Mr. Nixon on the Economy

Post 7.27.74

IN VIEW OF THE tremendous impediments under which he spoke, President Nixon's address on inflation went about as far as he could reasonably go. The speech contained nothing likely to make matters worse, and there is a certain virtue in that. It is hardly surprising that there were no large excursions into new policies. The President's chances of getting new legislation, at this point, are approaching zero. More important for the immediate future, his relationship with the labor movement has now deteriorated almost entirely.

The greatest danger to economic policy now is an angry drive by unions in the coming year to catch up with the price increases of the past year. The unions have been remarkably restrained until now, but there are clear indications that the time of restraint is ending. The average worker's income, eroded by inflation and higher taxes, is now lower in real terms than it was last summer. Mr. Nixon did not speak to this uncomfortable point in his address, but in truth there was very little for him to say. A President trusted by the unions might yet hope to work out some sort of further truce. But the AFL-CIO is now calling loudly for Mr. Nixon's impeachment, and preparing a push for very large increases in the next contract negotiations. It is astonishing to remember that as recently as 18 months ago Mr. Nixon seemed on the verge of sweeping most of organized labor into an alliance with the Republican party. That opportunity has now vanished, and with it the administration's ability to enlist the unions in its plans.

The President led his audience through a dry little explanation of the origins of the present inflation. The chief defect of this version, as history, was its omission of the present administration's role. In response to the recession of 1970-71, and in preparation for the election of 1972, the administration imposed the largest budget deficits that we have ever had in peacetime, and a tremendously rapid increase in the money supply to hold down interest rates. "We have worldwide inflation because people's demands too often are translated into a supply of votes, not a supply of work, saving, initiative and innovation." Votes, indeed? In recent days the administration seems, curiously, to be reproaching the voters for having seized what Mr. Nixon offered them two years ago.

Mr. Nixon is right to show concern over this country's rather low rate of saving. But it is hard to make a persuasive case to the average family to save more, when the inflation in consumers' prices is running around 13 per cent a year and the maximum interest available to most small depositors is around 6 per cent. A net erosion of savings at a brisk 7 per cent a year is not much of an inducement to the thrift that the President rightly urged. One element in any successful program to increase savings will have to be better protection for the savers.

To make any large change in economic policy now, Mr. Nixon would need a measure of public trust and support that is foreclosed to him. He would have to invoke that part of the presidential authority that is invisible and tacit—the part that draws citizens to do more in the public interest than the law requires. For Mr. Nixon, that part of his power is now irrevocably gone.

The administration's present policy is not particularly inviting, but it is probably the best available in a political vacuum. It amounts to running the economy with a large degree of slack. There is going to be some growth —or at least everybody hopes so—but a good deal less growth than the historic trend that represents the country's long-term capability. Among the things to which Mr. Nixon found it wiser not to refer on Thursday evening was the word "recession." We have been going through a modified recession and, while the administration's plan calls for a slight improvement, there is not going to be any very visible change in the climate.

Any real improvement in the country's economic leadership will probably have to wait until the next President takes office, whoever and whenever that will be. There is not really much more that can be done by technical adjustment, cranking the various valves and levers at the Treasury and the Federal Reserve Board. Real improvement will have to wait for a President who can establish some degree of confidence between himself and the rest of the population.

In political terms, the administration's essential difficulty is that most of the country has suffered a small but perceptible reduction in its standard of living over the past year. The prevalent mood is wrathful and suspicious. To persuade the most powerful of the unions not to set off in an endless chase after steadily rising prices, the next administration will have to find convincing ways to intervene in behalf of working people. It will have to demonstrate that there are other and better ways of catching up.

One obvious way is through tax reform, lightening the burden at the lower end of the ladder. It becomes particularly urgent to mitigate the grossly regressive Social Security tax structure, the unfairness of which becomes more important as the size of the tax gets steadily larger.

Mr. Nixon, in this speech, helped by promising nothing that he cannot deliver. The present prospect is a somber one of very high interest rates, a growing shortage of housing, and probably higher unemployment to come. This policy will be tolerable for a short time, but not indefinitely. The leaders of both parties now have an obligation to begin devising policies that look to a longer future.