Nixon's Economic Aides Calm About Market Drop

By EILEEN SHANAHAN MAY 25 1970

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WASHINGTON, May 24—"Normally, we don't talk about the stock market at all. Now we do, of course. But it's just one of a dozen things we discuss and consider—not the beginning and end of everything the way it is in New York."

The speaker is one of the top economic policy-makers of the Nixon Administration and the "we" that he refers to are his fellow officials at the Treasury Department, the Council of Economic Advisers, the Federal Reserve System and the rest of the Government's economic policy establishment.

This group appears to be, as its members say, not overly disturbed by the long stock market drop that has been the subject of articles and broadcasts almost daily in recent weeks.

Their calmness is not based on any belief that the end of the decline is near. To a man, they concede that they do not know whether it is. But they do feel that the importance of the stock market in the over-all economy is eing greatly exaggerated.

Only at the Securities and Exchange Commission, among all the Government agencies, is there an orientation to the stock market that is as strong as New York's or that of the business community in other cities. And at the S.E.C., there is some serious concern that the market could go down a lot further because the S.E.C. is the agency that is most aware of the speculative excesses of the last several years and the means—some of them actually fraudulent—that were used to increase the prices of some stocks.

Insofar as the prices of some stocks were pushed up artifi-

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cially—and the commission has filed a number of suits and is preparing more that say just that—there's little limit to how far they can fall once the bolstering operation and the bull market psychology are both withdrawn.

The S.E.C. is not, however, part of the economic policy establishment of the Government.

Long-Term Approval

That establishment, while conceding that the market drop destroys real wealth and purchasing power and therefore has a real effect on the economy, tends to weigh stock market trends lightly in the overall scheme of things.

There are several important reasons:

¶Official Washington is much more sensitive to conditions in the bond market, where the Treasury's own financing is done, and the bond market has been saying exactly the reverse of the stock market.

¶One of the things that is reportedly worrying some investors more than anything else is something that the Government's policymakers positively know is not going to happen. The Government is not going to impose price and wage controls.

¶The trend in the Federal budget, while disappointing to the policymakers, is not as disastrous as some in Wall Street keep saying. This is true even if it is conceded that the recent budget revisions, showing budget deficits for both the present fiscal year and the next one, were based on assumptions so optimistic that they may have to be revised again later.

It is the focus of economic officialdom here on the bond market, rather than the stock market, that is probably the most important difference in attitude.

Traditionally, the two markets move in opposite directions. When inflation is expected, stock prices rise and bond prices sink.

Interest is Fixed

The reason for the latter is that an investor in bonds gets back from his investment only the face amount of the bond, plus the fixed-in-advance amount of interest the bond carries. Thus, inflation erodes the value of an investment in bonds and the only way old, low-interest bonds can be traded at all is for the price to drop so that the amount of interest paid, in effect, goes up. A bond that pays 4 per cent when bought at 100 cents on the dollar pays 5 per sent to the purchaser who buys it at 80 cents on the dollar.

The prices at which bonds are being traded—and the bond market is many times larger than the stock market—are still conveying the message that the bond market is expecting more inflation, rather than recession. In other words bond prices are down.

Government offcials have unanimously shied away from making predictions about either the stock market or the bond market for fear that any such words would have a perverse affect: That any appearance that official Washington was trying to "talk the stock market up" might scare skeptical investors further.

State Called Temporary

But Under Secretary of the Treasury Charls E. Walker was willing to say, for the record, that he did not believe that the stock market and the bond market would continue depressed much longer.

"You've got a schizoid attitude, with the bond market fearing depression,' he said, "and that cannot go side by side for very long. My own feeling is that within a period of weeks, this schizoid situation will be cleared up, partly by the further unfolding of the economic indicaters and by the pullout of troops from Cambcdia, as that proceeds on schedule."

Mr. Walker was careful not to indicate, for the record, which way he thought the recession-versus-inflation conflict would be resolved.

As for wage and price controls, there is considerable annoyance in official circles with the persistent refusals of stock traders to recognize what are regarded as some elemental political facts.

Controls cannot be imposed by the President but would require legislation. Despite the demands of many Democrats in Congress for some form of voluntary controls, there is no one here, in the Administration or out, who believes that a majority could be found in either house of Congress to vote mandatory controls.

Permanent Board Possible

Price controls, which set prices below the level of a free market, automatically create shortages and black markets, according to universally accepted economic theory. It is not considered likely that the American people would accept shortages as another consequence of one of the most unpopular wars in United States history.

The possibility of some action against rising costs that would be considerably short of even voluntary controls is, however, still under discussion here. The likeliest possibility is the creation of some permanent board or group that would study particular instances of unusually large price changes.

President Nixon may announce the creation of such a group when and if he makes the economic policy speech that he had scheduled but then canceled in the midst of the uproar over Cambodia.

The possibility of some form of allocation of credits has also not been absolutely ruled out, although no decision to go that route has been made, either, and there is a growing feeling in official circles that the credit-shortage problem will soon take care of itself with a slackening of demand for capital for business investment.

Over-all, however, the economic policy officials believe that their main job is to stick with present policies, even though the results have been laggard and disappointing. That means staying with the anti-inflation program to the point of success but not to the point of serious recession. In time, they think, the stock market will get the message.