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An Economic Trinity

Any One or All Three of Nixon Plans Called Capable of Failure or Success

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President Nixon's dramatic new national and international economic policies constitute not one new program but three separate ones—and the success or failure of one may not depend very much on the success or failure of another.

It is possible, for example, that the price and wage freeze that the President has ordered, with little machinery to enforce it, may not work, but that the actions to stimulate the economy will indeed work—or vice versa. Or the attempt to restructure the whole world monetary system by a unilateral United States initiative might succeed, while the American economy continued to limp. Or vice versa. Any combination of successes and failures seems to be more than a mere technical possibility.

News Analysis

This is one of the two main points that emerges from examination of what the President has ordered and recommended. The other is that his program for stimulation of the economy does not depart from fundamental Republican principles so much as might appear at first glance.

It is a modest program. Mr. Nixon could have gone a good bit further than he did in recommending tax reductions, and he could simply have omitted any attempts to reduce Government spending (although the reductions he did order may be more seeming than real). In fact, it is possible to argue that, in taking such relatively modest steps toward stimulating the economy, Mr. Nixon is running the risk that he will exhaust the available medicine for stimulation, frittering it away in small doses that may not achieve his desired results.

The President obviously believes that he is going to avoid this risk. Secretary of the Treasury John B. Connally argued forcefully at a news conference today that the stimulative effects of Mr. Nixon's program "ought to be of sufficient magnitude to far outweigh [the restraining effects of] the reduction of Federal spending."

Two Efforts Uncertain

The prospects for success or failure of the President's program for stimulating the economy and creating more jobs can at least be argued on the basis of known facts and statistics and in light of the lessons of economic history.

This is not true of the other two elements of his program—the 90-day freeze of wages and prices and the complex steps aimed at improving the nation's economic position in the world.

It does seem likely that some prompt and favorable effects will be felt from imposition of the special 10 per cent tax on most imported goods except for items, such as coffee, that the United States does not produce, and those already subject to import quotas, like oil and beef. Insofar as Italian shoes, for example, become more expensive and drive consumers to the purchase of American shoes, that will not only help the balance of American trade and confidence in the dollar but might even create a few additional jobs in New England shoe factories.

Gold Action Revolutionary

On the other hand, the probable consequences of the U.S. decision to stop exchanging gold for dollars, on demand, for foreign governments and central banks, could not be harder to predict, simply because the step is so radical.

Recent history does provide considerable basis for optimism that the world's international money managers will, once again, prove flexible and imaginative—as they have many times in the past decade in taking such steps as the creation of the new "paper gold" and the two-price system for gold, and in withstanding, without disastrous consequences to anyone, major devaluations and revaluations of their currencies by Britain, Germany and France.

But the effect of the United States move is potentially much more far-reaching than any of these. That is because it involves an absolutely fundamental change in the international financial system that has existed since the end of World War II, under which the values of most currencies have been quite rigidly fixed in relation to each other.

No Cops Around

If predicting the results of Mr. Nixon's move on gold is a job for a fortune-teller, predicting the outcome of the wage-price freeze may be a job for a psychiatrist.

Here, too, there is little history to go on, because past freezes were known to be merely introductory steps to full-scale controls, to be devised and enforced by Government agencies employing tens of thousands of persons. Mr. Nixon has specifically foresworn the creation of any such new bureaucracy this time, and has not yet decided what his wage-price policy will be at the end of the 90-day freeze period.

Is it possible that the freeze order will be obeyed reasonably well because it is known to be only temporary? There's no history to go on. Even though penalties are provided for violation, will they really constitute a significant deterrent when everyone knows there will be few, if any, cops around to observe the violations? The history of past price-wage control periods indicates that there are many violations even when there are many cops.

The question ultimately seems to boil down to one of the spirit in which American businessmen and workers will accept the freeze order. Will an appeal to patriotism succeed in the midst of the most unpopular war in American history and at a time when the feelings of enmity between different groups in the nation are so high, with each believing that the other is getting the better break?

Savings Rate Up

It is possible that the success or failure of the wage-price freeze could have an influence on the success or failure of the program to stimulate the economy.

While traditional economic theory holds that, in a time of inflation, both individuals and businesses will accelerate their purchases in the fear that prices will go up still more, that theory has not held up well in the current inflationary period. Consumers, in particular, have held onto their money. The rate of savings by individuals is higher than in years.

Thus, if people have confidence that inflation is going to be defeated, or at least reduced, they may start buying more and help stimulate the economy in the process. It is also possible that they will start buying more simply because the President has taken dramatic actions.

The survey research center at the University of Michigan—the leading pollster on consumer actions and attitudes—recently reported that most consumers said they would feel better if the President did something about the economy and inflation. No matter what.

Spending Spur

History indicates that there is a good prospect that some elements of his stimulation package will produce results. The special tax credit to encourage businessmen to spend money for new equipment has apparently worked quite promptly in past.

Mr. Nixon has asked Congress to put the credit back on the book at a larger rate—10 per cent, rather than the 7 per cent that was in effect through most of the period from 1962 through 1969. And he has proposed a drop to 5 per cent a year from now, which should be a huge inducement to business to cram all possible purchases of equipment into the next 12 months, even though United States industry is currently operating at 73 per cent of capacity.

Assuming that consumers cut their rate of savings, in the wake of the President's announced policy changes, then there should be some real additional consumer spending as a result of the speed-up of the planned $50 increase in the personal exemption on income tax returns.

But the total amount cannot be large—an estimated $900-million in a national economy of more than $1 trillion. Had Mr. Nixon chosen, he could easily have asked Congress to accelerate considerably more individual income-tax reductions than that.

Tax cuts that already have bee nvoted by Congress to take effect on future dates could put an additional $5.8-billion into the spending stream—as contrasted with the $900-million Mr. Nixon actually suggested—if they all went into effect, retroactive to last July 1.

Liberal Heresy

But that could provide a much bigger stimulus to the economy than Mr. Nixon felt was wise.

The President is clearly not ready to adopt the heresy that has increasingly been voiced by some liberal economists — the view that a more rapidly growing economy could produce less inflation rather than more. Because business could make bigger profits on lower prices, since they would be selling more.

Far from adopting this radical view, which unquestionably would have frightened much of the business and financial community, Mr. Nixon chose to fly some conservative colors.

The display of a trace, at least, of conservatism came in his oder for some cuts and postponements in Federal spending. These, he said, would hold the budget deficit somewhere near where it would have been without his other actions, reducing Government revenues. In fact, it was more display than reality. Most of the spending postponements were already inevitable because of Congressional inactivity on some programs Mr. Nixon had proposed earlier this year.