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Editorials

Nixon's New Economic Plan

THE TURNAROUND in his economic "game plan" that President Nixon has executed is abrupt, daring, full of consequences that are admittedly hard to forecast, and yet not out of line with demands for economic action lately heard from many economists, businessmen, politicians and consumers.

The President has revealed himself as decisive in mood and willing to take leadership, and the response to it of most Americans appears to be a positive one. There is a feeling that the program ought to be tried, that the less forceful, less bold methods of classical fiscal and monetary theory were not working.

EVERYONE SUFFERS from the kind of runaway inflation that has gone on in this country for months and years. There has been growing discouragement, even alarm, at the failure so far to "get a handle" on it. Out of this background mood among people everywhere arises the general sense of relief that a decision has been made to bite the bullet.

Of course, as the bind of wage-price-rent controls takes hold, this mood of acceptance may change. But the Administration is evidently counting on an improvement in the inflation picture showing up soon; if it does, sufficient psychological support, which in the end must translate into political support in Congress, should be generated to carry out the President's initiatives.

AND THEY ARE INITIATIVES of very broad scope indeed. To disconnect the dollar from gold, as the President has done by suspending the convertibility of foreign-held dollars into U.S. gold, is a move without precedent. The dollar has been showing weakness in relation to some other currencies, the yen, the mark and the franc, especially. This pressure on the dollar in the international money market had to be met. In those markets where the dollar becomes devaluated in terms of the local currency, the price of goods that U.S. exporters must ask will drop. Exports should therefore increase. On the other hand, U.S. imports, carrying the temporary 10 per cent surcharge, should decline. Thereby the threatened U.S. trade deficit, our first since 1893, may be averted.

The firmness with which Mr. Nixon has moved was totally unexpected, Washington observers say. And yet many of the steps taken — the wage-price-rent freeze, the dollar devaluation, the automobile excise and income tax cuts, the investment credits — are steps advocated by many in Congress and in the business and academic communities. This adds to the sense of confidence which appears to be developing that the Administration's economic advisers are dealing correctly with the problem.

...And World Reaction

PRESIDENT NIXON'S economic blockbuster has shaken up most of the world and jarred its government leaders, economists, bankers, industrialists, labor leaders and general public into a confused display of contradictory opinion.

Whether the many-sided program can or will break inflation's back and drive the money changers out of the temple was under widespread and earnest discussion yesterday and its divergence was neatly illustrated in stock trading at home and abroad. In New York, all records for volume of sales and steepness of climb were broken; in Japan and Europe stock prices sagged notably.

ECONOMISTS OF THE FIRST RANK were quarreling over the practical wisdom of the proposals, and so were bankers. The U.S. automobile industry was elated at the removal of the excise tax and imposition of the import tax — but nervous about the plan's effect on its recently announced price increases. Auto-makers in Germany and Japan were hostile and so were the watchmakers of Switzerland. The labor unions at home were withholding judgment, but some leaders pointedly observed that the Nixon plan, while freezing wages and prices ignored profits and interest.

Members of Congress, who must vote on various aspects of the plan, were generally favorable, including such Democratic leaders as Mansfield, Proxmire and Patman, and said they would vote to approve. But McGovern of South Dakota blasted the entire program as "a combination of sheer bunk, irrelevancy and mystery."

MOST FOREIGN governments were still supporting the dollar and showing no indication of taking retaliatory action, as had been feared. Yet Japanese leaders were outspoken in expressing "shock" at the import tax, which they said has already brought about an undeclared "partial revaluation of the yen."

As expected, the reception accorded the Nixon proposal was influenced by self-interest and every man's prejudices. Thus the Soviet Union, through Tass, solemnly reported the transformation of "the mighty American dollar" into a paper tiger, and shook its head over "the cruel crisis of American capitalism" which, to Marxists, defies solution.