Carter Set Up For One More Fall On Economic Policy

The City of London and its spokesmen in the Carter Administration and the U.S. press have once again set up the President of the United States to take a political beating on economic policy, this time by loudly beating the drums for a whole series of impossible "anti-inflation" and "dollar support" measures designed to cripple U.S. industry. The antidevelopment forces are broadcasting that if President Carter does not announce such suicide measures in his upcoming speech on economic policy the week of April 10, he will prove himself an economic "chicken."

THE ADMINISTRATION

The cue was given by an April 4 editorial in the *Financial Times* of London, which held up Vice-President Walter Mondale's loud braying "on the need to make drastic economies in the U.S. use of oil," as the model for responding to the booming U.S. trade deficit. The *Financial Times* warned Carter that "a half hearted statement by the President will do more harm than no statement at all."

For the past two weeks, Mondale's British colleagues, Treasury Secretary Werner Blumenthal and Federal Reserve Chairman G. William Miller have been making their own threatening noises about presidential imposition of a $6 per barrel import tariff on crude oil, if the crude oil equalization tax is not incorporated in the Administration's energy bill. The *New York Times* and *Washington Post* have repeatedly floated scenarios in which the Administration would "bargain" Congress — panicky over the steep hike in the Social Security payroll tax voted last year — into agreeing to pass the crude oil tax, with the proceeds going to "finance" a reduction in the payroll tax. Yet, sources on Capitol Hill in a position to know the views of such powerful figures as Speaker of the House Tip O'Neill and Senate Finance Committee Chairman Russell Long, give such a strategy no chance of success.

Miller, point-man in the "anti-inflation" campaign, and acting openly as a British agent to sabotage the Presidency, has been threatening to jack up interest rates and plunge the economy into recession if harsh measures are not adopted. This stance was fully endorsed by the *New York Times* April 3 editorial page.

In a letter to House Banking Committee Chairman Henry Reuss, Miller forecast a higher rate of inflation than official Administration projections, and predicted a lower rate of economic expansion. Reuss, another disciple of British-system economics, had sought such predictions from the Fed for some time. But he was turned down by former Fed chief Arthur Burns who argued that such disclosure would compromise the independence and integrity of the institution.

Backing up Miller, inflation fighters like Barry Bosworth of the Council on Wage and Price Stability have been issuing statements designed to pave the way for some form of wage and price controls, preferably the Tax-Based Income Policy (TIP) proposals of the Brookings Institution's Arthur Okun and Fed Governor Henry Wallich. TIP would "reward" employers who held down wages with tax breaks. Miller himself is calling such ideas "intriguing" in the full knowledge that the White House has no intention of implementing them.

In fact, after the massive publicity, Charles Schultze of the Council of Economic Advisors will deliver an "anti-inflation" packet to Carter that is pure bluster and bluff, designed to discredit the President on the entire issue. "The President will not say anything new on inflation," Schultze's office admitted.

Protectionism vs. Exports

Efforts by Special Trade Negotiator Robert Strauss, U.S. Export-Import Bank Director John Moore, and sections of the Commerce Department to get a Presidential commitment to an aggressive high-technology U.S. exports policy in the context of expanding the total volume of world trade — the one approach which could bolster the dollar and raise U.S. industrial economic performance from present near zero-growth levels—have not been notably successful. The Administration sent no one to testify at recent Senate hearings held by Sen. Adlai Stevenson (D-Ill) on export policy, on the grounds that its policy is not yet formulated. Reports that a special interagency task force on exports has been assembled persist, but it is said that the President will be forced to say nothing about exports in his speech beyond a vague commitment to encourage them, perhaps with a swipe at Japan, the Western nation presently most committed to accelerating high-technology capital-intensive economics. While Japan has been massively supporting the dollar, Blumenthal and his henchman at the Treasury, C. Fred Bergsten, are doing their best to bankrupt the Japanese economy, by encouraging protectionist sentiment against "Japan, Inc."

Strauss and friends are now contemptuously referred to by the British crowd as Carter's "political advisors," and the Schultze-Blumenthal "economists" toe-dance which is wrecking the U.S. economy is celebrated as responsible opinion by the likes of Leonard Silk of the *New York Times*.

Press To Carter: Inflation, A Test You Will Flunk

New York Times, editorial "Inflation: Mr. Carter's Time Is Short," April 3:

The Carter Administration's concern about inflation appears to be moving out of the Chicken Little phase. Instead of continuing, like that famous fowl, warning that the sky is falling in, the President and his top economic advisers plan to announce a new anti-inflation policy this week.

We have heard such promises before, but a credible anti-inflation policy has yet to spring forth. If anything, the Administration has contributed to the problem. . .

The challenge to the President is clear. Unless he takes a tough stand now he runs a serious risk of spiraling inflation, to be followed almost certainly by recession. The new chairman of the Federal Reserve Board, William Miller, has made it clear that if the White House does not lead the fight against inflation, the Fed will play Lone Ranger again and do the job in the only way it can—through tight money and high interest, meaning an induced recession. . .

The behavior of Mr. Carter so far has been disturbingly reminiscent of Mr. Nixon. . .

New York Times, "The President and Inflation: Politics versus Economics" by Leonard Silk, April 4:

The President's new anti-inflation program will, in the view of his advisers, put him "more directly out in front" of his troops in leading the campaign for wage and price restraint. His aides will continue meeting with business executives, and he is going to send his key inflation fighters, among them Barry Bosworth, director of the Council on Wage and Price Stability, out to talk to the unions as well.

Mr. Bosworth is seriously worried by the statement of Frank Fitzsimmons, president of the teamsters' union, that the truck drivers will seek pay increases in 1979 at least as big or bigger than those just won by the United Mine Workers. The Council on Wage and Price Stability estimates that the rise in miners' pay will amount to 37 percent to 38 percent over the coming three years. . .

Inflation has thus far not had a high priority in Mr. Carter's Administration. For instance, there was joy in the White House over the settlement of the coal strike, and assertions by the President's political advisers that he had won an important victory. But his economists warn that "one more such victory and we are lost."

The President's economists are depressed over how much needs to be done just to chip a percentage point or so off the inflation rate. To the argument that it may not be worth the political cost, they reply that, if inflation is not curbed this year, it will accelerate in 1979—unless, as is probable, it causes a sharp recession.

The Federal Reserve has no intention of supplying the money to keep an accelerating inflation rolling.

Financial Times (London), "The Wilting Dollar," (editorial) April 4:

Despite the greater concern which the U.S. Administration has shown in the past few months about the weakness of the dollar, the weakness has persisted. A variety of different factors can be cited to explain this. First, a number of observers both in the U.S. and abroad are still at least half convinced that some members of the Administration are not averse to seeing pressure put in this way on strong economies like Japan and West Germany, which they may regard as not doing enough to promote world economic recovery. . .

Second, some of the Arab oil producers, concerned about the decline in value both of their dollar assets and the real price they receive for their oil, have been talking both about diversifying their assets and claiming compensation for the fall in the dollar. Third, the size of the coal miners' pay settlement—followed by a speech from the leader of the Teamsters—has helped to reinforce fears about the future course of inflation. . .

Trade Deficit

Finally and most recently, at the end of last week, came the very poor trade figures for February. . .

Mr. Miller has concentrated more on the fact that, however deplorable the consequences in terms of economic growth, interest rates are bound to rise further if inflation continues at its present rate and the trade deficit at its present level. Finally, Vice President Mondale has once again reiterated the need to make drastic economies in the U.S. use of oil. These are only possibilities. The one certainty is that a half-hearted statement by the President will do more harm than no statement at all.

New York Times, "How Miller Views Change in Inflationary Pressures" by Leonard Silk, April 5:

G. William Miller, chairman of the Federal Reserve Board, believes that the balance of pressures between inflation and unemployment are shifting and that monetary and overall economic policy must shift to keep the economy growing steadily. "The forces of inflation are creeping up faster than expected," Mr. Miller said in a telephone interview Tuesday, "and I am worried about higher interest rates on capital, especially long-range capital. If interest rates go too high, they are bound to have an adverse impact on growth.". . .

Mr. Miller feels that there are limits to what monetary policy can do to combat inflation and rising interest rates. He wants to see a more specifically targeted attack on inflation by the Administration, and he asserts that "all Government policy makers are now agreed on that."

To Jawbone, or Not to Jawbone...

An April 5 interview with a ranking official of the President's Council of Economic Advisers (CEA) revealed what parts of Carter's "anti-inflation" strategy will be.

Q: Both Federal Reserve Chairman Miller and Treasury Secretary Blumenthal have supported this week the idea of a $6 per barrel tax on foreign oil. The CEA is drafting President Carter's major April 11 anti-inflation speech. Will the $6 oil import tariff be mentioned in the President's speech?

A: I don't know where you got the idea that would be in the speech.

Q: From what Blumenthal and Miller are saying publicly.
A: I can tell you that such a proposal will not be in the President's speech. The President is concentrating on the energy bill before Congress which we are now trying to pry out of committee. This is what will be said about conservation. . . nothing else will be said.

Q: Is the President going to stress jawboning as the way to fight inflation?
A: Yes, but we would prefer, if we didn't have to, to not jawbone anyone. The President is not going to say anything new on inflation.

Q: Will the President say anything about exports? I heard he would talk about the Export Task Force, which (syndicated columnist) Hobart Rowen reported on last week?
A: That may be. I haven't seen any extant proposal.

"Inflation Is For Real"

Here is what a senior economist on budget matters at the Brookings Institution had to say.

Q: The Tax Incentives Program (TIP) will not go through Congress this year, and it seems you don't favor a "Phase I, Phase II" approach to inflation. What can you use to fight inflation?
A: Jawboning, guideposting, and prenotification.

Q: What happens if this isn't enough to stop labor and industry from asking for higher wages and higher prices?
A: Then we'll have to have public tongue-lashings, like COWPS (The Council on Wage and Price Stability) criticism of the Farm Relief Bill.

Q: However, it looks like Congress will pass the Farm Relief Bill. . .
A: Yes, but the President is going to veto it.

Q: The House Ways and Means Committee Chairman Al Ullman (D-Or.) said April 2 that he would like to see part of the Crude Oil Equalization Tax (COET) go to fund the Social Security System. But an aide to Speaker of the House Tip O'Neill said that the COET hasn't a chance in hell of passing the Congress. What do you think?
A: If you're trying to say that the COET is in big trouble, you're right.

Q: Citibank, in its monthly economics newsletter said that after the first quarter, inflation will taper off. Is Citibank right?
A: Food prices may decline. However, the inflation is for real, and not psychological.

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Chicago Call For Positive Exports Policy

Exclusive from Chicago

The 41st annual Chicago World Trade Conference ended two days of meetings and speeches by passing a resolution telling the Carter Administration that the U.S. needs a positive, consistent and determined policy on exports. The conference held April 5-6, was sponsored by the Chicago Association of Commerce which is one of the largest Chambers of Commerce in the country, and the International Trade Club. The 400 representatives of business, labor and industry heard, among others, Robert Malott, chairman of the Farm Machinery Corporation; Frank Weil, Undersecretary of Commerce; and Earl Butz, former Secretary of Agriculture.

Stressing the need for public information, a labor-industry alliance and government intervention in promoting exports, Robert Mallot said, "We have to sell the public on the absolute necessity to expand exports, we must show how that will strengthen the dollar, reduce inflation, and create more jobs for American workers." He called for "publicly understandable statistics" to demonstrate the interdependence of the world economy, and "economic and defense reasons to accelerate the development in the Third World."

Malott also recommended a "substantial increase" in Export-Import Bank lending capability, but gave no figure for increased lending, and urged that the Eximbank focus on "more difficult credit risks," letting private credit take care of the others.

The Farm Machinery Corporation official proposed to the conference that it pass a resolution directed at government officials indicating the need for a comprehensive trade policy. Malott was quite specific, calling for a cabinet-level "Department of International Trade" which should be immediately preceded by "setting up an interim body, composed of the Commerce Department, the Treasury, the State Department and the Eximbank."

Frank Weil called the U.S. balance of trade deficit "not a balance of payments deficit, but an export problem. We must increase exports," he said, "we're not committed to limiting imports or imposing import tariffs, which cause inflation. I'm speaking for the Commerce Department, not the President, but increasingly this is the position of the President."

Weil told the conference, "although the Administration's proposal to expand the Export-Import Bank of the United States will undoubtedly help the American exporting community, I believe we can and should go further. We need to consider Eximbank credits for plant and equipment investments that are geared to exporting. We need to involve private financial institutions in export finance to a greater extent than at present."

In addition to recommending an expansion of the Eximbank, Weil said, "national export policy should be built on one of America's historic strengths: leadership