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USA

Nixon's Jump into the Cold Water

by Professor Carl Landauer, Berkeley

Although at first public reaction to President Nixon's Economic New Deal was very positive, criticism has been increasing during the last weeks. The most controversial issue at the moment in the USA is without doubt the wage and price freeze imposed for 90 days.

The best aspect of President Nixon's program is the recognition that the previous policy of fighting inflation by reducing the level of economic activity—monetary stability bought with unemployment—has failed. This policy was based on the assumption that the present inflation is caused primarily by the pull of demand for goods and services and not by the push of costs rising as an effect of wage increases and monopoly pricing. Wage increases, of course, have such an effect only if they are in excess of expectable growth of productivity, but undoubtedly this has been largely the case within the last years. Nobody has denied or can deny that increased costs force a number of enterprises, and induce others, to raise prices. The authors of the previous policy, however, expected that deteriorated demand conditions would cause entrepreneurs to resist union demands more strongly ("stiffen their spines") and that the unions themselves might reduce their demands if they felt threatened by unemployment. The first assumption was unrealistic because for most employers it is easier to give in to unions and shift the additional burden to the consumers than to risk a prolonged strike; the second assumption misconstrued the motivation of the unions.

Direct Control Necessary

This leaves direct control of wages and prices as the only alternative. The three months freeze

of wages and prices is of course a form of such control, although a particularly crude one—much too crude to be maintained for any substantial length of time. If the Government really believes that this freeze will "break the backbone of inflation", disappointment is certain, because inflation is not a purely psychological phenomenon which may yield to shock treatment. The freeze makes some sense only if it is intended to provide a breathing spell for the elaboration of a permanent or at least semi-permanent policy of control; as such a breathing spell, however, a three months period is very short, and prolongation will be hardly possible because the inequities of the measure will not prove tolerable for very long. The task of working out a permanent policy would be the job of the Cost of Living Council. But to live up to this task the Council would have to do what Secretary Connally said it is not intended to do: either constitute itself as a wage and price review board or propose the establishment of such a board.

Technical and Political Difficulties

The Administration is not to be blamed for having wanted to avoid the necessity of directly controlling wages and prices, nor the Democratic opposition for not having presented any plan for the construction and administration of such controls. But the Administration has made a most serious mistake by not overcoming its under-

standable inhibitions earlier, since for many months now it was easy to see that the need for controls could not be avoided. The technical as well as the political difficulties are indeed formidable. Just for this reason, it takes time and experimentation to work out effective methods and build adequate machinery. The fact that the period of experiments and inevitable partial failures and inadequacies of all sorts will extend into the months of the election campaign is not only bad (and possibly fatal) for Mr Nixon's chances of reelection but also reduces the likelihood that the solution of the problems can proceed without too much disturbance by political fireworks.

It took considerable courage on President Nixon's part to concede, if only by implication, the failure of the policy pursued up to now. That he wants to be reelected, is understandable enough; he undoubtedly tried to present his program in the politically most effective manner. But this attempt was marred by an error of judgment: By avoiding, through circumlocution, the right names for what he was doing, direct control of wages and prices and devaluation of the dollar, he created a much wider credibility gap than if he had frankly stated that he had changed his mind. He also garnished his presentation with rather meaningless phraseology, for instance with his polemic against "speculators". Far worse, he made concessions to biases which cause inconsistencies in his program and will make it still less workable; the worst of these concessions are the attempts to conciliate or tranquilize the determined foes of a large federal deficit.

Problem of Enforcement Unsolved

If the Cost of Living Council realizes what it ought to do, it will have to relate wages to productivity. Therefore it will have to propose how prospective increases in productivity should be calculated, and what should be done about wages in industries, like those supplying services, in which productivity cannot be expected to grow as much as in manufactures and in which wages still cannot be permitted to fall back too far behind those in factory employment. In addition, there is the tremendous problem of enforcement. It is fine to exhort citizens and citizens' organizations to comply voluntarily with the line of action that will have been laid down as fair and economically sound, and certainly compulsion should not be applied where it is not indispensable, but it is not realistic to expect complete or near-complete voluntary compliance with guidelines established by a government agency; and if there is any les-

son to be learned from the Office of Price Administration experience, it is that non-compliance must be kept very exceptional if the example of successful chiselers is not to erode the sense of moral responsibility of the law abiders.

Thus questions will come up such as these: What can be done to strengthen antitrust policies as a means of price control? How can non-complying unions be penalized? How can the machinery be so constructed as to minimize non-compliance? (For instance, participation of unions and management in the determination of allowable increases may reduce non-compliance, although safeguards are necessary to prevent such participation from frustrating the purpose of the scheme.) Can some space be reserved for free collective bargaining over wages, for instance by not extending the scheme to all industries? What should be done about wildcat strikes against the rules? There is a fairly large stock of experience, much of it half forgotten even by experts, from other countries on which the Council would do well to draw. It would probably be wise to start with a relatively loose system and introduce stringency as required, but an arsenal of measures must be prepared in advance to apply them when necessary.

Labor Opposition Increasing

Whether the wage-price freeze will facilitate a final solution is doubtful. Whatever the merits of a breathing spell, the crudeness of the measure will provoke bitter opposition, and the apparent lack of adequate machinery of enforcement may encourage evasion. Unions and their members, having fought—often with heavy sacrifice—for wage increases, concluded tentative agreements with the employers but have not yet ratified them, will consider it a grave injustice to be deprived for the time being at least, of the results of their struggle; Secretary Connally's announcement that the freeze may be continued after 90 days will aggravate these feelings. The ban on strikes, which was hardly necessary and seems of doubtful legality, will add to that aggravation and may even in the short run produce a crisis. Many goods contain foreign materials which will become dearer in terms of dollars because of the reduced value of the dollar abroad; it would be highly unfair, and probably impossible, to deny the producers the right to increase their product prices accordingly. (With regard to the border tax the problem is much less important since raw materials are for the most part not dutiable and therefore not subject to the new tax.) But the amount of foreign material in domestic products differs from one case to the other; how

can the Office of Emergency Preparedness, with its limited personnel, keep track of all these cases and prevent cheating? This is just one example of the complications that will come up. The danger of the freeze lies in the possibility that injustices and inadequate enforcement will compromise the idea of controlling wages and prices and thus impede a long-range solution.

The parts of the President's program referring to the international economic relations of the United States cannot be fruitfully discussed in detail before more is known about the attitude of foreign countries and also before the public has been better informed—if it ever will—about the understandings previously concluded between the United States—both the Government and the Federal Reserve Board—and foreign Governments and Central Banks in money matters. The main danger has been made clear: the possibility that the American measures will lead to retaliation by other states and thus to a new protectionist wave.

Unemployment — the Worst Evil

Inflation is a great evil, but unemployment is a still greater one. The principal, though not the sole, purpose of applying new means to the fight against inflation is therefore to provide room for a policy of stimulating our all-too sluggish economy. But the President's program puts the major weight on the struggle against inflation and fails to propose more than a few weak measures for the purpose of creating jobs. The re-introduction of tax credits for investment is a questionable measure in view of the sizeable unused part of existing industrial capacity. The moderate increase in personal tax exemption will not stimulate consumption significantly. On the other hand, the measure which would really have enabled poor families to buy more and thereby provide jobs, the establishment of a minimum income, has been postponed; federal employees are to join the army of unemployed and thus will lose most

of their purchasing power, and if revenue sharing is postponed without a substitute, it is hard to see how the cities, at least many of them, can avoid financial collapse. They may get some relief automatically from the postponement of salary increases, but on the other hand the freeze will adversely affect their revenues from sales taxes, and if unemployment grows through the federal budget cuts, their welfare burden will grow too. President Nixon may have inserted these elements into his program as a result of survivals of his own fiscal biases or to conciliate politicians unconditionally hostile to large federal deficits, some of whom are undoubtedly in his own cabinet; but these concessions will not pay in the end. Since the Government, for good reasons, refused to satisfy labor's demand for freezing profits along with prices and wages, it would have been elementary wisdom to protect its exposed flank on the labor side by a big job creation program; but the Administration has decided to do the opposite.

Hasty and Inhibited Program

Here and abroad there has been a hue and cry against the "dirigistic" character of the program. But it has long been clear that there are some problems in the modern, highly organized US-economy for which the economic market fails to provide satisfactory solutions, and that the way to maintain the market as the mainstay of the economic system is to correct its operations by government intervention at the points of failure. The preconceived notions of the conservatives are no more helpful in the present situation than those of the extreme Left. President Nixon has been trying to get away from conservative economic taboos but in a manner which is at the same time hasty and inhibited: He has acted like someone pushed to take a jump, but who only half believes that jumping is really a good thing, therefore closes his eyes to the dangerous rocks below which he must avoid, and finally leaps before he loses his courage.



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