Stocks Slump as Gold Hits New Highs

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The stock market slumped again in New York yesterday, and gold prices soared to spectacular new highs in Europe as traders and investors continue to show fear about the future of the American economy.

In particular, the uncertainties generated by the Watergate scandal and wide discussion of the possibility that President Nixon may not be able to stay in office, have added to anxiety.

Yesterday, a specific rumor that presidential adviser Henry A. Kissinger had resigned worsened a case of the jitters that in the past 10 days has pushed gold prices over the $100 mark. It closed in London at $112 an ounce, $7.50 above Friday's close, a level that approaches three times the "official" U.S. price of $42.22.

But the Watergate and its fast enveloping is merely the surface symbol of a more basic concern about the economy, among financiers. Simply put, it is, will the current level of prosperity, now at a peak with high profits, sales, and employment levels degenerate into a recession?

Many economists and analysts think that it will, largely because the boom—with its attendant price inflation—will run out of control, resulting in a traditional bust. Most who think this way time the recession for some time late in 1973 or early 1974.

But the Nixon administration's economists do not agree. Herbert Stein, Chairman of the Council of Economic Advisers, told The Washington Post yesterday that "recession is not a prob-

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able outcome," and that the stock market reaction is "wild and panicky, and not justified by the real prospects of the economy."

The National Bureau of Economic Research of New York, which is accepted as an independent, academic authority on the business cycle, takes a different view.

Dr. Geoffrey Moore of the Bureau says that there is clear evidence of a forthcoming "slowdown" in the economy, which could beome an actual recession, meaning a decline in real growth rates for a period of at least six months.

Moore bases his judgment on a sophisticated assessment of a highly techncial scorecard of economic indicators which, in effect, show the economy pushing so close to a capacity level that it can go no higher, and must start a slowdown process.

Stein, in fact, agrees with Moore that a slowdown is inevitable, but Stein argues that there is nothing in the picture—except for fear—to suggest that the slowdown will be anything more than a healthy retreat from the "overheated" growth rate of 8 per cent in the first quarter of 1973.

Many economists trace the curent troubles of the economy to the overhasty relaxation of price controls on January 11, which was followed very quickly by the second devaluation of the dollar in 14 months.

The net result was the unleasing of a wave of inflation in industrial and raw materials prices, coincident with an explosion in food prices.

"Just when the economy should have been slowing to a trot," says Democratic economist Arthur M. Okun, "it began to sprint and has maintained a breathless pace so far in 1973. Suddenly, the consumer became a tremendously enthusiastic spender. More recently, plant and equipment has jumped on the bandwagon and inventories are bound to join."

Thus, in the three months of Phase III from January to April, all wholesale commodity prices jumped 21.2 per cent, compared with 6.9 per cent in the 14 months of the more tightly controlled Phase II. Consumer finished goods, in the same comparable periods, went up 12.8 per cent, compared to 2.3 per cent.

The reaction to this trend in Wall Street was a collapse in stock market prices (from 1029 on the Dow Jones index before Phase III was announced to 886.51 yesterday), and the spectacular rise in gold (from $65 in January to $112 yesterday) as speculators and businessmen decided they had better develop a hedge against the dollar.

The gold market has also mirrored the uncertainty in international monetary markets since a crisis in March closed the official exchanges, later resulting in an agreement under which the dollar and all other major paper money are "floating"—that is, moving in value according to market demand, rather than being fixed in terms of gold or anything else.

The amount of actual trading in the gold markets is skimpy, and almost any sort of rumor is sufficient to drive the price up rapidly.

The Commerce Department's report last week that the U.S. balance of payments deficit had zoomed to $10.2 billion in the first quarter did not help matters either.

"We are witnessing the loss of confidence in America's ability to govern," said Sen. Barry Goldwater (R-Ariz.) last week. "We are watching the price of gold go to disastrous heights, having an equally bad effect on our stock market."