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Nixon Is Leaving Severe Economic Woes

By MICHAEL C. JENSEN

Although it was the Watergate affair that proved to be President Nixon's undoing, the severe economic problems spawned in large part by his domestic policies will be his lingering legacy to consumers and businessmen alike, according to some of the nation's most prominent economists.

Milton Friedman, a conservative economist and a strong supporter of the earlier Nixon policies, said that in the long run the President's economic decisions "will prove to have been more harmful to the nation than the misdeeds he has been responsible for in Watergate."

Other economists who were interviewed tended to agree.

NYT

One of the reasons we are in such chaos," said Pierre Rinfret, who has served as an informal economic adviser to President Nixon, "is because the President has no interest in or comprehension of economics."

How many of the nation's economic problems under Mr. Nixon were of his making, and how many were inherited, is a matter of dispute. Sam I. Nakagama, chief economist for the Wall Street firm of Kidder, Peabody & Co., said he believed one economic era had ended and another had already begun when Mr. Nixon took office in 1969.

Mr. Nakagama observed that the dollar was overvalued and that the seeds of inflation were planted long ago, bearing fruit at Mr. Nixon's expense.

Most economists and businessmen today give the President high marks for devaluing the dollar against other currencies, but not on his domestic economic policies.

"I'd give Nixon an 'A' on the floating of the dollar, but an 'F' on controls," said Mr. Nakagama.

Series of Events

For businessmen, the Nixon era has produced a dramatic series of economic events that included two devaluations of the dollar, a severe energy crisis, skyrocketing food prices, and a succession of price and wage freezes and controls.

The devaluations of the dollar eventually brought about a heavy increase of exports and a favorable balance of trade in 1973. However, the devaluations meant higher prices for imported products for consumers in the United States and higher prices for imported oil will make it difficult to maintain an appreciable excess of exports over imports.

Exports rose from $44.1-billion in 1971 to $71.3-billion in 1973, and this year they are running at an annual rate of $95-billion. Imports totaled $45.5-billion in 1971 and $69-billion in 1973 and this year are at a rate of $88-billion.

I.T.T. and Contributions

The Nixon years also included a highly publicized scandal involving the Administration and the International Telephone and Telegraph Corporation and the spectacle of a number of blue-chip companies pleading guilty to making illegal contributions to the President's 1972 re-election campaign.

As Mr. Nixon leaves office, the average American today finds himself buffeted by an inflation rate of more than 12 per cent and confronted with a slowly rising rate of unemployment

The average wage earner has also received steadily diminishing wage increases, in percentage terms, which taken together with double-digit inflation have actually reduced his real purchasing power for the first extended period in the postwar era.

Stocks and Bonds Down

Furthermore, his stocks and bonds, if he owns any, have declined rather than increased in value, because the stock market, which for years had followed a generally upward curve, has slumped during the Nixon years by nearly 20 per cent.

In addition to the problem of inflation, the Nixon Administration quickly found itself in a period of sluggish growth. There was a marked slowdown in real economic output, and unemployment rose from 2.7 million at the end of 1969 to more than 5 million by the end of 1970.

However, while it is true the unemployment rate rose from 3.6 per cent of the work force in 1968 to 5.6 per cent at present, the number of people employed has risen from 67.8 million in 1968 to more than 77 million now.

Ironically, the business slump did not dampen inflation, and as a result the stage was set for wage-price controls in mid-1971.

The decision to repeal the 7 per cent excise tax on automobiles, as decreed in Phase 1 of

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the wage and price controls, helped to bring record sales of cars in 1972 and 1973. Another impetus was given to the sale of domestic cars by a 10 per cent surcharge on imports, imposed at the time of Phase 1, in August, 1971.

At the same time, the establishment of a 10 per cent tax credit for one year to be followed by a permanent 5 per cent tax credit on investments for new machinery and equipment proved to be a stimulant for capital investment. In 1968, industry invested $67.7-billion in new plant and equipment and by 1974, this increased to $112-billion.

The gross national product—the total national output of goods and services—adjusted for inflation, was flat in 1969, rose slowly in 1970 and 1971, spurted in 1972 before falling back to a more gradual growth in 1973, and then declined during the first quarter of 1974 by the largest amount since the recession of 1958.

However, the G.N.P. during the Nixon Administration rose from $865.7-billion in current dollars in 1968 to $1,352-billion in the first quarter of 1974, an increase of 56 per cent. In 1958 dollars, the gross product rose from $674.6-bililon to $831-billion, an increase of 23.1 per cent.

Otto Eckstein, a former member of the Council of Economic Advisers, under President Lyndon B. Johnson, said: "During his [Mr. Nixon's] years, the economy has gotten into its deepest peacetime troubles since the Depression."

Profitability Maintained

One of the few bright spots in the Nixon-era domestic economy has been the ability of businesses to maintain and in some cases enhance their profitability despite the imposition of the nation's first mandatory wage and price controls in peacetime.

Some analysts, however, believe that profits were much too low in the nineteen-sixties and contend that, if profits had been higher, much of the needed expansion could have been financed internally and eliminated the need for outside financing and heavy borrowing that has pushed up bank interest rates.

The following statistics reveal the contrast between the conditions President Nixon inherited when he took office on Jan. 20, 1969, and those he left behind when he resigned yesterday:

¶Inflation at the beginning of 1969 was running at a high, but still manageable rate of 4.6 per cent as measured by the Consumer Price Index. It has since more than doubled, and currently is running more than 12 per cent.

Associated Press

John T. Dunlop announcing cutback on price rises on 1974 cars last Sept. 7. Mr. Dunlop was director of the Cost of Living Council, which has been ended.

¶Unemployment was a modest 3.3 per cent. Today it stands at 5.3 per cent. Earlier in the Nixon years it had climbed even higher.

¶Wage increases at the beginning of 1969 were averaging about 9.2 per cent. They have since declined to 5.8 per cent.

¶The prime interest rate banks charge their most creditworthy customers on loans stood at 6.6 per cent. Now it is 12 per cent.

¶The Dow Jones industrial average stood at more than 930. This week, before the pre-resignation rally, it stood at 760, a decline of about 20 per cent.

Cooling of Public Opinion

Along with a deterioration of the economy came a cooling of public opinion regarding the President's policies, and then a surge of feeling against him.

Housewives and consumers, pinched by inflation, were the first to complain. They organized sporadic boycotts of food stores to dramatize their position.

Under President Nixon, many of the planting restrictions for farm commodities were lifted in the Agricultural Acts of 1970 and 1973, causing an increase in the farm yields of feed grains and cotton. However, Mr. Nixon's desire for détente with the Soviet Union led him to underestimate the impact of a wheat deal made with the Russians, thereby exacerbating inflation in this country.

Businessmen, on the other hand—their profits generally protected by the Administration—continued to support Mr. Nixon until the economy began to deteriorate seriously in recent months. By early July, most businessmen had come to the realization that the Watergate affair had seriously affected the President's ability to manage the nation's economic affairs.

Several Major Factors

Many businessmen and economists believe the worsening domestic economy resulted from several major factors.

First, they said, was the President's volatile and in some cases politically motivated shift into and out of controls.

The second, they added, was an attempt to fine-tune the economy for political purposes — for example, Government spending was increased in 1972 before the Presidential elections in an attempt to stimulate the economy. At the same time, the Federal Reserve Board loosened the money supply.

The third, they said, was a sense of obligation to large campaign contributors — such as the milk producers who received an increase in the support price—in effect tying the President's hands on economic policy. The Administration has denied any connection between the milk producers' contributions and the increase in the support price.

"Because of the volume of campaign contributions from so many producer groups," said Mr. Eckstein, "he disarmed his economic policy. The most fundamental reform for economic policy would be tough campaign law reform."

From the outset of the Nixon Administration, business praised the President, though labor did not. One reason was because Mr. Nixon disavowed jawboning, which had been used by President Johnson to keep individual companies and in some cases whole industries from raising prices excessively.

Mr. Nixon gave assistance to the textile industry here by sending aides to Asian countries to negotiate voluntary agreements that became effective in late 1971 and that reduced the flood of exports to this country. In 1969, a voluntary agreement was concluded with Japan to reduce exports of steel to the United States.

Positive Reaction

Even after wage and price controls were imposed in mid-1971, most businessmen reacted positively to the President. They perceived, correctly, as it turned out, that the controls would hold down the levels of wage settlements and that their own increased costs could be passed along to consumers, thereby preserving profits.

Perhaps the most dramatic economic event that occurred during the Nixon years was the energy crisis. For several months late in 1973 and early in 1974, motorists queued up in long lines at gasoline stations in some parts of the country, the first time the public had been faced with such a situation since World War II.

Mr. Nixon appeared to favor the oil industry through maintaining oil-import quotas longer than some economists deemed necessary, dropping them only under the urgency of the energy crisis.

At the request of President Nixon, millions of Americans turned down their thermostats to save heating fuel and slowed their cars on the highway to save gasoline.

While the price of petroleum products and the profits of the big oil companies soared, the companies and the Administration insisted that the crisis was real.

Arabs Imposed Embargo

Critics, however, alleged that a tight market situation, which they said had been fostered by the companies to accomplish their marketing goals, had gotten out of hand when the Arab countries reduced crude oil production and imposed an embargo against the United States and other countries on Oct. 17, 1973, in an effort to influence policies regarding Israel. The embargo ended on March 18, 1974.

Thereafter, the critics said, the industry often acted in its own self-interest rather than in the public interest. The oil industry has angrily defended itself, and says an increase in the average price paid for gasoline, from 38 cents before the crisis to 55 cents a gallon today, is justified.

As for the I.T.T. affair, it revolved around a contribution of up to $400,000 said to have been offered by one of the big conglomerate's subsidiaries to help finance the Republican National Convention and an antitrust settlement that allowed I.T.T. to keep the Hartford Fire Insurance Company.

A memo from an I.T.T. lobbyist linked the two events. Subsequently, Leon Jaworski, the special Watergate prosecutor, said he had found no evidence to support the alleged link. However, last month Lieut. Gov. Ed Reinecke of California was found guilty ot lying to the Senate Judiciary Committee in connection with the I.T.T. money pledge.