Lawrence McIntosh

Simon: Confident in the old-time religion

Wall Street euphoria: The buying spree

Ford Confronts 'Public Enemy No. 1'

It was his first official business as President of the United States. Less than two hours after he took the oath of office, Gerald Rudolph Ford called to the White House the economic brain trust he had inherited from Richard Nixon to brief him on America's "stagflating" economy and to outline the options available for coping with what the new President himself had publicly branded "world public enemy No. 1."

No policy decisions emerged from the meeting; none was expected. But the one-hour session, coming as it did just moments after a post-inaugural buffet luncheon in the new President's honor, clearly showed that Ford regards the nation's economy in general and inflation in particular as the principal business of his infant Administration. Unscarred by Watergate, with Henry Kissinger to handle his foreign affairs, Ford will have ample opportunity to devote his full attention to America's economic woes.

Yet it seems highly unlikely that the President will order major changes in economic policy. Those who know him well say that his knowledge of economics is anything but expert—some colleagues are even less charitable than that—and thus most Washington economic officials expect him to follow the course charted during the last months of the Nixon Presidency.

That policy calls for strict adherence to fiscal austerity—in short, balanced or surplus budgets—buttressed with monetary restraint exercised by the quasi-independent Federal Reserve Board. It is the traditional Republican remedy for curing inflation—and the new President is a true believer, perhaps even more so than his predecessor, whose economic policies varied so widely during his years in office (page 67). "We all have our pet whipping boy when it comes to inflation," Ford told the Economic Club of New York in May, "but the real culprit today, as it has been, is excessive demand. Double-digit inflation is a result of double-digit increases in money supply and double-digit budget deficits."

AN UNPARALLELED OPPORTUNITY

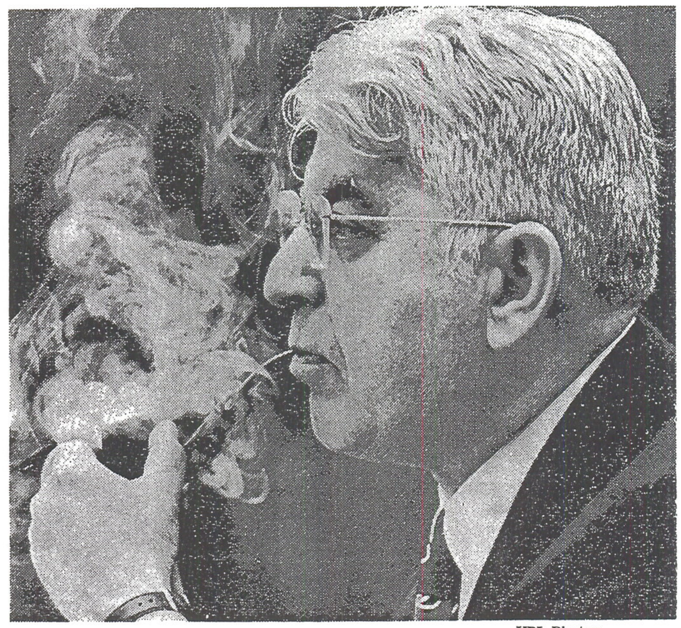
But if substance remains unaltered, the new Presidential style in economic matters seems certain to change significantly. While Nixon customarily announced a new zig or zag in his erratic economic course with great fanfare and then quickly turned his attention to other matters, Ford is likely to concern himself day-by-day with the problem. Moreover, he has other advantages denied Nixon. Clean and credible, well liked by former colleagues in Congress and backed by a business community anxious to see him succeed, Ford may enjoy a honeymoon longer than that ordinarily afforded a freshman President—and that, says economist Walter Heller, gives him "an unparalleled opportunity ... to provide the economic leadership Nixon could not." Heller and other economists—Republicans and Democrats alike—urge the President to make a highly visible effort to engage all sectors of the economy in debate over economic policy. And in word and deed last week, Ford gave every evidence that he was prepared to do exactly that.

Indeed, consensus economics occupied much of the President's thinking over a weekend spent planning his address to a joint session of Congress this week. The idea is to capitalize on Ford's reputation for honesty and the current atmosphere of goodwill by convening an "economic summit," a gathering of Congressional leaders, businessmen, labor chieftains and consumer groups designed to display concerted action on the nation's economic difficulties. "Jerry is a man who believes in the collective decision," says House Republican Barber B. Conable Jr. "He doesn't go out on a limb on something when he has no experience."

At the summit, Ford intends to employ gentle persuasion, urging business and labor to exercise restraint in pricing decisions and wage demands and at the same time massaging egos by seeking advice. "This is not the time for abrasive jawboning," says Paul McCracken, President Nixon's first chairman of the Council of Economic Advisers. "What we ought to work toward is some sort of social compact [between business and labor]. This has to happen, and [Ford] could bring these parties closer." And while his links to the labor movement are rather tenuous at this point, he should be among friends with the businessmen. "Jerry is very impressed by business people," says Conable.

According to New Mexico Republican Pete V. Domenici, one of five freshman senators who suggested the economic-summit notion to him early last week, Ford espoused "the idea of general sac-

on the exchange floor as resignation rumors began to spread



UPI Photos

Burns: The economist Ford values most

Robert R. McElroy—Newsweek

Greenspan: Still headed for the CEA

rifice, saying you can't ask one segment of society to bear the burden. He said that if labor was to cut wage demands, then management had to cut prices and profits." But the President firmly believes that by way of example, his Administration must first put its own fiscal house in order—and he may well prove even more receptive than his predecessor to the budget-cutting instincts of his inherited advisers. Nixon had ordered that his own budget for the current fiscal year be trimmed by $5 billion to a total of $300 billion, or roughly in balance with anticipated revenues. But last week, Arthur Burns suggested a $10 billion cut—and Ford values the Fed chairman's economic opinion perhaps above any other. For the fiscal 1976 budget, the first he will fashion as President, Ford wants a surplus.

Whether a combination of economic summitry and budget cutting will work remains to be seen, of course, but the prospect of a firm hand at the economic tiller after two years of Watergate distractions makes businessmen, labor leaders and consumers alike anxious at least to hear whatever the new President has to offer. Even AFL-CIO president George Meany, long at odds with Nixonomics, pledged "all possible support," and in dozens of interviews NEWSWEEK correspondents across the land listened to business leaders breathe a collective sigh of relief. "Whenever you remove uncertainty, there's a leveling, a stability," says Frank P. Wendt, president of John Nuveen & Co., a major bond house. "I hope we now have a leader who can address himself to the economy." Most businessmen also stress that the Ford Presidency cannot help but bolster public confidence in the White House—and that this factor may actually help in the battle against inflation by reducing the amount of consumer hedge-buying.

The reaction abroad to the changing guard in Washington was far more subdued. The only Ford most foreign bankers and businessmen know is Henry—"I never even heard of Jerry Ford until two years ago," said one—and they worry that the new President may have neither the interest in nor understanding of such international economic intricacies as monetary reform and the Eurodollar market. "The French business community feels that in economic matters, the new President is a lightweight," sniffed an imperious French banker. But most business leaders abroad tend to agree with Sir Richard Powell, president of Britain's Institute for Fiscal Studies. "If the new President can calm America," Powell declares, "he will go a long way toward calming the world, and our common problems of inflation and other pressing [economic] issues may begin to get the attention they deserve at last."

Perhaps most important of all to businessmen on both sides of the Atlantic, the Ford Presidency returns a sense of character and integrity to the White House. Yet the problems bequeathed him by Nixon remain unchanged—and uniformly bleak. Inflation will not quickly subside nor the unemployment rate recede; money will still be expensive for borrowers, and lenders will pay high interest rates to attract funds.

FORD'S GRIM ECONOMIC LEGACY

Wall Street's reaction last week seemed to reflect these harsh realities; Watergate has plainly added to the stock market's woes over the past two years (chart, page 66), but a euphoric two-day rally when Nixon's resignation appeared imminent quickly sputtered, and on the very day Gerald Ford took office, the Dow Jones industrial average fell nearly 8 points. But then, there was ample reason for gloominess in last week's economic data:

- The wholesale price index rose a staggering 3.7 per cent in July—44 per cent on an annual basis—following a half year of relatively modest increases averaging 0.4 per cent a month. Much of the huge jump was due to farm prices, presaging higher supermarket prices this fall. But industrial commodities also leaped higher than expected—2.7 per cent.
- General Motors Corp. announced that its 1975 models will cost customers nearly 10 per cent more than the '74s, a price boost that may qualify GM for the

bite of a Ford Administration jawbone.

■ Investors continued to drain their savings accounts in favor of investments carrying higher rates of return. Last week, they flocked to buy the Treasury's new 9 per cent notes. This "disintermediation" has placed an enormous strain on thrift institutions—and on the housing industry they finance. In July alone, the nation's savings banks suffered a $725 million outflow of funds, the worst monthly drain in 27 years.

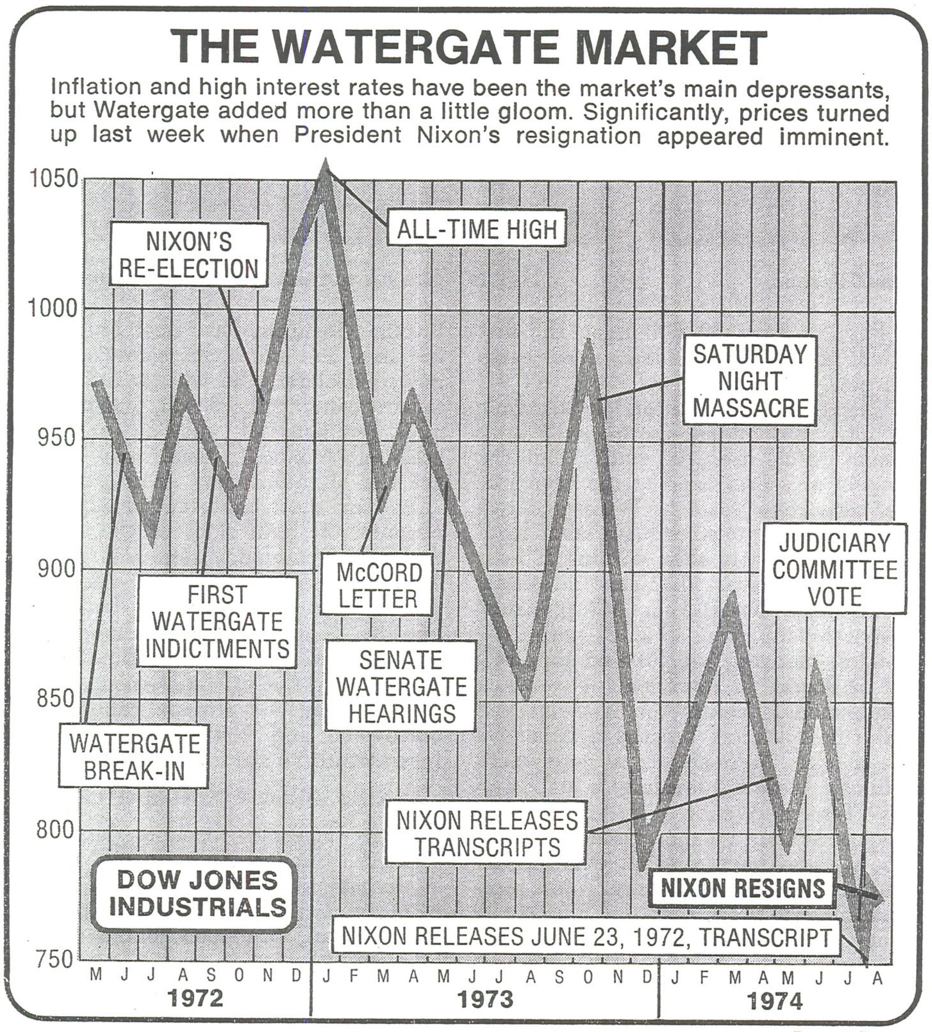
To deal with these and other economic problems, President Ford seems certain to rely on the economic advisers Nixon left behind. His respect for Burns is unshakable, and he has already asked Treasury Secretary William E. Simon to remain aboard indefinitely. Budget director Roy L. Ash has been requested to stay "for now," he says, but insiders speculate that unless Ford can detoxify the poison darts Ash and Simon have been throwing at each other, one of them will have to go—and the betting is that it will be Ash, perhaps early next year.

Ford has also reaffirmed Nixon's appointment of New York economist Alan Greenspan as chairman of the Council of Economic Advisers, replacing Herbert Stein. And finally, he surely will seek counsel from his own coterie of friends and staffers, especially Michigan lawyer-accountant William Seidman and former Wisconsin Congressman John W. Byrnes.

It is uncertain, of course, how faithfully Ford will follow their advice. Last week, for instance, Fed chairman Burns suggested in an appearance before the Joint Economic Committee that the Administration re-establish a cost-of-living council with authority to delay inflationary wage and price boosts—and that the U.S. Treasury finance a $4 billion public-service employment program to provide 800,000 jobs should the jobless rate hit 6 per cent. But the President is on record in opposition to another round of wage-price controls in any form, and his belief in the old-time religion of balanced or surplus budgeting might prompt him to bounce any proposal he regarded as budget-busting. "Jerry believes in what Nixon believed in," says a close friend familiar with his economic views. "But I think he's slightly more conservative. He's not going to mount a white charger, put on a liberal hat and gallop around."

For the most part, Ford will probably adhere closely to the policy recommendations of his advisers, if only out of enlightened self-interest. By all accounts, he comes to his new job a novice in economics; in 25 years in the House, he neither served on committees concerned with business and economics nor authored any economics legislation. Opinions of his economics expertise from those who know him well range from "woolly-headed" to a competent "generalist." His voting record in Congress seems to mirror his sincere commitment to pro-business Republican orthodoxy: tight budgets, tight money, less government interference with the private sector. In Congress, says a top AFL-CIO official, Ford voted the labor line only nine times on 118 pieces of legislation, casting nays for minimum-wage bills, Medicare and the creation in 1964 of the Office of Economic Opportunity.

When he has spoken on economic matters, Ford's speeches ring mainly with obvious truths, generalities and homespun homilies—and on some occasions, the onetime University of Michigan center lapses into a convoluted football metaphor. In February, Ford told one group: "I only wish that I could take the entire United States into the locker room at half time. It would be an opportunity to say that we have lost yards against the line drives of inflation and the end runs of energy shortages, and that we are not using all our players as we might because there is too much unemployment ... There would be no excuses about previous coaches and previous seasons. I would simply say that we must look not at the points we have lost but at the points we can gain."



Fenga & Freyer

UNEMPLOYMENT THE REAL TEST

One possible hitch in Ford's economic game plan may be presented by his old pals on Capitol Hill. As House Minority Leader and later as Vice President, Ford gained a well-deserved reputation as a man who could never say no to Republican colleagues seeking campaign help—and come this fall, his friends will certainly want the President to make them look good. One sure way to do this in the face of rising unemployment would be to pump up the economy with expansive fiscal and monetary policies.

Greenspan has maintained that the current restrictive policies should stay in force for at least one to two years—and if they work, unemployment is certain to increase. The real test of the current Ford policy, most experts believe, will come when the jobless rate passes 5.5 per cent. "At that point," one top government economist predicts, "the time will have come to separate the men from the boys."

But for these early weeks, most Administration planners are confident that the new President is starting off in the right direction in his campaign to restore the nation's economic health. "The right policies are in place," says Herman Liebling, the Treasury's senior career economist. "As we look ahead to the rest of '74 and '75, I just want to see whether economic policy will be pursued as policymakers now say it will be. If so, it will get us where we want to go."