



How Watergate Is Affecting the U.S.

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ABOUT ALL the country hears about, nowadays, is Watergate, Watergate, Watergate. But in reality, we already have a near-panic on the long-term money market. If this goes on and gets worse, we shall also have a panic on the short-term money market. And that is the last step before a general bust.

The signs are all too plain. At the beginning of the week, the tough, able chairman of the Federal Reserve Board, cut a badly needed vacation in half to come back to Washington. On Tuesday, Secretary of the Treasury William Simon went to the White House to present the most solemn warnings to President Nixon.

On Capitol Hill, meanwhile, Chairman Wilbur Mills has been grimly prodding his somewhat recalcitrant Ways and Means Committee for a tax bill that will act as a tonic to the money markets.

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NONE OF THESE highly significant facts have attracted attention. The equally significant developments in the money markets themselves have been so routinely communicated that they also need some underlining.

For example, The Columbia Gas Company, one of the most solid and profitable utilities companies on the East Coast, recently failed to float a fairly modest bond issue, although the bonds would have paid 12.5 per cent, long term, at the price of issuance. You have to go pretty far back into American history to find a respectable bond issue finding no takers with a yield of 12.5 per cent!

Whether you run a state, or a city, or a

big industrial company, you have only two choices if you need to borrow long-term money, but cannot get it. You can cut your expenses sharply, or you can go into the short-term money market. In many cases the second choice has been all but unavoidable.

This has already caused the "most fiendish" pressure on the nation's banks for short-term money. In sum, the near panic in the long-term money market is also near to causing the short-term money market to dry up.

If both long-term and short-term credits are unavailable, except at totally prohibitive rates, you get an economic situation that will produce a bust.

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THE ROLE of water in an irrigation system is almost exactly comparable to the role of credit in a modern high technical economy. If credit had not dried up, mainly because of the inflation rate, we should be experiencing a boom. There are at least 50 major industries, by Representative Mills' always well-informed estimate, that now need to expand importantly to serve their markets.

Representative Mills' program is mainly designed to get frightened money out of hiding. Secretary of the Treasury Simon, meanwhile, wants to add the other half of the necessary remedy — a severe program of "demand restraint" to bring down the inflation rate.

But there is always Watergate. By Watergate, the President is paralyzed; and the congress is reduced to an idiots' talking shop. These priorities are beginning to seem a bit odd.