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Ford Not a Panacea For Economic Ailment

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Gerald R. Ford's accession to the presidency will bring no magic, quick solutions for the nation's underlying economic problems.

So warned economists yesterday, both in the government and out, as well as money men on Wall Street.

The stock market may be buoyed by the news, they said; stock prices jumped Tuesday and Wednesday on just the rumors.

But inflation will not automatically subside, they went on to warn, nor will production suddenly turn up and unemployment quickly recede.

And the market may inch down again as that realization dawns; it fell yesterday.

What may be different now is the simple fact that the country may have more empathic leadership on economic issues.

Inflation is what the new President has said he will attack first and hardest. His early months in office should be a honeymoon, much as Lyndon Johnson's were; his calls to country and to Congress will have great force.

He will call on Congress to cut government spending, which he regards as the key to cooling off the economy, and on business and labor to postpone or hold down price and wage increases.

Associates say he will not seek to revert to formal wage and price controls, relying instead on "jawboning," as economists call it. He has considered convening an economic "summit conference"—an idea he discussed at the Capitol earlier this week with five first-term senators who proposed the conference—as a vehicle for hearing out contrasting views and exhorting the country to tighten its belt.

Exhortation aside, the two great instruments of economic policy Fard will rely on are the classic ones: slowing down both government spending and the growth of the money supply.

Arthur F. Burns, chairman of the Federal Reserve Board and an economist Ford greatly admires, has said it will take at least two years of such tightening-up to wring the inflation out of the economy.

Ford may not be given that much time before normal politics intrude again on economics.

He can tighten up for awhile, and by next summer, say, he should have something to show for it: the inflation rate should by then be down. But if history holds, the unemployment rate will then be up, from its 5.3 per cent to 6 or more —and there will be a new presidential election a scant 18 months away.

No one wants to go into an election still awash in a full-fledged or near recession. The temptation will therefore be to begin pumping up the economy again. That is what President Nixon did in 1971, when he also clamped on wage and price controls to reduce the risk of inflation. It is what almost all Presidents do as elections approach if they are running.

The rhythm is thus likely to be: austerity now, prosperity later.

The President is not likely to change policy-makers any more than policies, at least not at first. Burns has almost four years to go on his fixed term as Reserve Board chairman; Treasury Secretary William E. Simon wants to stay on and probably will be asked to, and the same is apparently true of conservative economist Alan Greenspan, whom President Nixon chose in his last weeks in office as the new chairman of the Council of Economic Advisers.

Office of Management and Budget Director Roy L. Ash might also stay on. Counselor Kenneth Rush, an old personnal friend whom President Nixon brought into the White House earlier this year as a peace-keeper on economic questions, would seem to be the most vulnerable of the ecnomic policy-makers.

An indication of how the new President may now call on the country comes from a speech that had to be delivered for him by a stand-in Tuesday when he was summoned to the White House.

"When the eagle on the dollar screams," the speech said, "the cry must be heeded by all Americans. Inflation cannot be defeated by recrimination and attack from any segment of our society on any other. I refer to both business and labor, and the executive department as well as the Congress. Let us seek avenues to unity . . ."

Ford warned against increased spending—"we cannot afford optional luxuries while striving to beat inflation"—and saluted the Federal Reserve "in its efforts to slow the inflationary expansion of money and credit."

"These are the essentials," he said.

Yet he added that, "Even as we persevere . . . we must explore other actions" to make sure the belt is tightened evenly, because "some people are suffering more than others."

"Certain groups," Ford said, "older Americans, persons on fixed incomes, the unemployed—may require special help within budgetary limitations." So may "certain industries such as the public utilitites, housing, fiancial institutions and others that "have been especially hard hit."

He can probably be expected to propose to Congress some legislation to help these groups and industries while the country in general is put through the wringer. Those proposals may lengthen his honeymoon.

The new President's natural economic inclinations would tend to align him more with business than with labor. He was no great hero to labor during his years as House minority leader. Also, labor has just come through a year and more in which real wages and working men lost. They have been busily catching up since wage and price controls expired; they to calls to restrain themselves.

Yet AFL-CIO President George Meany has already pledged Mr. Ford his cooperation at the outset. Ameliorative legislation to help the unemployed or buoy the housing industry, the bread and butter trade of many of Meany's members, would help keep labor in camp longer even if unemployment goes up.

The stock market's behavior will primarily depend on how decisively the new President acts to combat inflation, analysts say.

Thus Treasury Secretary Simon has said Ford's elevation to President will have a "psychological effect," on the stock market especially, but has added: "The economy is in the condition it is ...because of very high inflation rates . . . and the attendant high rates of interest," and not because of psychological factors.

Former Council of Economic Advisers Chairman Walter W. Heller said President Nixon's resignation "will at least temporarily lift stock and bond prices and cause a downtick in interest rates." But "whether a President Ford can transform" that instinctive reaction of the markets "into a rising tide remains to be seen," Heller said.

Burns at the Federal Reserve has said for months he would like federal spending tightened further so that he could perhaps loosen money a little; too-high interest rates can do great and unintended damage, their impact on the stock market apart.

An alternative to tightening spending is to ask Congress to increase taxes. One long-time associate has suggested that Ford might propose a tax increase; Ford has said nothing about either a tax increase or tax reform.

A tax reform bill is pending in Congress, and may now make progress. Greenspan said at his confirmation hearing yesterday he would oppose any tampering with taxes now.

Ford spoke in this week's speech not of taxes, but of spending. "We must veto 'budget-busting' legislation," he said, squeeze this fiscal year's budget below the $305 billion originally recommended, and perhaps even "achieve a surplus" in the budget for next fiscal year, which will go to Congress in January.

At the same time, the former congressman was careful not to lash out at Congress. In earlier speeches on the economy, he had called for the election this fall of an "inflation-proof" Congress instead of the "veto-proof" body such groups as labor have been calling for.

This time he said simply, "I welcome the involvement of Congress" in seeking solutions to inflation. That, too, may help prolong his honeymoon.

"It is apparent," Ford said in his speech earlier this week, in paragraphs he is likely to repeat, "that we must strive for a new confidence in our domestic capacity to deal with inflation.

"We have made economic predictions that turned out wrong. We have all made mistakes. But instead of dwelling upon the errors of the past, let us unite and cooperate to face the future," he said.

"Restoration of economic confidence," he said, "requires willingness to cooperate for the common good. We must generate and deserve that confidence."

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FRIENDLY PAT—Vice President Ford pats Angela Bennett on the shoulder after presenting her mother, Mrs. Steven L. Bennett of San Antonio, with the Medal of Honor on behalf of her husband, who was killed in Vienam while attempting to save another's life.