there were "no compulsory means" available to induce labor to reduce wage demands. But he noted that "excessive wage and price increases may create irresistible public pressure for reimposition of mandatory wage and price controls."

Mr. Rush said the matter had been discussed with President Nixon, as well as with John T. Dunlop, the former director of the Cost of Living Council and now a consultant to Mr. Rush, and W. J. Usery Jr., director of the Federal Mediation and Conciliation Service.

In the interview on the CBS program "Face the Nation," Mr. Stein said there should be continued restraint in Government spending and a "period in which the economy is not in an exuberant boom."

On the duration of this policy, he said: "I think we have to be prepared to continue for a long time, and I think one thing must be said is that we don't really know how long."

"But I think in terms of years, not months — that is, three, four years — and more or less indefinitely we have to follow a policy of much greater discipline than we have followed in the recent past," he added.

Regarding high interest rates, Mr. Stein said combating inflation and a moderate rate of monetary expansion would hold them down.

"That is, I would not interfere and try to hold them down either by putting a ceiling on them or by trying to pump in more money, even if they went a good deal higher," he said.

Associated Press

Herbert Stein, chairman of Council of Economic Advisers, calls for discipline to fight inflation.

"But I think the basic point is that as the inflation rate comes down, as we think it will, and as people become more confident that the inflation rate is not going to speed up again, we will see lower interest rates. And that is the only way we're going to get interest rates down."

Mr. Stein said that Americans "have an erroneous idea of how high interest rates really are, because if prices are rising by, say, 7 to 10 per cent per annum, an interest rate or mortgage rate, say, of 9½ per cent is not an extremely high rate. It's not as high a rate as to be paying 6 per cent mortgage interest when prices are rising by 1 per cent."

Moreover, he added: "It's the high interest rate that permits you to get a mortgage. Most people who are willing to pay these rates can get mortgages. And if we tried to hold these rates down, you certainly wouldn't be able to get any mortgages."

Regarding a tax increase, he said that it would depend on government spending.

"But I think it was pointed out the other day that if the expenditure side is not kept under control, we will have to consider tax increases," he commented.