



wallace peterson

A look at Phase II

Wallace Peterson is chairman of the UNL Economics Department and a Democratic candidate for the U.S. Senate. The following are excerpts from a recent speech he delivered in Blair.

Nov. 14 is only a few days away, which means the end of the 90 day "freeze" and the beginning of Phase II of the Nixon Administration's New Economic Policy. What will happen after Nov. 14--whether the freeze will become a "frost" or melt altogether--remains to be seen. But of one thing we can be certain. And that is the American economy won't be the same as it was before last Aug. 15.

It is appropriate to take a hard look at the chances for success of the current program. In spite of the public's faith in Phase II, I think it necessary to face two blunt facts: First, the Pay Board and the Price Commission will probably not succeed in getting inflation under control; and, second, Phase II is taking the economy down a road that very few in the nation are going to like once they see where we are really going. Unfortunately, it will be 12 to 18 months before these results are fully apparent, when it may be too late to reverse course...

Phase II: a domestic Vietnam?

One of the reasons the public applauded the "freeze" was the desire for action in a situation where we seemed to be drifting in leaderless fashion. This is understandable, but sometimes our desire for action--any action--leads us to do things we later regret. Vietnam is a case in point. I fear that in many ways Phase II may turn out to be a domestic Vietnam--a program that began with dramatic action directed to a good purpose--ending inflation--but which will wind up in a quagmire of doubt and disillusionment...

So it goes with Phase II. The Administration, I fear, has a bear by the tail and will not be able to let go. If wage-price controls are even moderately successful--say they get the inflation rate down to between 3 and 4%--there will be enormous pressure to keep them in place until inflation is completely ended. But if they are not so successful, there will be pressure for more stringent controls. And, finally, if they do by chance happen to work, then the pressure to make them permanent will be almost irresistible because of the fear that if they are removed, inflation will once again burst over the dikes.

What all this means is that we shall slip little by little into a wholly controlled peacetime economy--something, surely, that few in this Administration really want any more than those in the Johnson Administration wanted an unwinnable war on their hands...

Will Phase II work?

Of more immediate and practical concern to many people is the question of whether Phase II will work...

There are good reasons for skepticism. First, we are expecting a relative handful of men to oversee price and wage movements for more than 6 million nonagricultural business firms...Moreover, there is really no effective enforcement machinery, for it is not realistic to expect the approximately 3,000 employees of the Internal Revenue Service--most of whom are busy with income tax matters--to be able to police effectively Phase II...

Second, the success of postfreeze price stability depends upon the continued cooperation of organized labor, which may be difficult to achieve. Labor is convinced--with considerable justice, I might add--that the tax part of the new economic policy is rigged in favor of big business. Further, the issue of whether wage increases negotiated before the "freeze" and which were deferred will be granted is, at this time, unresolved...

Third, the program rests upon a misconception concerning the nature of inflationary pressures in recent years. The new game plan is built on the assumption that price and wage decisions for the whole economy can be controlled by controlling the actions of approximately 200 giant corporations and the

labor that they deal with--a view strongly promoted by Harvard economist John Kenneth Galbraith...Most recently, the upward push in prices has been led by services--especially fees and payments to physicians, hospitals, auto repair shops, barbers places of entertainment--none of which are much affected by the activity of the corporate giants...

Finally, we are likely to see under any circumstances a lot of "hidden inflation." Prices may not go up, but quality will go down...There are ways, too, to push wage and salary increases beyond accepted limits. "Phony" promotions will become more commonplace, as well as more time off with pay for a variety of reasons...

What is wrong?

The thing that is really wrong with the new economic program and Phase II is that it deals with symptoms and not the basic causes of inflation. Moreover, the Administration's notion of the root cause of inflation is wrong. The reason for inflation, according to Nixonomics, is essentially psychological--which is to say we have inflation because people expect inflation...

In my judgement this is wrong. Inflation is the consequence of a number of "built-in" features of the economy, and it won't be lessened or ended until fundamental changes are made...

If we want to look for fundamental causes, I should list at least four.

First, there is our overblown military budget, which for more than a quarter of a century has diverted 8 to 9 percent of our output to essentially unproductive purposes...

Second, there is the existence of effective monopoly power in key sectors of the economy, which, over the long haul, has probably pushed prices higher than they would have been under more competitive conditions.

Third, we have a federal tax structure that, increasingly, is inflationary rather than the reverse. This is because of the growing importance of payroll and sales taxes in the federal picture, both of which are generally passed on to consumers in the form of higher prices.

Finally, there is a growing dissatisfaction with the distribution of income and wealth--a dissatisfaction that leads individuals and organized groups to push and to improve their own wages and incomes as compared to everyone else...

GUEST Opinion

If we really want to do something meaningful, we have to attack these fundamental causes. This means less military spending, combined with a real attack on concentrated economic power and a return to a competitive market economy. This is something that everyone pays lip service to, but few really want because the adjustments may be too painful. It also would involve real rather than token tax reform, for unless we rid federal income taxes of the many loopholes which still exist, there isn't much hope of getting rid of inflation-prone sales and payroll taxes. Tax reform, too, would be the one single, effective measure we could take to lessen the existing maldistribution of income and wealth.

If we do not make the effort to return to our historic tradition of a competitive economy, the alternative is the corporate state that we see looming ahead on the route laid out by Phase II. I don't believe that this is the price we really want to pay for an anti-inflationary program that probably can't succeed under the best of circumstances!

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