BY PAUL A. SAMUELSON

COPING WITH STAGFLATION

President Ford's taking office is not likely to have any great effects on the U.S. economy one way or another. This anticlimactic conclusion does not, however, rule out the following prospect:

With a little luck, the U.S. economy is likely to do better in President Ford's first year of office than it did in Nixon's last year.

On analysis, I find no merit in the common view that our economic troubles were appreciably due to the fact that Richard Nixon was so busy fighting for his political life that he was unable to devote the time needed to devise government policies to cure inflation. If he had all the time in the world, we'd still face our present problem of *stagflation.*

There are no feasible policies that President Ford can now be expected to formulate with the help of a cooperative Congress that will succeed in doing much about such inflation. If you don't believe this sober fact of life, gather a jury of the country's twelve best economists. Provided you have sampled a broad spectrum of political opinion, their lack of agreement will corroborate the one basic fact about stagflation:

No mixed economy—not the U.S. or U.K., Sweden or Switzerland, Germany or Japan, France or Italy—knows how to have sustained full employment with price stability.

Galbraithians will tell the new President that price-wage controls administered by a President who believes in them can do the trick. Gerald Ford will not agree with them, and neither will their academic colleagues.

Hayekians will tell Ford that the free market plus control on the supply of money is the only way to deal with stagflation. But a majority of their colleagues will read in the evidence of the modern world greater costs and less benefits from such policies than are dreamed of in these philosophies.

CONTINUITY

What then will the new President do? He will listen to the cacophony of advice offered. Being essentially conservative, and being a believer in continuity, he will presumably follow the advice of people like Dr. Burns and the inherited staff of Administration economists.

So long as the unemployment rate stays below the politically critical levels of, say, 5¾ per cent, Ford will give his blessing to tight money and austere fiscal policy.

The dozen forecasters with the best batting averages in recent times expect that, under these policies, *real growth will be anemic from mid-1974 to mid-1975.* To be sure, that would be better than recent negative growth. But it would be significantly less than the 3 to 4 per cent growth rate needed to employ a growing labor force.

Gerald Ford, being a political pragmatist, can be expected later to talk increasingly about the stagnation part of our stagflation problem—as the electorate begins to react to the growing level of unemployment. Once the 1976 election comes into view, the dynamics of populist democracy will tend to reactivate the only business cycle left in the modern mixed economy—the political cycle, in which policy is expansionary just before major general elections.

THE MIDDLE WAY

How would I advise a new President?

1. Set yourself realistic sights. Best feasible policy is to try to reduce this year's low two-digit inflation to high one-digit inflation by next year.

Most relief will come about not from government's austere macroeconomic policies but from abatement of the rash of exogenous factors that sent prices up in 1974: no new strength to the Mideast oil monopoly; with luck, no worldwide rash of crop failures; no simultaneous flare-up of overheated economies all over the world.

2. Realize that the inflation you inherit is tougher than what Nixon faced in 1968-69. Now cost-push inflation, not demand-pull, is on us in force. The President of all the people, who wishes to end the divisiveness of our political life, should speak softly and put aside his big stick lest he rouse sleeping dogs of the class struggle.

3. Apply a simple test to any counselor who presses an all-out religious crusade against inflation. Ask what his program is likely to achieve in terms of percentage-point reductions in inflation, and make him set out its costs in unemployment and living standards.

In short, replace ideology by cost-benefit analysis.