

Research Institute Recommendations

SECTION 1 OF 2 SECTIONS



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Nixon's TV speech: Question now is can he hold the gains scored in his remarkable performance, despite the printed texts?

A week ago the House seemed to have an impeachment majority. Monday night's speech appeared to have turned that one around -- only to have publication of the transcripts dilute his big payoff.

The media are spotlighting warts & blemishes in his portrait. The President, they say, emerges as a crude & ruthless manipulator. What may be impeachable offenses are featured: the Hunt payment, demands that the Justice Dept. hold off a Presidential probe, etc.

But the crunch for Nixon is the presence of reasonable doubt. As long as it exists, impeachers have a rough go making converts. There seems little question, as of this writing, that the Committee will vote articles of impeachment for debate on the House floor. But a House vote to impeach, i.e. indict, is less likely now.

For one thing, GOP lawmakers don't feel as cornered as before. The last five special Congressional elections proved one thing: Any Republican unequivocally backing Nixon will be a sure loser; and not even a vote for impeachment will help get him re-elected. That was the situation until a week ago. Now things have changed.

The Stans-Mitchell acquittal, Pres. Nixon's TV performance, coupled with the offer to have Rep. Rodino listen to the tapes, all this gives GOPers the basis for a "reasonable doubt" stance. And that just could keep Republicans from voting for impeachment.

Theoretically, Democrats could still win a party-line vote. But that assumes they can hold the Dixiecrats -- a real long shot. Also, Dem leaders don't want any "party of impeachment" label now. That could boomerang badly both this fall and in the '76 election.

Can the GOP rely on this out? We won't know for ten days. That's when the first polls measuring the public pulse come in, lawmakers get feedback from staffers testing back home sentiment.

What will it take to bring short-term interest rates down? NOT a recession, but a combination of economic developments -- some already underway -- reversing the recent upward pressure. Here are the key signs to watch for, as the turnaround nears:

Moderating inventory accumulation: Stocks of raw materials have been climbing in recent months, for fairly obvious reasons. Banks say much business loan demand has been for this purpose.

As decision-makers conclude that price hikes are slowing,

that availability is improving, and financing becoming costly, stock-level goals will be lowered, in some cases dramatically.

Less commodity speculation: Soaring futures market prices have brought many more buyers into this seeming sure-thing field. And a great deal of this activity has been on borrowed money.

Future prices on many traded items have already softened. With more spot-market prices stabilizing, futures will tumble, experts advise. When they do, financing demand will contract as many smaller speculators rush to liquidate their positions.

Increased long-term financing: Investment banking circles know that much business borrowing for long-term capital needs has been put off. Financial officers, expecting lower bond rates, have avoided getting locked in for the long term at today's peak.

The spreading acceptance of high bond rates for many months means more business borrowers will be going the long-term route. And this will take a lot of pressure off working-capital loans.

Decelerating inflation: Only long-term rates are affected directly by inflationary expectations, says conventional wisdom. But today's "double-digit" price rises have changed the rules.

When the rate of price increases begins to settle somewhat, much of the frenzied flight from money into "things" will slow. And borrowing at sky-high rates to finance it will ease, too.

International credit demand has also been pushing rates up, particularly in the huge and sensitive New York financial market. U.S. and European credit costs are no longer so well-insulated.

Analysts expect an increase in short-term foreign investing, less borrowing here for overseas purposes. These related shifts will tend to relieve, then reverse, another source of pressure.

RIA Prediction: Short-term rates may well notch up again -- though some banks will take a "political" stand at an 11% prime. But once the downturn starts, it should become a substantial one, with most money-market rates down 3 to 4 percentage points by Dec. That's not low by historic standards, but a lot lower than now.

Lower social security payroll taxes are a real possibility, as both employees and employers blast the present high tax bite. April 15 was a sharp reminder to the many lower-income families that they now pay more in social security taxes than income taxes.

Two basic ideas are included in various proposed changes: One would provide an exemption for the first \$4,000 (e.g.) of pay, impose the present tax rates on the next \$13,200 (for this year). That'd take many low-income workers virtually off the tax rolls.

The alternative would cut the basic tax rate to under 4%, raise the wage base to about \$25,000. Net result of the change would be to cut taxes for the great majority of all employees. But those making over \$19,000 would have to pay more than now.

Employers will be very interested in the outcome on this, because they match every payroll dollar paid by their employees. Those with many unskilled, low-wage workers on their payrolls could win a big cut in social security taxes they must pay.

Pension reform: It's stalled in the House-Senate conference. Differences in the House and Senate-passed versions remain broad, will take time, a good deal of complex horse-trading, to resolve. Nevertheless, RIA expects a reform bill on Nixon's desk by Sept.

Major headaches include pension plan termination insurance, its financing & administration, who has jurisdiction over the act. Treasury and Labor are at loggerheads here; infighting is intense. Odds now favor Treasury with its more skilled staff & resources. Fiduciary responsibility and vesting are also bones of contention.

Some business lobbyists take the differences and delays as signs that the bill has a pretty good chance of simply dying. But we believe that's whistling Dixie -- pension reform is near.

Firms should familiarize themselves with the two versions, start planning now for a transition that will be painful & costly.

The U.S. is raising its bid for an arms curb with the USSR. Sec. Schlesinger has announced two moves long wanted by Russia -- U.S. troop cuts, reduction of the 7,000 atom weapons in Europe.

Both cuts are small, significant mainly for their symbolism. The aim is to break the impasse in the arms control atmosphere, help draw Russia into the really vital pact, a limit on MIRV's.

They're also part of a more important change in U.S. posture, which the Admin. hopes will increase Russian incentives to deal. Pact or no pact, U.S. strategic thinking is now being revamped. At least three new assumptions are becoming the basis for policy:

Assumption One: No all-out nuclear war with Russia is likely, thanks to Soviet inability to knock out the U.S. submarine force. Only "limited," counter-insurgency wars are foreseen as probable. Implication here is that the missile "numbers game" is obsolete. Arms Control Agency chief Ikle says it's time to end "overkill."

Assumption Two: U.S. ability to fight ground wars is down. The Regular Army is too small, the reserve readiness is in doubt. No one believes Congress would reactivate the draft any time soon.

One implication is that foreign bases are now a liability.

Ex-Chief of Staff Maxwell Taylor says they've become "hostages." He's for smaller, tougher forces in a U.S.-based mobile reserve. Another implication argues for "wageable" battlefield atom war. Schlesinger says this can be done with newer, "cleaner" warheads.

Assumption Three: The U.S. public's will to fight has eroded. Taylor predicts the armed forces can't expect more than 6% of GNP, urges it continue as a working figure for all long-range planning.

Implication is the U.S. needs a wide gamut of alternatives. Reliable, invulnerable arms, more sophisticated command & control, improved R&D -- all of it clearly visible to any potential foe.

Critics are coming at these assumptions from right and left. One group argues that the numbers are still the deciding factor, warns that cutting missiles, troops, bases will tempt the Soviets.

From the other side, the "wageable" atom war is under attack. It's well and good to get away from holocaust, these critics say, but not at the price of making small, "cleaner" atom wars plausible.

The debate is just getting under way, won't be settled soon. Moscow seems willing to play along, to give Pres. Nixon something, perhaps only a diplomatic gesture, if and when he visits in June. But major new steps toward disarmament probably can't come now until the new U.S. strategy and negotiating stance are firmed up.

How come U.S. food prices have come down two months running, while world demand is skyrocketing, shortages serious in some areas? Two reasons: First, the U.S. is bracing for a "bin-buster" harvest. Second, much of the demand of Asians & Africans is "ineffective," doesn't push up prices since the purchasing power doesn't exist.

Wheat & corn crop forecasts this year are impressively high. Grain speculators are running for cover, some badly hurt already. The Department of Agriculture had warned speculators last fall that the "economic" case for skyrocketing prices wouldn't hold.

Beef and pork prices at retail now, the Department contends, are only a cent or so higher than last year's level with controls. They may fall even lower, once the feed grain harvests come in.

Canada's huge wheat stocks could also help to ease prices. Ottawa hoped for higher profits, didn't sell at the winter peaks. Canadians aren't selling yet, but will have to soon or take a loss.

Note one thing, though: Food may get cheaper in months ahead, but it won't be "cheap" in terms of what U.S. consumers expect. Market distortions caused by speculators, high world food demand, are being worked out, will lead to stable prices -- at high levels.