NIXONOMICS

The Economy Under Attack

Gary Allen, *a graduate of Stanford University and one of the nation's top authorities on civil turmoil and the New Left, is author of* Communist Revolution In The Streets, *and of the explosive best-seller,* Richard Nixon: The Man Behind The Mask, *just released by Western Islands. Mr. Allen, a former instructor of both history and English, is active in anti-Communist and other humanitarian causes. Now a film writer, author, and journalist, he is a Contributing Editor to* AMERICAN OPINION. *Gary Allen is also nationally celebrated as a lecturer.*

■ THE term "Nixonomics" was coined by Democrat National Chairman Larry O'Brien during the 1970 Congressional campaign. O'Brien, as witty as he is Irish, observed that under "Nixonomics" things that are supposed to go up (like the stock market and productivity) tend to go down, and things that are supposed to go down (like prices and unemployment) tend to rise. It may seem hypocritical for one so intimately connected with the Kennedy and Johnson Administrations to raise the matter of mishandling of the economy, but such things are to be expected in partisan politics. What is surprising is that there is an uncomfortable amount of truth in O'Brien's epigram.

The story of "Nixonomics" did not begin with the establishment of the Nixon Economic Policy on August 15, 1971, but goes back to the 1968 campaign in which Mr. Nixon again and again attacked the profligate spending of the Johnson Administration. Candidate Nixon forecast economic ruin if government spending were not slashed to the marrow. He claimed that every day President Johnson put off the necessary reduction in federal spending "he places in greater jeopardy the entire international monetary structure." Broadcasting over C.B.S. radio on April 25, 1968, Mr. Nixon claimed that "only by cutting the federal budget can we avert an economic disaster . . . ." In Dallas on October 11, 1968, he declared that "America cannot afford four years of Hubert Humphrey in the White House," because Humphrey pushed for programs which would have caused "a spending spree that would have bankrupted this nation."

A related theme of the Nixon campaign was that the taxpayers' money was being thrown down every socialist rathole imaginable. In his acceptance speech at the Republican National Convention, the inspired Candidate Nixon declared: "It is time to quit pouring billions of dollars into programs that have failed. We are on the wrong road – it is time to take a new road. . . ." In a formal position paper on the economy, he proclaimed:

> *The entire budget needs exhaustive review . . . . Some programs . . . must accept less than maximum funding; non-essentials . . . must await easier times; every major program . . . must be scoured for economies.*

Such promises seemed a lifesaver to millions of Americans awash to their ears in the taxes required to float the Great Society. These millions believed Richard Nixon meant what he said. They had faith in his personal integrity. And they elected him President of the United States.

Once secure in the White House, however, President Nixon was beset by a most amazing lapse of memory. According to columnist Charles Bartlett, the New Frontier and Great Society had expanded the number of domestic spending programs from 40 to an astounding 473. Republicans had resisted the addition of every one of those 433 welfare schemes. Yet, soon after the election, word was leaked from the Nixon headquarters that the Great Society, the much-denounced War on Poverty and all, was to be preserved. "Liberal" columnist Roscoe Drummond announced with delight:

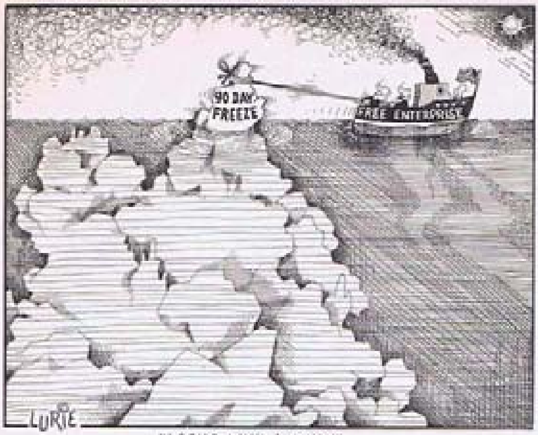
> *The most significant political fact of the hour is now so evident it can't be seriously disputed:*
>
> *President Richard M. Nixon is a "secret liberal."*
>
> *...Nixon is already proving himself a liberal-in-action if not a liberal-in-theory – and this is what counts.*
>
> *The evidence:*
>
> *Lyndon Johnson initiated and Congress approved the largest volume of social legislation of any president in history. And Nixon prepares to carry forward every major Johnson measure. . . .*
>
> *Nixon is not proposing to dismantle them. He is proposing to build on them and his goal is to make sure they achieve their purpose more effectively.*

Lyndon Johnson's 1967 Budget – at the height of the Vietnam War – was a bloated $158 billion, which at the time seemed astronomical. While on the primary trail, Mr. Nixon had claimed that if that amount were not sliced by $10 billion, the country would face fiscal disaster. In 1968, Johnson fattened the Budget to a staggering $183 billion. For fiscal 1969, however, Richard Nixon introduced what was astonishingly described as a "bare bones" Budget of $192 billion. Before the year was out, the "bare bones" had been fleshed out to $200 billion. What had been denounced as profligate spending under L.B.J. was now said to be tightfisted frugality.

The following year, fiscal 1971, Mr. Nixon introduced a $202 billion Budget, and beefed it up to a fantastic $210 billion before the end of the year. Then, for fiscal 1972, he announced his conversion to the fiscal philosophy of the Fabian Socialist John Maynard Keynes and the federal Budget flitted skyward to an unbelievable $230 billion. For fiscal 1973, estimates indicate a Nixon Budget of from $250 to $275 billion.

To put this horror story in some kind of perspective it should be remembered that President Harry Truman, who inherited all of the New Deal programs and the serious problems of post-War adjustment, spent only $65 billion during his last year in office. Nine years later, Dwight Eisenhower's 1960 Budget was but $76 billion. The President's current $230 billion extravaganza is even $80 billion more than Mr. Nixon claimed L.B.J. should have been spending in 1967.

A billion dollars amounts to approximately five dollars for every man, woman, and child in the United States. This year's share of the federal Budget for a typical family of four is $4,600. The largest portion of that comes from "hidden taxes" paid by corporations and businesses, which are in turn passed on to the consumer in the price he pays for goods and services. Under "Nixonomics" federal spending has increased a staggering $47 billion during the first three years of the Nixon Administration, with the result that an American family of four is paying $940 a year more in direct and indirect taxes than it did under the profligate Lyndon Johnson. When it comes to spending the public's money, Mr. Nixon makes L.B.J. look like the Piker of the Pedernales. And if President Nixon's 1973 reelection Budget can be held to $250 billion, which is unlikely, it



"LOOKS LIKE A CINCH"

Inflation is caused by the government inflating the money supply with deficit-backed paper dollars, driving up prices and forcing demands for wage increases. When money must be backed by gold, such inflation cannot occur. But our gold supply has been poured into the hands of international bankers. We have so little left that it has been necessary to admit bankruptcy and suspend international convertibility of the American dollar to gold. At the root of these disasters — a repudiated dollar and exploding inflation — are the Nixon deficits. In three years, Mr. Nixon made the profligate Lyndon Johnson look like the Pinchpenny of the Pedernales by running up deficits totaling a stupendous $66.7 billion. Interest on the national debt, now $21.2 billion a year and the third-largest Budget expenditure, is rocketing out of sight even as deficit spending is used to destroy our money by inflation. Mr. Nixon has responded by a dictatorial "temporary" freeze on our wages and prices, but goes on spending wildly. In the last three years Nixonomics has cost the average family of four some $8,620. If Richard Nixon is allowed to continue his attack on the economy, it could cost everything we have — including our liberty.

will still cost our typical family an extra $400 – for a total added cost of the vaunted "Nixonomics" amounting to $1,340. By 1972, Nixon will have raised the cost of running the federal government by thirty percent.

But remember, we could not have afforded four years of Hubert Humphrey.

Unfortunately, that added $1,340 is not all that "Nixonomics" has cost the average family. As government spending has ballooned, so has the cost of living. During the initial three years of the Nixon Administration the cost of living has jumped approximately eighteen percent. This is sometimes called the "inflation tax," once described by Richard Nixon as the "cruelest tax of all." If our average family breadwinner is earning $10,000 a year, his inflation tax is $600 per year, or $1,800 during the first three years of "Nixonomics." And if Mr. Average had $10,000 in savings or insurance policies, Mr. Nixon's scheme has caused it to shrink in purchasing power to $8,200.*

Let us now examine the total cost of three years of "Nixonomics" to the family of four. The total increase in direct and indirect taxes over those paid under the profligate Mr. Johnson amounts to $1,820. (Remember, this will rise steeply in 1973 as the Nixon Budget leaps from $230 billion to *at least* $250 billion – a figure which will cost the family of four another $400.) To this $1,820 we must add the "inflation tax" of $1,800 and the loss in the value of savings/insurance of another $1,800, bringing the three-year total cost of the new "Nixonomics" to Mr. Average to the startling total of $5,420. Based on the same figures, the four-year cost of "Nixonomics" will reach $8,620 per family of four.

Most families have had some raise in pay during the past few years to offset at least partially the terrible increase in the cost of living. But, in most cases, Americans are running on a treadmill. *U.S. News & World Report* for May 17, 1971, provides some figures:

> *Consider what has happened to the typical worker in industry: Between 1965 and early 1971, his pay, on average, rose from $95 a week to $124, a gain of $29. But inflation trimmed that increase to $2.72 in "real" buying power.*
>
> *Employers have been caught in the same sort of squeeze. Soaring costs – and sluggish sales in the past couple of years – have chopped profit margins to the lowest level since World War II.*

We must also keep in mind that there are millions of Americans living on fixed incomes, such as retirement pay and annuities, who have been devastated by the spiraling cost of living. Many of these people have as a result been forced to throw themselves on the mercy of Big Government – further increasing the power of an Administration which, as we shall see, was responsible for the increasing cost of living in the first place.

The stubborn persistence of the wage-price spiral was one of the major reasons for President Nixon's institution of the ninety-day wage-price freeze.

Polls show that an exasperated public has supported the temporary freeze, largely out of frustration over ever-climbing prices. Joseph Kraft, a member of the Establishment *Insiders'* Council on Foreign Relations, writes that "inflation . . . can only be curtailed by joint restraint on the part of business and labor." This is typical of the line now being promoted by the "Liberal" media. And, though it is widely believed, it is utter nonsense. Blaming the wage-price spiral on business and labor is like blaming wet streets for causing rain. Yet virtually

*In 1969, 1970, and 1971 – thanks to the massive Nixon deficits – inflation has robbed Americans of $180 billion of their savings in banks and insurance policies. Aren't you glad you voted for the Conservative Mr. Nixon?

(L to R) Wage-price enforcer George Lincoln; Chairman Paul McCracken of Council of Economic Advisors; the President; Budget boss George Shultz; and, Arnold Webber of Cost of Living Council.

every public figure now uses the terms "inflation" and "wage-price spiral" interchangeably. If Conservatives are ever to put the blocks to these monetary charlatans, they must first create public understanding of the difference between "inflation" and the "wage-price spiral."

The fact is that **inflation** is *an increase in the money supply* – simply put, an inflation of the supply of dollars in circulation. The new deficit-based money injected into the economy by government takes on value only by reducing the purchasing power of all other money already in circulation.

The effects of this new deficit money are easily understood if you will imagine that you are at an auction. In your wallet you have $100 with which to bid for the limited number of items for sale. Before the day's bidding begins, a bureaucrat from the Federal Reserve System charges into the barn and announces to the crowd that he is going to provide nearly everyone present with $100 in new money. Naturally, everyone is jubilant – except those few who did not receive the new money. When the auction begins, you have the $100 you originally had in your wallet, plus the new $100 in deficit Federal Reserve currency, to bid for what is being offered for sale.

But what happens is that you and the others now bid more money for the goods available than you would have (or could have) before, thus raising prices. You aren't any better off than you were, and the people who did not receive the fiat cash from the bureaucrat are worse off because they cannot compete as well in the bidding.

Actually, our economy is nothing but a vast auction in which millions of buyers and sellers are every day submitting bids and offering goods and services. As the supply of money is inflated by distribution of deficit dollars from the federal printing presses the bids for goods, wages, and services *must* rise. It is the increase in the money supply which *causes* the wage-price spiral. So, if one wants to stop the wage-price spiral, it is necessary to stop inflating the money supply. It would be impossible to have a wage-price spiral without sufficient amounts of new money to pay for it, just as it would be otherwise impossible for all the people at our hypothetical auction to spend $200 each when they had come with only $100.

Easy as these concepts are to understand, practically no one understands them. Otherwise, the politicians and Establishment pundits who defend wage and price controls as the cure for what they mistakenly refer to as inflation would be laughed off the stage. One begins to untangle the created confusion about our economic crisis the minute one realizes that inflation – increasing the money supply – can only be caused by the deficit-based excesses of government and the government-regulated banking system.

Our main economic problem is money pollution, and Richard Nixon has become the principal polluter. Mr. Nixon pollutes the money, as did his recent predecessors, by running vast deficits in the federal Budget. Deficits must be financed by borrowing, which the government does by selling bonds. When these bonds are bought by the Federal Reserve System or the commercial banks, as most of them are, they are used as reserves to back the creation of the new fiat money. A bank can put up a government bond as a reserve with a Federal Reserve Bank and use it as the basis for the creation of new money amounting up to *six* times the face value of the bond. The Federal Reserve refers to these in its handbook as "high powered dollars." You bet they are. That is the problem. It is these "high powered dollars" which inflate our currency. And, as their existence requires federal deficit, such inflation is inevitable without a balanced Budget.

Despite what he is currently saying for public consumption, Richard Nixon does understand the difference between inflation and the wage-price spiral. And he knows that deficit spending by government is the cause of our current crisis. On January 27, 1970, he declared:

> *The inflation we have at the start of the Seventies was caused by heavy deficit spending in the Sixties. In the past decade, the Federal Government spent more than it took in – $57 billion more. These deficits caused prices to rise 25 percent in a decade.*

During his campaign for the Presidency, Mr. Nixon attacked Lyndon Johnson for failing "to cut deficit spending which is the cause of our present inflation." Budget deficits, he said, "lie at the heart of our troubles." For his own part, he renounced any "massive step-up" in federal spending programs, calling it "a prescription for economic disaster." Before the 1968 election, when Richard Nixon called inflation "the cruelest tax of all," he said "it quietly picks your pocket, steals your savings, robs your paycheck. To check inflation the government must cut down on unnecessary federal spending . . . ."

So Richard Nixon knows what he is doing to us, but he does it anyway. Mr. Nixon's 1970 Budget plummeted $13.1 billion in the red. For fiscal 1971, he promised a balanced Budget. In introducing it to Congress he announced that he was keeping his promise, boasting: "I pledged to the American people that I would submit a balanced budget for 1971." And he proclaimed: "The surplus for 1971, an estimated $1.3 billion, will serve both to stem persistent inflationary pressures and to relieve hard-pressed financial markets." He added: "We must balance our Federal budget so that American families will have a better chance to balance their family budgets."

That year the Nixon *deficit* reached a crushing $25.6 billion, an "error in calculation" of almost $27 billion.

On January 27, 1969, Mr. Nixon had said: "I do not go along with the suggestion that inflation can be effectively controlled by exhorting labor and management and industry to follow certain guidelines." But by December 10, 1970, he was declaring: "I consider that at the time I made the first statement it would have been improper for me as President of the United States to urge labor and management to restrain their prices and wage demands at the time the government was the major culprit in contributing to inflation. But now that government has done its part in holding down the budget in a restrictive monetary policy, now it is time for labor and management to quit betting on inflation and to start helping to fight inflation." Since that time the deficit has increased *one hundred* percent.

Because of the influx of deficit dollars the cost of living continued to rise during 1970. So did unemployment. As *U.S. News & World Report* observed: "A major switch in Administration policy is taking hold .... Inflation is now calculated as less of a calamity than recession." So America had come full circle from the beginning of the Johnson inflation, through a weak attempt by Nixon at holding the monetary line by squeezing credit, back to massive deficit spending.

Always image conscious, and fully aware that the President's deficits were driving inflation into the ionosphere, the Nixonites now dispensed with the old-fashioned (and very embarrassing) task of figuring deficits based on what the government collected in taxes less what the government spent. "Deficits" would be calculated on what the government *theoretically* would have collected in taxes if instead of six percent unemployment there were "full employment," which is calculated as an economy with only four percent unemployment. Mr. Nixon calls this a "Full Employment Budget," and it is a fraud so transparent as to embarrass a carnival pitchman. It is as if you were to say to yourself: "I am making $10,000 this year. If I worked weekends at a second job, I would be making $12,500. Therefore it is perfectly all right to go in debt and spend $12,500 this year." Insane? Certainly. But the "New Economists" who created the Nixon policies that landed us in the current mess claim it is absolutely sound.

John Chamberlain in his nationally syndicated column of February 6, 1971, revealed the ironic parentage of Richard Nixon's phony Full Employment Budget:

> *The* de facto *economic gray eminence of the Republican party is, believe it or not, none other than Walter Heller, who was chairman of the President's Council of Economic Advisors under the Democrats.*
>
> *This will be disputed by the Nixon administration, but the truth is that the idea of the "full employment budget" (so-called because it is supposed to come into balance through rising tax collections when unemployment narrows to 4 percent) is his own patented nostrum. He has been peddling it for years ....*
>
> *So it will come to pass that J. Kenneth Galbraith, who thinks the Democratic party of Humphrey and Muskie is too stodgy and respectable to pass muster in Harvard Square, will be the* de facto *economic gray eminence of the next phase of Republican policy. Galbraith has been peddling price and wage controls in articles and speeches for years.*
>
> *No, it wouldn't work. But the "full employment budget" that Nixon has taken from the Heller arsenal of ideas drives inexorably toward the Galbraith "cure."*

If Democrat Walter Heller is father of the "Full Employment Budget," its unnatural grandfather is the notorious John Maynard Keynes. While the current batch of economists tries to disguise Keynes as a "capitalist economist" who only wanted to save the system from itself, Keynes made no bones about what his system was designed to do, openly bragging that its adoption would mean the "euthanasia of capitalism." An ardent Fabian Socialist, he was not only a sex pervert of the worst sort,* but boasted as early as February 22, 1918, of "being a bolshevik." Lenin praised him before the Second Congress of the Communist International as being "more striking and more instructive" than any of his homegrown Communist revolutionaries.

Whether Keynes' motive was the hatred for normal society so common in sex perverts, or his devotion to the cause of the Fabian Socialists, is unimportant. What he did was to devise a system in which it was claimed that inflation by deficit spending could produce perpetual prosperity. Keynes knew exactly what he was proposing. As he had observed:

> *By a continuing process of inflation governments can confiscate, secretly unobserved, an important part of the wealth of their citizens . . . . There is no subtler, no surer means of overthrowing the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction and does it in a manner which not one man in a million is able to diagnose.*

Yet, early in 1971, President Nixon confided to newsman Howard K. Smith that he is "now a Keynesian in economics." The flabbergasted Smith later commented: "That's a little like a Christian Crusader saying: all things considered, I think Mohammed was right." Nixon was now making it formal: He had joined the Revolution.

In February 1971, Mr. Nixon introduced a $230 billion Budget, described by the *Wall Street Journal* as a "blockbuster." It called for a planned deficit of $11.6 billion. In announcing his scheme the President claimed: "The full employment budget is in the nature of a self-fulfilling prophecy: By operating as if we were at full employment, we will help to bring about that full employment." Even Keynes would have blushed.

Commenting on the "new" Nixon and his Full Employment Budget, Establishment spokesman James Reston observed in the *New York Times*:

> *Washington doesn't quite know what to make of all this. He swallowed Lord Keynes in one gulp. He announced the biggest budget deficit of the century as if it were the first article in the Republican catechism, and he embraced most of the old Democratic economic devils like long-lost buddies.*

In his column of February 3, 1971, Reston cheered:

> *The Nixon budget is so complex, so unlike the Nixon of the past, so un-Republican that it defies rational analysis . . . . The Nixon budget is more planned, has more welfare in it, and has a bigger predicted deficit than any other budget of this century.*

Within months, Nixondom was admitting that its planned $11.6 billion deficit would escalate to $18.6 billion. But even that proved a monumental understatement. The latest estimates are that the 1972 fiscal Budget will run something like $28 billion in the hole. This adds up to a grand total of $66.7 billion in deficits for Nixon's first three years in office. According to the *Wall Street Journal*, Richard Nixon's 1971-1972 efforts seem assured "of registering the largest two-year deficit total since World War

*If your stomach will take it, see his letters to his "lover," Lytton Strachey, in *Lytton Strachey, A Critical Biography*, by Micheal Holyroyd; Holt, Rinehart and Winston, New York, 1968, two volumes.

II." And it is the Nixon deficits which are responsible for the wage-price spiral.

In 1968, the federal debt of the United States was \$347 billion. The so-called Legal Debt Limit (a laughable concept since Congress raises it almost every year) now stands at \$435 billion, a ceiling Secretary of the Treasury John Connally says can last only until the middle of 1972. In other words, the national debt will have increased by an incredible \$88 billion during the first Administration of the man who ran for the Presidency on the basis that he was more tightfisted than Scrooge. America's taxpayers and their descendents will be paying the price for a century.

Not surprisingly, the cost of interest on the exploding national debt is also on the increase. In 1960 the tab for interest on that debt was \$9 billion. This year it is \$21.2 billion, and the third largest item in the Budget, trailing only welfare and national defense. The \$21.2 billion being paid this year as interest is enough money to have run our federal government for the first 118 years of our history. This interest payment, alone, is more than the total federal Budget for any single year up to World War II. Supporters of the Nixonomics attempt to dismiss the importance of this terrible expense with the wave of a limp wrist, dropping the hoary cliché that there is nothing to worry about because we owe the national debt to ourselves.

How much of that \$21.2 billion in interest did *you* receive?

As Congressman John Rarick told the House on February 18, 1971: "It is estimated that only 11.6 percent [*of the federal debt*] is owed to the small investor in the form of savings bonds in small amounts. The preponderant bulk of it is owed to the international bankers and financiers." And they are running up the score beyond belief.

During the 1968 election campaign, Candidate Nixon said he was confident that he could put the economy back in the win column. The Nixon "Game Plan" was described as follows by the editors of *Time* magazine:

> *There would be no mandatory controls, no strong-arm interference with labor negotiations, no messing with the free market. Instead the Administration would rely on classic economic remedies, holding down its own budget spending while relying on the independent Federal Reserve Board to hold back the supply of money and credit. That kind of "Nixonomics" was supposed to slow the economy briefly and decisively brake the price spiral. After that, the Administration could again rev up business by increasing its own spending and perhaps even cutting taxes.*
>
> *Things did not work out that way. The economy tumbled into a long, though mild recession.*

Things did not work out that way because the "Game Plan," contrary to what *Time* would have you believe, was not followed. As we have seen, the Nixonites neither restricted federal spending nor balanced the Budget. And the Federal Reserve System, after initially restricting credit, began spewing out bogus billions in an attempt to stimulate the economy. During the first six months of 1971, "The Fed" manufactured deficit money at an astounding rate. A rate which would over a year inflate the currency by twelve percent. The Federal Reserve Bank of St. Louis called this expansion the "most rapid for any six-month period since World War II."

Throughout 1970 and the summer of 1971, the Nixonites claimed that the Game Plan was working. However, it was obvious that they were whistling past the graveyard. Statistics on unemployment, the cost of living, production, the balance of payments, and profits belied their statements. *Time* declared that pressures began building on the President to require labor leaders, politicians, and businessmen to "do something." Mr. Nixon has been very clever about waiting for such "pressures" to justify each of his Leftward moves. He had promised over and over again that he would never, never, ever impose wage and price controls on America. On June 17, 1970, he declared:

> *Now, here is what I will not do. I will not take this nation down the road of wage and price controls, however politically expedient that may seem. Controls and rationing may seem like an easy way out, but they are really an easy way in – to more trouble, to the explosion that follows when you try to clamp a lid on a rising head of steam without turning down the fire. . . .*
>
> *Wage and price controls only postpone a day of reckoning. And in so doing, they rob every American of a very important part of his freedom. Nor am I starting to use controls in disguise. By this I mean the kind of policy whereby government makes executive pronouncements to enforce guidelines in an attempt to dictate specific prices and wages without authority of law. This is not the time for the Congress to play politics with inflation by passing legislation granting the President standby powers to impose wage and price controls. The Congress knows I will not impose controls because they would do more harm than good.* (Republican *Battle Line*, September, 1971.)

In a report to Congress in February 1971, the President reiterated what he said was his unalterable opposition to wage and price controls. In language that could not have been plainer, Mr. Nixon announced:

> *Free prices and wages are the heart of our economic system; we should not stop them from working even to cure an inflationary fever. I do not intend to impose wage and price controls which would substitute new, growing and more vexatious problems for the problems of inflation. Neither do I intend to rely upon an elaborate facade that seems to be wage and price controls but is not.*

The first trial balloon from the Nixon ranks appeared in statements by Federal Reserve Board Chairman Arthur Burns, for many years a close personal advisor to Mr. Nixon and a Nixon appointee. Dr. Burns began by openly calling for an "incomes policy," a euphemism for wage and price controls. He told Congress on July twenty-third of this year: "I wish I could report that we are making substantial progress in dampening down the inflationary spiral. I cannot do so . . . . The rules of economics are not working in quite the way they used to."

Certainly Dr. Burns knew this was pure balderdash. The rules had not been followed and the printing presses were working overtime to produce inflationary deficit money. As the *Wall Street Journal* said of the Burns statement: "The old rules of economics still work, when they're applied, and the government won't help by dreaming up new ones."

Rumors were now planted that Dr. Burns was feuding over establishment of wage and price controls with the President's other economic advisors, particularly Chairman Paul McCracken of the Council of Economic Advisors, and Director George Shultz of the Office of Management and Budget. McCracken was particularly outspoken, declaring that "the common image of wage-price control is entirely wrong: The image that a little band of dedicated, objective, analytical men in Washington would keep a few heads of powerful corporations and unions from exploiting 'us.' The fact is that it is 'us' who would be, and would have to be, controlled. And the control would not be managed by Moses or Buddha, or Galbraith (at least not forever), but by the same kind of people who run and operate all the other agencies in Washington. That is to say they would be political and bureaucratic."

Then suddenly, in a complete reversal of his Game Plan, the President took to national television on the night of August fifteenth and announced: **(1)** A ninety-day freeze on prices and wages. **(2)** A ten percent cut in foreign economic aid. **(3)** A ten percent surtax on most imports.* **(4)** Suspension of the "dollar convertibility" in agreement with the I.M.F. **(5)** A 4.7 million cut in federal spending. **(6)** A forthcoming five percent cut in government personnel. **(7)** A list of requests for Congressional action on taxes and tax exemptions. And, **(8)** a postponement in attempts to pass his multi-billion-dollar Family Assistance Plan and Revenue Sharing proposals.

The "Liberal" media had a field day praising the President for "doing something." Just as it had when Mr. Nixon announced that he was traveling to Red China, the media boys worked overtime to create the appearance of popular support. *Newsweek* praised the economic takeover as the "boldest departure" of his Presidency and maintained: ". . . Mr. Nixon's new game plan also seemed to mark a turning point in American politics – a clear signal that even under the Republicans the government would be intervening ever more vigorously in the marketplace from now on."

*The surcharge will not be levied against goods imported from most Communist nations. It applies to goods coming from countries that have the trade status of "most favored nation." Yugoslavia, Poland, and Romania are the only Communist nations so designated. Imports from the U.S.S.R., Red China, Czecho-Slovakia, East Germany, Hungary, Bulgaria, and other Communist nations *are exempt from the surcharge.*

While the "Liberal" newspapers and slick magazines were heaping praise on the President for his "bold" and "courageous" and "decisive" moves, none pointed out the most important fact of all: That it was Nixon's own policies of blockbuster Budgets and enormous deficits which were at the core of the problem his New Economic Policy was supposed to solve.

Nixon was, however, praised as a political genius for having put the Democrats on the spot, with all but one potential Presidential opponent offering delighted praise. In the *Wall Street Journal* of August 17, 1971, Richard Otten observed:

> *President Nixon's far-ranging economic package dramatically pulls the rug out from under his Democratic critics . . . .*
>
> *There's certainly no doubt that the President's sudden moves have left his political opposition stranded and gasping for air. Mr. Nixon bought just about every item on the shopping list of the top Democratic presidential contenders and their economic advisers . . . .*

Otten then quoted an unnamed "presidential lieutenant" as declaring:

> *It's going to be pretty hard for the other fellows to say that all the things they've been urging us to do for weeks and months are now suddenly evil. They can say it's too late, perhaps, but they can't even say it's too little. It goes beyond what most of them have been suggesting.*

It is as if F.D.R. had "pulled the rug" from under Hitler by announcing himself a National Socialist and damning the Jews.

Ernest Conine of the *Los Angeles Times* put it another way, observing:

If you're an ambitious Democrat trying to build a case against the reelection of a Republican President, what do you do when the agile fellow in the White House keeps stealing your stuff?

Norman Thomas, the perennial Socialist presidential candidate of bygone years, is said to have complained during the 1930s that he couldn't get anywhere because President Franklin D. Roosevelt kept adopting major portions of the Socialist platform.

Today's Democratic strategists are beginning to appreciate how Thomas felt.

Mr. Nixon's actions in winding down the war, however, have not only gone beyond the Democratic campaign promises of 1968. They have also gone beyond the much more dovish minority plank engineered by the McGovern and McCarthy forces at the Democratic convention.

You could have knocked them [the Democrats] *over with a chopstick when Mr. Nixon rather smugly announced on nationwide TV that he would go to Peking. Until and unless he falls on his face, there went another Democratic plank.*

The Republican President has also been a surprisingly elusive target when it comes to social programs.

Strip away the Republican label, for example, and his welfare reform program is plainly plagiarized from Democratic proposals for a guaranteed annual income – or negative income tax – for the poor.

Similarly, Democratic assaults on the President's revenue-sharing program would be more credible if it were not for the fact that so many Democratic politicians and intellectuals have been proposing the same thing for years.

. . . Mr. Nixon gravely assured us, we have a crisis on our hands – one which can be met by cutting taxes, freezing wages and prices and, in effect, devaluing the dollar in relation to other major currencies. The very steps, in short, which his Democratic critics have been demanding that he take.

Meanwhile, leading Democrats are left with the uneasy feeling that there is literally nothing they can propose which the man in the White House may not end up repeating back to the country as Republican gospel.

Even the announced postponement of the Family Assistance and Revenue Sharing programs by "from three months to one year" was not a concession to Conservatives, but a face-saving maneuver designed to cover the fact that those measures were for the moment too radical to get by both the House and Senate. And that move was related to his promise to cut federal spending, which was already running some $3 billion ahead of his incredible $230 Budget. Syndicated columnist D.J. Bruckner says even the supposed cut in the Budget was "an act which is primarily a bookkeeping device that will not affect real spending in the current fiscal year."

The President's promise to slice spending for foreign aid, while it has enormous public appeal, is equally phony. Long a champion of bigger foreign aid spending, Mr. Nixon has in fact *increased* such spending since entering office. The fact is that the actual foreign aid budget is far more than the $3.2 billion to which the President referred. Congressman Otto Passman's investigations show that foreign aid now totals a whopping $13.5 billion, hidden in twenty-seven Budget categories. The President said nothing of cutting the *real* foreign aid budget.

The promised five percent cut in government personnel is another plank of the

New Economic Policy which has been cheered by some Conservatives. The fact is that the federal payroll is up from $17.1 billion to $29.2 billion since 1965 – the last $5 billion of the jump coming since Nixon's inauguration. There is no question that millions of dispensable bureaucrats could be eliminated by phasing out their jobs, but it is far more likely that any reduction in the federal payroll will be more than offset by staffing bureaus to enforce the New Socialism which Mr. Nixon promises after his wage and price controls are "relaxed" in late November.

The economy may well be helped by the proposed ten percent investment tax credit and repealing the surcharge on automobiles, but to cut revenues in the face of vast deficits can only produce further inflation.

As Republican *Battle Line* observed, while a few meaningless concessions were made to the traditional Republican philosophy, the big prize of wage and price controls went to the Left.

Even so, a Gallup Poll showed that seventy-three percent of Americans approve what the President has done. Businessmen in overwhelming numbers saw the controls as a magic amulet to assure instant cure. Richard Nixon's earlier admission that such controls "rob every American of a very important part of his freedom" seems to have been totally forgotten. There was practically no grousing about the fact that the freeze did not apply to government spending, taxes, and welfare payments.

Not surprisingly, the Nixon Administration had no problem with the flip-flop in rhetoric. For example, economic advisor Paul McCracken had declared a week before the freeze:

> *General price and wage control would be a serious threat to individual freedom. It is amazing that the press, so jealous of its own freedom, does not recognize the implications of having the income of literally everyone in the country controlled by a government agency. . . .*

The following week McCracken was claiming that the New Economic Policy would produce a $15 billion jump in the economy and 500,000 additional jobs. If totalitarian controls can produce such a jump in prosperity, one wonders why the socialist countries of the world require so much foreign aid from the United States.

Honest historians and economists realize the consequences of wage and price controls all too well. One government control begets another, which begets another, which begets another, until a once-free economy is completely regimented. At a meeting on April 24, 1970, economist Milton Friedman emphasized the futility of the freeze mechanism:

> *We have two thousand years of history on this, aside from the economic analysis, and there is not a documented case in which wage and price controls ever had any significant effect on inflation.*

Housewives who expect grocery prices to level off as a result of President Nixon's freeze have a disappointment ahead of them. A survey of advertised prices shows that the cost of food rose at least as rapidly in the controlled era of 1941 to 1946 as in the non-controlled period of 1966-1971. From 1940 to 1945, the greater portion of the period under wartime wage-price controls, the index went up twenty-eight percent. From 1965 to mid-1970, a non-controlled inflationary period, the index rose twenty-three percent. The freeze during World War II was no more successful with wages than it was with prices generally. Despite the controls, average hourly wages of production workers were inflated in the period from 1940 to 1945 by 54.5 percent.

While controls have always failed to

hold down prices, they create real chaos in the economy. As Arnold Weber, Executive Director of the federal Cost of Living Council, admitted in August:

The textbooks all say how complicated the American economy is. In the last 48 hours I have found out how true that is. The government must now concern itself with everything from the pork-belly market to titanium.

Economist Henry Hazlitt observes of the theory of wage and price control:

It assumes a sort of economic omniscience on the part of the price-fixers, who are apparently presumed to know just what 10 million different prices, rents, salaries, and wages, and 50 trillion cross-relationships between them, ought to be. It assumes that the prices and wages on any given day (say August 14, 1971), and their cross-relationships, are just about where they should have been ....

The advocates of wage and price fixing forget that regardless of the price "level" (which is a statistical fiction), individual prices on any given day or moment – as can be seen in every stock or commodity market – are fluctuating and in transition.

Wages and prices are not just arbitrary figures as totalitarian "Liberals" imagine. Mr. Hazlitt explains:

Wages and prices have work to do. They are signals to producers, sellers, buyers and consumers concerning which products or services are profitable and which unprofitable, which are in undersupply and which in oversupply, where production should be increased and where reduced. Price-fixing destroys or falsifies these signals, and so distorts and disrupts production.

What happens when wage and price controls are fastened on an economy for an extended period of time? Human beings, being innovative souls, find ways to beat the system. Workers receive raises through real or created promotions. Manufacturers raise the price of their products by cheapening the quality, changing discounts, or abolishing services. As Dr. Milton Friedman observes: "Even 60,000 bureaucrats backed by 300,000 volunteers plus widespread patriotism were unable during World War II to cope with the ingenuity of millions of people in finding ways to get around price and wage controls that conflicted with their individual sense of justice."

Eventually, if the controls are not removed, shortages develop and are followed by what the bureaucrats call a "Black Market." Actually, in a dictatorship the only free market *is* the Black Market.

The ninety-day price and wage freeze was presented as "voluntary," yet it is enforced by court injunctions and fines up to $5,000 for each violation – all by Executive Order.

When the President instituted his freeze, he did so under the authority of the Economic Stabilization Act of 1970. When that bill was passed, Mr. Nixon claimed he was opposed to it but (surprise!) he signed it anyway, declaring: "I have previously indicated that I did not intend to exercise such authority if it were given me." Later, inconveniently, he changed his mind. But when the President named the Office of Emergency Preparedness to execute his freeze, he went much farther and declared a "national emergency," invoking an Executive Order which Conservatives have feared for years might be used to convert the country into a dictatorship. As Ken Clawson observed in the *Los Angeles Times* of September 9, 1971:

When President Nixon established a wage-price freeze last month, he did so under special powers that are among those granted by more than 200 laws giving him virtually unlimited prerogatives anytime he feels the nation is in a crisis situation. In a sense, he filled out and cashed one of a pocketful of blank checks provided Presidents of the United States over the last generation.

Some of these Executive Orders date back to 1933, with powers grabbed under the guise of ending the Depression. Others were added during World War II. As Clawson reports:

No President has given the slightest indication of terminating the national emergency and relinquishing his special powers, even though most officials of the executive branch will admit that conditions of the depression, World War II, and the cold war are hardly applicable now. So the blank checks remain. * * *

Six Presidents – four Democrats and two Republicans – have kept the national emergency and its special powers alive . . . .

Although most Constitutional authorities believe these Executive Orders are extra-legal, they delegate enough power to the Chief Executive to establish an absolute dictatorship which abrogates all Constitutionally guaranteed liberties.

Originally the Executive Orders under which the President acted to put the Office of Emergency Planning in charge of the free economy had been justified as a part of Defense Planning. But when Mr. Nixon signed EO 11490 and published it in the *Federal Register* in 1969, giving it the force of law, the phrase became *Emergency* Planning. The President could now become an absolute dictator simply by declaring a state of emergency. According to EO 11490: "A national emergency may be defined as an unforeseen combination of circumstances, capable of affecting parts of or the whole of the nation's posture, which calls for immediate action by the nation." This definition is elastic enough to be applied to anything from a strike at Disneyland to an invasion from Mars.

The Office of Emergency Planning (O.E.P.) is administering the freeze through ten regional headquarters. The creation of these ten provinces, or "federal regions," has scarcely been mentioned in the news media, but they date back to that Executive Order of 1969. As John Fischer observed in *Harper's* for November 1970: ". . . on May 21, 1969, [*President Nixon*] announced the establishment of ten federal regions. . . . To the astonishment of many of his aides, and some key permanent civil servants, this order provoked little political flak – presumably because he made his move so soon after taking office, and so quietly that the opposition never got organized."

These regions go a long way towards abolishing the traditional balance of powers between the federal government on one hand, and state and local government on the other. Yet President Nixon established these provinces in the name of decentralizing power. And he had them ready when his plans called for a federal takeover of the wage-price features of the economy. The escalation to dictatorship had begun.

Newsweek reported in its issue of September 6, 1971:

. . . already OEP has begun to extend its tentacles. To free its own personnel to focus their attention on monitoring the enforcement of the freeze, the 308-man agency last week enlisted 2,000 Internal Revenue Service agents and 3,000 employees of the Agriculture Stabiliza-

tion and Conservation Service to handle public-contact chores.

Conservatives will hardly be cheered when they learn that General George Lincoln, top gun at the O.E.P., is a member of the Establishment *Insiders'* Council on Foreign Relations. A Rhodes Scholar, he was one of General George Marshall's top planners during World War II. And *Newsweek* informs us that General Lincoln was gleeful at his new opportunity. "I'm very happy," he told a visitor. "Do you want a job?" Despite the fact that the President has described himself as eager to avoid establishing another giant bureaucracy, Lincoln has developed a contingency plan calling for 13,000 enforcers.

Mr. Nixon has promised that the freeze will end on November fifteenth. But he said at the same time:

> *. . . there will be a strong, effective follow-up program . . . . Phase 2 will be strong. It will be effective . . . . Second it will require the cooperation of labor and management . . . . But third, and this is vitally important, it will have teeth in it. You cannot have jawboning that is effective without teeth.*

Does this sound to you as if the freeze will be terminated? Here is Mr. Nixon at his Machiavellian best, simultaneously promising cold fire and hot ice. We are obviously going to have wage and price controls that will be called something else – something General Lincoln's 13,000 enforcers will understand.

Between now and the 1972 election, Mr. Nixon's every decision will be governed by political expendiency. And he knows that if the controls are temporarily lifted in mid-November it will be like releasing the compressed spring in a jack-in-the-box. The raises in wages and prices which have been stifled over the ninety-days will be instituted all at once. And there are reportedly *five thousand* labor contracts awaiting the end of the freeze.

When the jack-in-the-box pops up and says "bleep," Mr. Nixon will have his excuse for fastening more-permanent controls on the American people. He will continue to pay lip service to the Free Enterprise system even as he continues to lay the socialist grid. "Liberal" economic columnist Sylvia Porter, who greets the controls with obvious glee, predicts:

> *We entered a new economic era in the U.S. on August 15, when President Nixon at last abandoned his increasingly dangerous negative wage-price policies, announced a 90-day freeze and embarked on a hunt for the inflation curbs that will be acceptable and workable thereafter. Not in the foreseeable future will our economy be as free as it was in the weeks leading up to that fateful Sunday evening.*

U.S. News & World Report has revealed that the board chairman of one "major U.S. corporation" received this memo from one of his economic consultants: "Our business system is in for a permanent change as a result of President Nixon's economic program. There will be no 'after the freeze' in our lifetime. Instead, I foresee permanent economic and financial guidelines in some form."

As the *Wall Street Journal's* Richard Janssen put it: "Phase 2 may be forever." Janssen continued: "And even 10 years may not see an end to intense intervention. 'We aren't designing a program for permanent control' of the economy insists a [*Nixon*] strategist, but the word 'permanent' is his escape clause. For he adds: 'I don't know how much shorter than infinity' the period of restraints will have to be."

This freeze is the first step, predicted former Johnson economist Otto Eckstain. "Who's kidding whom. Why else is everybody in Washington frantically studying those old OPA manuals?"

Why else indeed!

So a Republican President is sounding the death knell of the Free Enterprise system. Had a Democrat tried to do such a thing, Republican Congressmen and Senators would have denounced the New Economic Policy for what it is – a major step towards tyranny. But, when one of their own moves to become the tyrant, nearly everyone is silent. We must have Party loyalty you know.

That portion of the New Economic Policy which applies a ten percent surtax on imports and cuts the dollar loose from gold may turn out to be especially important, as both features are closely connected with Mr. Nixon's call for establishment of a new world monetary system. The ten percent surtax will restrict imports and, theoretically, protect American business. If so, this could be very good for Mr. Nixon politically. That is, until the scheme invites retaliation and precipitates a trade war. The fact is that the surtax is merely a cosmetic job for the one real cause of our balance of payments and trade problems. Once again, the real culprit is inflation, which has priced American products out of world markets.

More shrouded in mystery are the consequences of cutting the dollar free from gold. This move was probably forced on the President by the fact that because of inflation the European central banks were suffering an acute case of dollar indigestion. Approximately $60 billions were sloshing around in Europe in the form of Eurodollars (American dollars which wound up overseas as a result of our adverse balance of payments). Every one of those dollars was theoretically convertible into gold by the U.S. Treasury at the rate of $35 an ounce. But the Treasury had only $10 billion in gold with which to meet these potential demands.

Meanwhile the balance of payments problems were not improving, though the Nixonites pretended not to be concerned. George Shultz told the Society of American Business Writers: "Some people seem to think that we should virtually place the balance of payments at the top level of priorities . . . . that is an attitude that doesn't seem acceptable to me." Shultz described the Administration's attitude towards the b.o.p. as one of "benign neglect." We were in essence exporting part of our inflation to Europe. This attitude induced Europeans to trade their dollars for gold, nearly exhausting our supply. Central banks were told by American officials that any run on our remaining gold would force the government to suspend convertibility. Apparently, by the middle of August, the demand could no longer be ignored. With our gold nearly gone the government closed the gold window.

What finally triggered it? Financial analyst Harry Schultz of London reports a source inside the American Government informs him that $7 billion in U.S. bonds held by European countries are now payable in gold at $35 an ounce; Schultz says the gold window had to be closed because there was but a dwindling $3 billion left with which to meet payments. If this is true, and Schultz claims his source is beyond reproach, then the U.S. has practically no gold with which to meet the demand to convert outstanding dollars in foreign hands, *even if the decision to revalue were made tomorrow.* This means that Mr. Nixon's money managers have already sold the farm to the *Insiders* of international banking.

All of which could explain why President Nixon has not moved to protect America by devaluing the dollar in terms of gold from $35 an ounce to, say, $100 an ounce. Instead, he has chosen to let unbacked and overvalued paper dollars float against the other currencies of the world in the hope that other nations will upvalue their currencies against the dollar.

A strong possibility exists that the European bankers could establish a Common Market dollar backed by gold to compete against the American dollar backed by the printing presses. The next step from such a regional currency would be a world currency issued by a World Government. The American public might be propagandized into joining such a World Government on the ground that a world currency would end the international monetary chaos ruining the U.S. economy. And Mr. Nixon, as the *New York Times'* James Reston is constantly reminding us, has as a primary goal the establishment of a "new world order." As recently as August 6, 1971, the President spoke to a U.N. assembly of the "artificiality of political boundaries," which he said are now "obsolete."

Regardless of what happens in the vital international monetary situation, there can be little doubt that we are headed for more inflation, socialism, and regimentation at home. Professor Medford Evans calls it the New Fascism. He may be right.

While A.F.L.-C.I.O. President George Meany has said some foolish things about the New Economic Policy, he was right on target when he noted: "We might as well go to Hitler's system, or Mussolini's . . . . If you go down that road, if you have wage controls by government, you're going to have everything controlled by government." In 1938, Arthur H. Steiner observed of Fascism in his book *Government In Fascist Italy*: "The most important [*Fascist*] Party organ is the Permanent Committee for Price Control . . . [*which*] is admirably equipped to maintain scrutiny over all aspects and phases of corporative and economic activity."

One must remember that Hitler modeled his economy after Mussolini, and both were (like Mr. Nixon) great admirers of John Maynard Keynes.

According to Professor Steiner, under the Fascist system unionism was "made practically compulsory." Except the union leaders no longer represented the workers, but the government, and made sure the workers didn't cause any problems. It is not without meaning that Mr. Nixon says he plans to bring labor leaders into his wage and price control commission (whatever it may be called) under Phase 2.

Richard Nixon once correctly observed that "Permanent wage and price controls would stifle the American economy, its dynamic, its productivity, and would be, I think, a mortal blow to the United States as a first-class economic power." He also indicated that wage-price controls produce a giant bureaucracy, shortages, rationing, and Black Markets, yet do not stop inflation. Now he has instituted just such controls. Why? Because Richard Nixon knows they are an important step toward an all-powerful central government. Anytime you have an all-powerful central government, you have fascism-socialism. And we can take Professor John Kenneth Galbraith's word for it that under Nixonomics, "the name of the game is socialism."

Mr. Nixon hopes that the carrot features in his New Economic Policy will produce one last hurrah in the economy, and that the stick will not have to be applied until after election day. It is quite possible that the inflation produced by his "Full Employment Budget," combined with the short-term effects of the import surtax and the possibility that Eurodollars may be spent on U.S. goods and commodities now that they cannot be exchanged for gold, could create the temporary illusion of prosperity between now and November 1972. At least this is what the President is banking on. Election day 1972 will be his judgment day. And ours.

My friends, if you have been waiting until the moment was critical to get into the fight for America with every scrap and bone and sinew of your being, be advised that The Time Is Now! ■ ■