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WXPost JUL 9 1974

Inflation at the White House

IF THERE WERE a Nobel prize for sheer gall, this year's award would certainly go to the hapless Dr. Herbert Stein. As the chairman of the Council of Economic Advisers, Dr. Stein has made himself a kind of cheerleader for the Nixon administration in all matters of economic policy. Hard pressed on the question of inflation during a television interview Sunday, he invented the highly imaginative theory that the real blame for it over the past 10 years lies with the American public. The public didn't want the tax increases that the country needed, Dr. Stein alleged, and that is where all the trouble started.

" . . . Government policy operates within the limits of what the American people want and will tolerate," Dr. Stein gamely asserted, making the best of a bad position. "Now this doesn't mean that the American people were voting explicitly for inflation, but being so reluctant to have a tax increase, they created the conditions." Where was Dr. Stein in those crucial years? Attempting to explain to the American people the need for higher taxes? Hardly. For the last five of those years, President Nixon and his whole staff were assiduously telling the country that taxes were quite high enough and it was time to cut. And they did cut, hard and deep.

In 1968 the Johnson administration finally gave up its attempts to finance the Vietnam war without higher taxes, and got Congress to enact the stiffest increase since World War II. That increase turned the federal budget from a tremendous deficit to a surplus in the fiscal year 1969. Then Mr. Nixon came to office. Taxes were cut in 1969, and again in 1971. The budget swung back to deficit in 1970 and, over the next three years, it rolled into the heaviest peacetime deficits in our history.

The emphasis on the administration's devotion to low taxes, and its pledges never to raise them, grew steadily more explicit as Mr. Nixon began running for re-election. His budget message in early 1972 was the one that talked about returning "power to the people," by which he meant money power. "In 1973, individuals will pay $22 billion less in federal income taxes than they would if the tax rates and structure were the same as those in existence when I took office." He was speaking at the midpoint of a fiscal year in which the actual federal deficit was $23.2 billion. But his position was adamant. Just before the election, he declared: "My goal is not only no tax increase in 1973, but no tax increase for the next four years."

The point is worth pursuing because it illustrates a profound defect in the Nixon administration. The first is Mr. Nixon's own inability to level with Americans when the news is bad and the truth is unpleasant. It is his constant message, in economic matters, that Americans can safely cut down on the proportion of our wealth that we pay, through the tax system, to support our common welfare. Mr. Nixon has never had much feeling for the common welfare. These shortcomings are now compounded by the attempts of the White House, in its present desperation, to lay off the blame on anybody else or even, as in the case of Dr. Stein's effort, on everybody else. After five years of telling Americans that taxes were too high, that they couldn't possibly be raised, and that they certainly wouldn't be raised under Mr. Nixon, the White House on Sunday has the consummate impertinance to complain of inadequate public support for a tax increase. And on the following day another voice from the same White House assures the country once again that the President sees no need for higher taxes.

Now, of course, it is inflation that is balancing the budget for us. In a graduated income tax system, inflation steadily increases the tax rate on each family's real earnings. The next question is where to find a remedy. Kenneth Rush, the newly appointed presidential adviser for economic policy, is off to a weak start with his most recent proposal. He seems to be thinking of some sort of voluntary restraints on wage increases. During the period of general wage and price controls, from 1971 until last April, wages remained astonishingly stable and contributed little to inflation. One reason was, obviously, that the government was simultaneously holding down prices and profits. If the administration does not intend to restrain profits and prices, it can hardly expect much cooperation from the unions in keeping down wage demands.

Bridling a runaway inflation is going to be painful in many ways to most Americans. No policy will work unless it has wide public understanding and acceptance. Dr. Stein undercuts public understanding of the present trouble, with his absurd attempts to blame the American voter for five years of weak and procrastinating fiscal leadership from the White House. If Mr. Rush persists in his attempt to load a disproportionate burden of restraint onto wages, he will surely sacrifice any possibility of public acceptance for a realistic and effective remedy.