The Horrible Inflation Story

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"PRICES OF RAW AGRICULTURAL products at the end of 1973 will be no higher than at the beginning of 1973," pledged Treasury Secretary George Shultz at a luncheon in New York city early this year.

"A vitally important pledge," I reported in a column February 16, for, as I explained, Shultz was trying to call your attention to "the extent to which the Administration's farm policy is now concentrating on increasing the supplies of food."

Now, seven months after the economic "czar" of the Nixon Administration flatly projected stable food prices, the terrible figures are coming out on the calamitous post-freeze spiral in wholesale prices, and we are deeply into the most severe, most prolonged inflation of our history.

Even if we close our eyes to the frightening August upsurge, wholesale farm prices rose at an astounding annual rate of 65 per cent in the first half of 1973, and many of the increases are still to be passed on to us at the retail counter.

The rise in food prices in 1973 over 1972 probably will reach 18 to 22 per cent!

Our over-all cost of living could turn out 6-8 per cent higher this year than last, triple the rise President Nixon forecast!

This is the worst yet. This is disaster.

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HOW COULD the White House go so wrong in its projections and, therefore, its resulting policies? What happened? Why?

Here are at least six major factors:

(1). The White House failed utterly to understand the awesome power of today's worldwide economic boom and the subsequent explosive demands for our foodstuffs, goods and services.

We are in a global boom without precedent. All over the world, people are eating more food and eating better food.Hundreds of millions of customers are clamoring for our production in Eurpe, Japan, Russia, China, underdevelped lands around the globe.

This boom marks a watershed in world history. It is among the most fundamental, historic developments of our age.

President Nixon has encouraged it and perhaps he does indeed fully appreciate it, but the economic policies he has proposed for our country have not matched it.

(2) The Administration shockingly underestimated the impact of its foreign sales of foodstuffs — particularly of wheat to the Soviet Union — on food prices here. As a result Mr. Nixon did not simultaneously fight for an overhaul of our agricultural policies to bolster our production of foodstuffs and, thereby, to offset the inflationary impact of the foreign sales.

Not until August 10 did the President sign into law the new farm program designed to stimulate full production. And it must be noted that the White House did not recommend the program; Mr. Nixon simply accepted it as a "constructive" compromise. Other officials of the Administration now admit, though, that the White House's failure to concentrate on increasing food supplies — as it implied it would and as I so reported in February — was a crucial error. For instance, says Assistant Secretary of Commerce Sidney L. Jones, "I only wish that we had opened up all that agricultural acreage for planting in 1972 instead of waiting until 1973."

(3) Bad weather, droughts, crop failures, acts of God have interfered with food production all over the world. Shortages of fuel and transportation facilities have adversely affected prices.

Nature itself has helped to restrict the supply of vital raw materials at a time of exploding demand, and this excess demand pressing against inadequate supplies is, let me remind you, the basic cause of inflation.

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(4) THE SUCCESSIVE devaluations of the dollar to the point where it has become one of the most undervalued currencies in the world have vastly stimulated our exports. This is a trend devoutly to be wished, which is putting our balance of trade back in the black, but the ironic fact is that agricultural exports lead the list with an 81 per cent increase over a year ago.

The dollar devaluations may have been essential shock medicine, but they have scarcely helped the squeezed American consumer. On the contrary.

(5) Until recently, the White House has followed a pro-inflationary, not anti-inflationary, fiscal policy. The budget is approaching balance now only because extra taxes have been collected on inflated prices and profits.

There has been no anti-inflationary tax rate increase nor even a request for one; no anti-inflationary lid on government spending; no curbs on excessive installment buying. Fiscal policy was exceedingly stimulative and inflationary all through 1972 and through the '72 election. Let's not kid ourselves on this.

(6) Only the Federal Reserve has been fighting inflation via a tight monetary policy, and that's very recent, too. What's more, today's historically high interest rates add to the cost of living and doing business. And there's considerable skepticism about how effective this policy can be in the face of a worldwide boom.

So it adds up to the worst inflation of our times, the horrible statistics now making headlines across the land, and the September 12 lifting of the ceiling on beef prices lies directly ahead.