Devaluation and Controls Milestones for Economy

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WASHINGTON, Aug. 8 — The Nixon Presidency will stand out in the economic history of the United States—indeed, in economic history generally — for two decisions: the devaluation of the United States dollar against the other leading currencies and the first use of wage and price controls in peacetime.

It will also stand out for the most serious and sustained inflation—price rises—in the nation's peacetime history, though forces outside the United States and other factors beyond the control of the Government, such as the impact of the weather on farm crops, played an important role in the inflation.

The two historic decisions were announced, totally without warning or even hint on a dramatic, pre-Watergate Sunday—Aug. 15, 1971. Enough time has elapsed to permit a verdict by the experts and by many ordinary citizens: The first, devaluation, has succeeded and the second, controls, has not.

The United States is at last back in balance with the rest of the world in its trade and over-all international payments, which includes such things as tourism and the flow of investment, though higher prices of imported oil may produce a new deficit in 1974 that has nothing to do with U.S. "competitiveness" in the world.

It is almost universally agreed by students of these matters that the devaluation of the dollar, after a quarter century when such a thing was just about unthinkable, was necessary to make balance possible. And without balance, the dollar could have become like the Chilean peso—worthless in the hands of a trader or traveler trying to get a foreigner to accept it.

By contrast, price and wage controls have clearly not prevented inflation as they were supposed to. The Nixon Presidency has seen in 1973 the worst rise in prices in the modern era, though Mr. Nixon originally campaigned on an anti-inflation platform.

Economists are divided on the question whether controls actually made the inflation worse, but they are agreed that controls could not have dammed the inflationary flood that built up in 1972 and 1973 —a flood whose sources were abroad as well as at home.

Even without these salient episodes, the Nixon Presidency would not have left economic historians bored:

¶There was the fifth of the five recessions in the quarter century since World War II, lasting from the end of 1969 until, by some definitions, the last quarter of 1971. It was not a very "deep" recession: unemployment never rose above 6 per cent of the growing labor force and total production never declined in any quarter by as much as 3 per cent. But it was a recession distinguished by its duration: it seemed to last forever. A sixth recession may be occurring in 1974, though the economic indicators are still not decisive on this point.

¶There was an explosion of Federal Government spending despite a seemingly constant effort by the President to check it. The increase from fiscal year 1969 to fiscal year 1973 was $64-billion, or 35 per cent.

¶Interest rates reached peaks that in some cases had not been equaled since the Civil War more than 100 years ago.

¶Despite all this, the nation was generally prosperous. By the end of 1973, though the statistics are not precise, it is probable that the highest proportion of the working-age population had jobs in the nation's history. Notwithstanding the extraordinary inflation, the "real" income of the average American was a good deal higher in 1973 than in 1969.

¶The Federal tax structure shifted significantly, though almost without public notice. There was a sizable reduction for the average citizen in Federal income taxes and an almost equal increase in Social Security taxes, which are less progressive.

¶By the end of the Nixon Presidency the nation was left with something quite outside its previous experience — a shortage of energy.

Despite the common impression that Presidential decisions from day to day are of crucial importance, it can be argued that Richard Nixon was a relatively minor player in most of these developments.

The single decision most


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Controls on Lending

legitimately attributable to the President himself was that to impose the wage-price freeze in August, 1971, a decision that was a complete reversal of his previous philosophical position.

He made it in a secret session in early August with John B. Connally, then Secretary of the Treasury, and George P. Shultz, then director of the Office of Management and Budget. He directed that neither of them tell anyone else, and he succeeded in his purpose of surprise.

The freeze and the subsequent "Phase 2" of controls seemed to work. The rate of inflation subsided for a while. Despite much grumbling, even organized labor accepted, in practice, restraint on wage increases.

But economists, while they differ on the nuances of the subsequent phases of controls, are nearly unanimous in concluding that controls worked fairly well in their first 12 months mainly because the economy had "slack" — idle workers and machines.

Later, partly because Mr. Nixon helped to pump it up, the economy began to burst at the seams—more demand than supply—and the world economy was booming with it. Crop failures and other events popped up. The dam of controls could not stop the inflation.

Apart from the decision on controls, which was genuinely a Presidential prerogative though many pressures were pushing Mr. Nixon toward the decision he made, the main economic events of his Presidency had the aura of inexorability.

The dollar had to be devalued at some point, after a long period of being "overvalued." It was overvalued as a result of a fatal, but long-unrecognized, flaw of the postwar world monetary system which had the dollar at its center. This conclusion is now hardly disputed at home or abroad.

The explosion of Federal spending had had its fuse laid in the Johnson-Kennedy years and in the gradual growth of what has been termed the "Congressional propensity to spend."

The 1969-71 recession, while its exact dimensions might have been different with different Nixon decisions, was a classic aftermath of the longest boom in this century—a boom pushed to its final excess by the 1965-68 burst of spending on the Vietnam War.

The shift in the tax structure was attributable far more to decisions, seemingly haphazard decisions, of Congress than of Richard Nixon.

As for the energy shortage, many economists and historians, including those who think the President could have done better, are convinced that it was coming anyway. Mr. Nixon, of course, did not cause the Arab oil embargo.

A sense of inexorability may even apply to some of the lesser footprints of the Nixon Presidency on the history of Government economic policy in the United States.

This relatively conservative Republican, for example, was the first President to adopt officially the concept of the "full employment budget," which probably forever enshrines budget deficits as acceptable if the nation has high unemployment. Other Presidents had deficits—sometimes useful ones, according to modern economic thinking—but tended to be apologetic about them.

Richard Nixon's years included very great economic changes in the United States, above all a drop in the international value of its currency. How much he had to do with these changes is, at best, debatable.