P.S. to the NEWS

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THE STAGFLATION BLUES

Stagflation is the reason Democratic Congressional candidates are apprehensive about the elections this fall. This newly-named economic disease is a combination of sharply rising inflation (running at 11.4 percent) and stubborn unemployment (now 6.2 percent). On top of that, the price of gold reached an unprecedented $200 an ounce as the dollar continued its plunge.

The dollar's recent woes are caused by huge U.S. trade deficits, most of which are due to oil imports. The Europeans' uneasiness about Carter's l adership doesn't help. As a 'London broker remarked recently, "The U.S. is destroying its currency for no useful ourpose -- not to get a higher growth rate or reduce unemployment, but only to keep the price of petrol at 55 cents a ga11 on."

Despite President Carter's optimism about the July economic summit in Bonn, the dollar has taken sharp falls since that conference. Pravda is gloating over "the deepening economic disorders in the UnitJd States." At Bonn, Carter pledged to raise domestic oil prices, currently kept artificially low, to a par with imported crude, but Europeans apparently have little confidence that he can persuade Congress to agree.

When the dollar sinks relative to other currencies, Americans must pay higher prices for imported goods. Tourists an'd Americans living abroad also face a dramatically increased cost of living. Nations heavily dependent on American markets, such as West Germany, are hurt by the consequent loss of business.

Easing restrictions on domestic oil prices would reduce U.S. dependence on oil imports and bolster the plummeting dollar. It wou"d encourage drilling for oil off our East and West coasts and in certain parts of the Gulf of Mexico -- areas which have been block.ed by the Federal Government for many years.

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Although the U.S. Constitution requires that Congress approve all tax increases, inflation effectively raises everyone's taxes without requiring our Congressmen to vote for politically unpopular increases. Many citizens are making more money and therefore paying more income taxes; but because of inflation, their higher salaries do not buy as much as their old salaries.

Rep. Willis Gradison (R-Ohio) has lined up 105 supporters in Congress for his bill to index taxes. Under indexing, if the consumer price index rises by ten percent in one year, then the income tax brackets automatically would be adjusted upwards by ten percent. As a result, if you receive a pay raise, you might not be pushed into a higher tax bracket as you are under the present system.

Another sign of Congressional sensitivity to inflation is the House Ways and Means Committee's decision last month to spur investment by voting to roll back capital gains tax rates, with a special benefit for homeowners. Ignoring Carter's opposition to reducing the capital gains tax, the committee voted to give homeowners a one-time tax exemption on profits from the sale of a home.

This would be a long overdue reform to eliminate the hardship imposed on older couples when they want to sell their family home and move to a smaller place after their children are grown and moved away. Under present tax laws, they get socked with a big capital gains tax that can wipe out a large portion of their retirement nest egg. It has become just as tough for older couples to sell their last house as it is for young couples to buy their first one.

President Carter doesn't mind gasoline costing more, he just wants the price increase to go to the government instead of to the oil producers. However, if it goes to the oil producers, they will produce more oil; but if it goes to the federal tax collector, it will produce more federal employees.

The policies of higher taxes, more controls, allowing shortages instead of stimulating growth and investment, and penalizing the thrifty has brought us down the dead-end road of stagflation. It's time to shift gears and reverse direction.

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