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The former President speaking to George Shultz.

Hobart Rowen

Bidding Fare

THE NIXON YEARS have been little short of a disaster for the American economy, and the shocking increase in the wholesale price index for July, reported the same day the President announced his resignation, is but a fitting symbol of the failure of Nixonomics. The index jumped at an annual rate of 44.4 per cent actually, more than 50 per cent if compounded).

To be sure, there were many unhappy economic events out of Mr. Nixon's control, including the worldwide commodities boom that supported inflation, and crop failures that helped to drive food prices up.

But the biggest weakness of Mr. Nixon's economic regime was that it never had a genuine policy—or if it did, it was changeable over night.

Thus, in 1969, when Mr. Nixon came into office, the inflation rate was running around 5 per cent and the level of unemployment was 3.3 per cent. Under Economic Council Chairman Paul W. McCracken, a policy of "gradualism" was adopted to slow the economy down.

And, indeed, it slowed the economy down: We had a recession by the end of 1969 and unemployment rose to 6 per cent, but so did the rate of inflation. And while Arthur Burns began to suspect that the "old-time religion" of tight money and fiscal austerity might not be as effective as it once was, the Nixon managers barreled ahead, anyway.

The result, of course, was that Nixon, after repeated assurances that he would never adopt controls, had to turn full cycle on Aug. 15, 1971, slapping a wage and prize freeze on the economy to help brake inflation (and to give the dollar some additional credibility

well to Nixonomics

abroad, a fact conveniently forgotten by critics of controls).

IN ADDITION, Mr. Nixon abandoned fiscal austerity and began to pump up expenditures. The sluggish performance of the economy during the congressional

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elections of 1970 was not one that Mr. Nixon wanted repeated during the presidential election year that lay ahead for 1972.

So far as this observer is concerned, Mr. Nixon's best economic performance came with that decision of Aug. 15, 1971. Coupled with the breaking of the dollar's link with gold—which led eventually to dollar devaluation—the freeze and the subsequent Phase II of controls was a courageous program which may have saved the U.S. and the world economy from collapse.

Mr. Nixon's performance in the foreign economic field was superior to what he did at home. It was necessary to devalue the dollar, although the strong-arm methods he was encouraged to use by John Connally hurt the U.S. in the eyes of the rest of the world. George Shultz deserves to be remembered for recouping some of the damage of the Connally era, and for starting the world on the road for flexible exchange rates in the Fall of 1972.

It was also necessary to embark on wage-price price controls, and the program can not be denied a share of the credit for a drop in consumer prices from a 5 per cent annual rate in 1971 to less than 3.5 per cent in 1972, while wage increase slowed from 6.5 per cent to about 5.5 per cent—or to the level of the famous guidepost.

But Mr. Nixon couldn't leave well enough alone. Exuberant after his re-election, he responded to the ideological pressures of advisers like Herb Stein and Shultz, and mistakenly discarded effective controls in January 1973 for a new Phase III. If the Aug. 15 program was the high-mark for good judgment, the January 1973 program was the low point, a bonehead move withouth parallel. (A close candidate —in which Congress shares the blame—is the total removal of controls in April of this year, followed by reinvocation of "the old-time religion" when inflationary forces again proved stronger than administration forecasters believed possible.)

As the second term started, the administration misread the pressures that were developing on supplies. It waited a year too long to call Secretary of Agriculture Earl Butz off his mad adventure in holding down farm output. The Russian grain deal (the Capitalists "shnookered" by the Communists) made things worse.

We know now, thanks to the transcripts, that all during this period, Mr. Nixon was preoccupied with managing the Watergate cover-up. Moreover, as the June 23, 1972, tape shows, he was bored with economic affairs—and gave both the problems and his own advisers, (even Shultz) short shrift.

But in the perennial search for a quick fix and a favorable headline, Mr. Nixon tried a second freeze, this time just on prices, in June 1973.

As soon as the 60-day freeze ended, prices resumed

See IMPACT, G2, Col. 1