Radical America, Vol. 6, No. 1, 1972

Nixon's "New" Economic Policy

— Paul Mattick

Economic theory is one thing, and economic policy is something else. However, economic theory can always be adapted to changing circumstances. The practical economist need not be at a loss, or, rather, since there are various economic theories, one can be replaced by another that fits the altered situation better. The changing economic scene in the United States and in the world at large was thus accompanied by a return to the depression theory, which had fallen into disregard during the long spell of apparent prosperity. The so-called macro-economics of social aggregates triumphed once more over the microeconomics of the market place. Nixon declared himself a Keynesian, ready to bring, at least, conscious order into the "self-regulating" market mechanism, which did not live up to its reputation. Aside from such obvious charlatans as Milton Friedman, however, the economic court jesters had known all along that the mixed economy was here to stay and could no longer function except through increasing government manipulation.

The whole apparent prosperity since 1950 was such only because the market demand was maintained and enlarged by the continuous growth of government-created "demand". This non-profitable part of total social production required monetary inflation in order to shift its expense from capital to the population at large. Nonetheless, even under these conditions, and due to the extraordinary increase in the productivity of labor, it proved possible to have the semblance of a real prosperity, with rising profits, rising wages, and a rising government debt. Full employment, it was new said, implies inflation; one cannot have the one without suffering the other. Why this should be was never made clear, because bourgeois economic theory does not differentiate between profitable and non-profitable production.

Confidence in this newly discovered mechanism of continuous prosperity by means of continuous inflation was slowly eroded by the process itself. Demand and production fell off despite increasing government budgets, occasioned by the war in Vietnam and the general expenses of imperialism. There arose a situation in which steady inflation was accompanied by growing unemployment, indicating that the profitability of capital was not such as to warrant its further rapid expansion. But full employment requires an accelerating profitable accumulation of capital, How to bring this about is the sole concern of all economic policy.

Profits, on which accumulation depends, are that part of total production which falls to the capitalists. The greater it is, relative to wages, the better the chances for a progressive capitalistic development. The expenses of non-profitable production, as exemplified by the larger part of government-induced demand, diminish the profits available to capital. To have a faster rate of capital expansion thus Implies the reduction of wages relative to profits, as well as a reduction of government expenditures. This can be brought about by either inflationary or deflationary means. Each has its shortcomings and its advantages, but the adoption of one or the other is seldom a question of choice.

Inflation, as determined by government monetary policy, implies that prices rise faster than wages, thus raising profits. Without this effect, it would be entirely senseless. Deflation implies the outright fall of wages relative to profits. Usually, deflation was not resorted to as conscious policy, but was an expression of the business cycle, which surprised the capitalists no less than it hurt the workers.

To get out of a depression by inflationary means was the content of Keynesian theory. It was seen as a short-run measure leading to a new upturn of business activity and to the restoration of price stability.

The short-run measure became, however, long-run and therewith self-defeating. Although full employment was somehow kept up, it was so only by the perpetuation of the inflationary process and by the steady enlargement of the non-profitable government sector of production vis-a-vis the profitable private sector. Inflation has been "explained" as a vicious circle — wherein wages push up prices and prices, again, wages — due to the fact of full employment. By allowing unemployment to grow, this inflationary spiral was supposed to end.

Unemployment grew, however, not only because of some unemployment-producing cutbacks in government expenditures, but also for the more general reason of declining capital investments. It was the latter, far more than the quite limited ability on the part of the government to cut expenses, that accounted for the rise of unemployment which, at the end of 1971, exceeded, in official terms, six per cent of the working population. What had come about was not a mere maladjustment between supply and demand, whereby the latter drives prices up, but a real depression, such as the "new economics" had proclaimed was a thing of the past.

Despite all of the "built-in stabilizers", the economists' "gamesmanship", and their "fine-tuning" of the economy, the inherent crisis mechanism of capital production asserted itself and brought about a situation which ended the "trade-in" of inflation for full employment by producing unemployment with inflation. The inability to handle this new situation at first found expression in the pre-Keynesian hope that things would settle themselves by letting them drift, that the presumed "equilibrium mechanism of the market relations would lead, at some cost, to a new stability, harmonizing wages, profits, and prices. This was the "old Nixon" looking with favor upon the laissez-faire fantasies of Milton Friedman.

dangerous paths which may disrupt the social fabric nationally as well as internationally. It would be particularly perturbing to the Nixon Administration, soon to find itself In an election contest. Thus the laissez-faire interlude was quickly discarded in favor of Keynesian policies far more radical than those envisioned by their originator. Friedman was, so to speak, displaced by Samuelson, who welcomed Nixon to "the club" but advised him that "Rhetoric cannot itself bring new jobs. This takes fiscal spending, bigger budget deficits,"[1] — therefore more inflation, However, Samuelson does not really suggest full employment by way of more inflation, but only some reduction of unemployment by allowing for a reasonable rate of inflation; that is, he suggests continuation of the policy which has just failed.

The government economists tried to dramatize their new policies by giving them a sense of urgency. There was Phase One, designed as an emergency measure to freeze wages and prices so as to halt the inflationary trend. The Second Phase is to be of more permanent nature, sprouting a systematic incomes policy through direct administrative measures, as had once been the ideal of the late British Labor Government. Whereas Keynes had been content with monetary and fiscal means, Nixon adds to them measures which had hitherto been considered "socialistic and therefore taboo. However, even though Nixon has been congratulated by the Labor Party's Mr. Wilson for finding the right solution to the capitalist dilemma, the program failed to disturb American capital.

Still, coming from Nixon, this program appears as astonishing as his scheduled trip to China. In Samuelson's view, it is a reversal on the order of Lenin's turnaround at the introduction of his New Economic Policy in 1921. In any case, it takes the wind out of the sails of the Democratic Party by annexing part of its demagoguery. Galbraith found himself plagiarized but could not very well denounce what he himself proposes. But, as the spokesman of the First National City Bank remarked, "You can lead an incomes policy to water, but you cannot make it drink."[2] The bourgeoisie is not worried, not because incomes policies have nowhere succeeded, but because, to the degree to which they have been successful, they have been a boon to the capitalists. Nixon knows, if not theoretically then certainly instinctively, that capital depends on profit and on increasing profits in order to thrive. Any incomes policy — whatever its specific character — must be subordinated to the profit requirements of capital accumulation.

The legal foundation of the incomes policy is the Economic Stabilization Act of 1970, which is to be extended Into 1973. It authorizes the President to issue and enforce regulations on prices, wages, and rent in order to control inflation. It may also come to include interests and dividends, but, thus far, according to Nixon, "This has not been necessary because of the continued success of the current program of voluntary

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[1] Paul Samuelson on Nixonomics, Metro, Boston, December 17, 1971.

[2] Monthly Economic Letter. September 1971.

restraint."[3] A whole bureaucratic apparatus has been established to determine what wages and what prices may rise, or remain the same, and to find means to enforce these decisions. Taking the endeavor for a moment seriously, it is of course clear that it is far more difficult to control the myriad of prices than to control the relatively few wage agreements, and that the control of the latter will be far more rigorous than the control of prices. But this is precisely the point; if one can STOP wages from rising, one can SLOW DOWN the rise of prices. Combined with a continuing increase in productivity, not reflected in price changes but reflected in quantities of commodities produced and sold, wage and price stabilization is one way of raising the profitability of capital. To be sure, there exists also a Productivity Commission which, however, will be concerning itself not so much with wage Increases based on productivity gains as "with the contributions of productivity to the economic stabilization program."[4] It is the latter, not productivity itself, which will be the touchstone for further wage increases.

If capital has nothing to fear from Nixon's innovations because "incomes policy has initially tended to divert income away from labor"[5], it has found the somewhat reluctant support of the trade unions. Asking, for appearance's sake, for a non-government body to regulate wages, they were thus rewarded and are now part of the machinery which tries to reduce the rate of inflation at the expense of labor. This did not, of course, prevent Mr. Meany from raising his yearly salary from $70,000 to $90,000 despite the wage freeze, However, the unions' participation in the "anti-inflation program is only logical, for their very existence and well-being depend on an expanding capitalism and thus on the restoration of its necessary profitability. To work in this direction has now been made easier, as it is no longer the industrial corporations which confront the unions, but the government. It is assumed that the workers will be less inclined to go on strike against the government than against private enterprise.

The reduction of the inflation rate by way of differential price controls, while raising the profitability of capital, will not by itself suffice to bring about an economic climate generating enough optimistic expectation to insure Nixon's re-election. Production must be increased and, at least for a time, unemployment must be reduced. This requires the Improvement of the profitability of American capital both at home and in international trade. The government's new budget policy is geared to this end. It is based on a larger deficit, caused mainly by revenue deductions due to tax cuts and accelerated depreciation allowances, which are supposed to stimulate private business. Instead of increasing government spending outright, Nixon attempts to enliven the economy through the expansion of private capital.

[3] The President's Program for the Second Phase of Wage-Price Controls, Washington, D.C., October 7, 1971.
[4] Ibid.
[5] Monthly Economic Letter, September 1971.

In this manner the deficit is expected to rise to around $28 billion, exceeding that of 1971 by $5 billion. To make the deficit more appealing, the economists invented the concept of "full-employment budget", that is, a budget which under these imaginary conditions has set itself a ceiling with respect to deficit financing. However, the government is not committed to honor its budget projections. If the stimulation of private business should not lead to the hoped-for upturn, new money can be injected into the economy to create an artificial upswing through direct government spending. And perhaps, though it is doubtful, the combination of both the tax presents to private business and greater government expenditures may do the trick of creating a temporary pseudo-prosperity impressive enough to keep Nixon in the White House.

This would mean, of course, that the general trend of economic expansion by way of government deficit financing, which implies the erosion of private capital and the market economy, had reasserted itself in spite of Nixon's avowed determination to call a halt to it. It should be clear by now, however, that it is far too risky to allow the old business cycle to run its course, for it would involve depressions of such severity as to put the system itself in question. On the other hand, always to give in to the trend is no solution either, but only a slower road toward eventual destruction. The bourgeoisie has neither theory nor practice to deal with this situation. All it can do is to vacillate between inflation and deflation, between more or less government intervention, in an awkward reaction to changing conditions beyond its control.

At this time, under the guise of "anti-inflation", it is once more government intervention and inflation which has been elected to arrest the business decline in the empty hope that "stimulation" will lead to real performances. But deficit financing is only a form of deferred taxation, and unless there should be a world-wide capital expansion of hitherto unknown proportions, or unless the public debt is being repudiated and capital, to that amount, expropriated, the current deficits will only increase taxation at some future date. In any case, it is not by monetary and fiscal means, nor by legislation, that capitalism can reach a rate of expansion guaranteeing full employment and general satisfaction, but only through actual production of enough surplus value, or profits, to allow for the further capitalization of the already existing mass of capital. Government policies are not so many ways to lead to such a state of affairs, but an expression of actually existing difficulties in the way of a progressive capital accumulation.

Nixon's desperate attempt to reverse a disappointing business trend was not, and could not be, restricted to the United States. In violation of existing international agreements he surprised the world last year with the suspension of the dollar's gold convertibility and an (albeit shortlived) ten per cent import surcharge in order to overcome a persistent payment deficit and force a realignment of exchange rates that would improve America's competitive position in international trade. With this, the monetary system, as established in 1944 in Bretton Woods, came to an end, and — at this writing — no new one has yet been devised to take its place.

International competition operates economically, politically, and militarily. Among its various economic means are not only those provided by productivity differentials, but also government measures, such as tariff regulations and the use of money as an instrument of competition. To bring some order and constancy into international transactions, international agreements are made. Prior to Bretton Woods, the impenetrable monetary jungle was to be overcome through the establishment of the dollar standard with a fixed relationship to gold, The value of other major currencies was determined by fixed parities to the dollar. The dollar was a reserve asset, and as such convertible into its gold equivalent. With the exception of America, all countries had been impoverished by the war. There was a great demand for dollars, and the so-called "dollar gap" hampered the restoration of international trade for many years. But in time this changed again, and, where there had not been enough dollars, there are now too many.

The reversal came about through the revival of the war-torn nations, but was largely fostered by American expenditures connected with the Korean War, the cold war in general, and finally the war in Indochina. There was a great amount of American capital investments in Europe, and though the American balance of trade remained favorable until 1971, it did not offset the outflow of dollars due to capital exports and government expenditures. With the balance of trade also turning unfavorable, and with no feasible way to halt the export of capital and to reduce the expense of imperialism, the consistently negative payments balance began to upset international economic relations by forcing American inflation upon other nations. But the increasing imbalance also implied that the growing quantity of dollars held by other nations made their convertibility into gold quite illusory, which was bound to bring about the dollar's devaluation in terms of gold, or the elimination of the gold-exchange mechanism.

Nixon did not, at first, devalue the dollar in terms of gold, nor did he choose to honor the gold-exchange agreement "down to the last bar of gold"; but he cut the dollar loose from gold altogether. Based on gold, the dollar appears as commodity money, the symbol of a real asset, with a definite value, either in terms of production costs or in such terms as modified by supply and demand. Within the national frame money has long since ceased being commodity money but by necessity remains nonetheless acceptable. If the world were one nation, with one government, this could conceivably be repeated on a world-wide scale. But this is a world of competitive capitalistic nation states, all partaking with more or less success in the exploitation of the world's population. There arise imbalances in trade and payments relations, which may never average themselves out in the course of time, and therefore require a universally acceptable and stable asset to realize temporary or permanent advantages, Without a gold backing, however, the dollar is just a claim on American resources which, if not immediately satisfied, may, in the course of further inflation, dwindle down to nothing. This also holds true for the dollar reserves of other nations.

The dollar inflation, while functioning as an instrument of American imperialism and American capital exports, also aided the rapid capital development of the European nations. Money goes where profits and interests are highest, and they were higher in the expanding European economies than in the relatively stagnating United States. Thus America's unfavorable payments balance was one aspect of the European prosperity, but it was also a reason for future difficulties, which, however, were largely ignored until they became acute. It was assumed, of course, that the flow of money would not remain one-sided, and that repatriation of profits from foreign investments would compensate for the further outflow of capital and restore the payment balance. But even though the last few years have witnessed a large flow of European capital to the United States, and though profits have been repatriated, the American payments balance has remained unfavorable.

Monetary depreciation, being world-wide and proceeding in Europe and Japan even more rapidly than in the United States, there was no way for America to gain trade advantages by inflationary means. At the same time productivity, by increasing in the extra-American capitalist nations, restored their competitive ability vis-a-vis the United States. American tariffs found their counterpart in the tariff policies of the European Economic Community, and a situation arose in which American imports began to exceed exports. With all this, the monetary arrangements, as established in 1944 and at one time implying advantages to the United States, became disadvantageous. To alter this situation, Nixon tries to force a new and more advantageous alignment of currency parities upon the reluctant competitor nations in order to improve the United States' world trade position.

Other nations were to raise the value of their currencies relative to the dollar, which simply means that, for them, imports become cheaper and exports dearer, thus changing the terms of trade in favor of the United States. That these nations found this more or less acceptable is shown in their recognizing that their own foreign trade is even more indispensable to the functioning of their economies than holds true for the United States, where foreign trade plays a relatively lesser part, considering the economy as a whole. If America could not sell, it would also lose the ability to buy, which, in view of its enormous share of the world's economy, would be even more disastrous for other nations than for the United States. With this condition given, the stage was set for international bargaining for shares of the available profits. Nations will accept some losses in order to avoid greater ones. This objective advantage was utilized by Nixon to force other nations to partake in the attempted reduction of the payments deficit by providing America through political means what she could apparently no longer reach by way of economic competition. Yet, what is taking place here is simply a redivision, not an enlargement, of the existing profitable trade, and the gain for one side implies a loss for the other.

At this writing, the problems stirred up by Nixon's "New Economic Policy" are a long way from being resolved. The so-called Group of 10, that is, the dominant capitalist nations, have agreed on a realignment of the par values of their currencies and on wider variations of exchange rates around the new parities. While they are newly fixed, there is a greater flexibility regarding alterations of exchange rates, The United States reduced the value of the dollar in terms of gold by a few percentages, and lifted the 10 per cent import surcharge as her contribution to the international compromise. The new situation constitutes a devaluation of the dollar in terms of other currencies by about 12 per cent. The "gold window" remains closed for the time being, and there is talk of demonetizing gold altogether in favor of the imaginary "gold" backing of Special Drawing Rights (SDRs), which had been invented to minimize the gold losses of the United States and gain time for straightening out imbalances in the payments system.

The agreement, however tenuous, needs to be justified in terms of economic theory, and because, at this stage of the game, America is obviously profiting from it, it is asserted that "historical experience contradicts the belief that variations in exchange rates and uncertainty in the exchange markets are obstacles to foreign trade. Never have the exchange rates of major currencies been more uncertain than in the period from 1967 to 1969, and...yet, the growth of foreign trade surpassed all previous records in these very years.... No doubt, many traders lost business in these years, but their losses were more than offset by gains made by other traders. We hear always the complaints of the losers, while the cheers of the gainers remain inaudible."[6]

This Olympian attitude, looking beyond gains and losses to behold the progress of trade as a whole, will not impress the losers nor prevent them from trying to reach the ranks of the inaudible. It means sharper competition, if not in monetary terms then by more direct economic and political means. Contrary to appearances, the money aspect is actually the least important of the capitalist economy; it merely brings to light all the difficulties that underlie its market relations. There would be no monetary problems, or, for that matter, marketing problems of the kind presently experienced, if the capitalist economy would function in the way it could be functioning effectively — that is, by an accelerating capital expansion. Although profits are realized by way of trade, they are not produced by it. The increase in trade, as noted by Machlup, may even imply an increase in production, and yet neither the one nor the other may be large or profitable enough to assure prosperous conditions with full employment. Obviously, the fact that one part of the capitalist world stagnates, while another still expands, indicates that the world economy as a whole is not accumulating fast enough to allow a general capitalist prosperity, and for this reason causes all kinds of imbalances, including that of the payments system.

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[6] Fritz Machlup in the New York Times, December 26, 1971.

"The world monetary crisis," it has aptly been said, "is basically about what economic, military, and political role the United States should play in the world, and what part of this the other industrialized countries of the world should finance."[7] But it is more than that, for although the various Western nations may realize that their own destiny depends on the economic viability of the United States, they may not be able to make the concessions demanded of them. Even now it is insisted that America should end its balance of payments deficit through its own efforts, and not simply through the mechanical effects of devaluation — that is, that American capital exports, rather than the trading surpluses of other nations, should be curtailed. But export of capital and mounting expenditures on the part of the American government are not policies that can be exchanged with others of a less detrimental nature, but are inescapable necessities of the capitalist system at its present state of over-accumulation relative to its profitability. Since the other Industrialized countries are under the sway of the same Imperatives, the possibilities for finding political solutions to the arising economic frictions between the various capitalist powers are quite limited. The current "solution" of the world monetary crisis can only be a makeshift arrangement, bound to fall apart as the economic crisis intensifies.

This crisis is of a world-wide nature even though it grips some nations sooner than others and with varying severity. The slowdown of capital expansion is becoming an international phenomenon implying falling profit rates and growing unemployment everywhere. Profits have been declining in Japan throughout 1971, and as regards Western Europe, according to the Organization of European Co-operation and Development, "a profit squeeze of unprecedented severity" may reduce capital expenditures below the 1970 level. With all this contraction, the terms of trade turned even further against the less developed countries and the expanding crisis embraces the world as a whole. Under these conditions all countries, following the example of the United States, will be forced to safeguard their own specific needs before considering the overall requirements of the capitalist world economy, even though it does constitute an interdependent entity. The same fiscal and monetary stimulations which prop up the American economy will serve to "stabilize" the economies of Japan and Western Europe, thus hastening the Inflationary trend and disrupting the international economic relations still further.

No real solution for either the domestic or the international crisis can be found by monetary or fiscal means. Although a crisis may be postponed in this fashion, it will be so only at the cost of even greater difficulties at a later time. However one cannot stop inflation by way of inflation, which is the unavoidable result of governmental counter-cyclical interventions in the economy. This being so, the desired payments equilibrium cannot be reached. Only in so far as Nixon's "new" economic policies succeed in raising

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[7] C.H. Farnsworth in the New York Times, September 16, 1971.

profits and depressing wages, and only to that degree, will the present crisis be alleviated. But that is a policy as old as capitalism itself.