

Mitchell’s Musings 8-26-73: The New Nixon Tapes on Wage-Price Controls & the Soviet Trade/Jewish Emigration Issue

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The recent release of new Nixon “White House” tapes by the Nixon library and the National Archives for the period April-July 1973 has been a featured story in the news media. Not surprisingly, the focus of reporters digging through the many recordings has been on the then-evolving Watergate affair which was taking up more and more presidential time. But there were other things going on in the world which are also reflected in the tapes including things related to labor market and other economic policy.

In earlier musings, we have utilized tapes from the Nixon, Johnson, and Kennedy White Houses to illuminate matters of economic policy and labor-management relations. The newly-released Nixon tapes cover a period in which there were wage-price controls, a topic of past musings. To recap, a wage-price freeze (Phase I) was first imposed in August 1971. It was followed by Phase II controls three months later which involved regulations governing allowable wage and price increases. The controls were relaxed in January 1973 – in Phase III - and so the new tapes deal with experience during that period.

The decision to impose controls was intertwined with foreign economic policy regarding exchange rates and trade. Until August 1971, the U.S. dollar was a key element in the post-World War II Bretton Woods international monetary system of fixed exchange rates. Under that system, the dollar was supposed to be maintained in a fixed relation to other major currencies and to gold. A run on gold by foreign central banks in 1971 triggered a decision by the Nixon administration to end the gold link to the dollar and the dollar’s fixed link to other currencies. Since that decision would likely lead to dollar depreciation and rising prices of foreign traded goods, there was concern that there would be an inflationary domestic effect. And since inflation was already a concern at the time, wage-price controls were seen as a way of holding the rate of price increase in check.

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Deja vu in court case in China
 The trial of a alleged party official drew comparisons to the historic Case of the Red Shoes.

Syrian rebels allege new gas attack
 They accuse the government of killing hundreds of civilians inside the capital, Latakia, in a gas attack.

MANNING IS SHOWN LENIENCY IN 35-YEAR SENTENCE
 A 35-year sentence was handed down to a man accused of a crime.

Nixon's final tapes
 Last recordings to be released capture meeting with Leonid Brezhnev and Watergate fallout.

From sick to seaworthy
 The Marine Medical Care Center in San Pedro is making a name for itself.

Egypt agrees for release of Mubarak
 The former president of Egypt is to be released from prison.

Citizens sue at Oklahoma town
 A group of citizens has filed a lawsuit against a town.



During the Phase II period, a kind of mini-Bretton Woods fixed exchange rate arrangement was re-established known as the Smithsonian System (with a devalued dollar). But shortly after Phase III came into effect, the dollar again came under pressure in foreign exchange markets. The short-lived Smithsonian System was abandoned, leading to flexible exchange rates and further dollar depreciation. Inflation was therefore again a growing policy concern during the period of the newly-released tapes. Indeed, in June 1973, the President imposed a second freeze.

There are many new tapes that have been released and the process of searching through them for information related to wage-price controls and other economic problems is difficult, especially since the search engine provided is limited. However, an initial search through just one tape revealed an interesting element during Phase III. It appears from the recording that as early as April 1973, the President was beginning to think about a second freeze.

In a phone conversation with Treasury Secretary George Shultz of April 18, 1973, he received a briefing on ongoing negotiations with Congress about renewing the Economic Stabilization Act, the law which permitted the imposition of wage-price controls. Shultz was never keen on the imposition of controls when the idea first surfaced. But given the program's existence, he didn't want it to disappear abruptly. So despite a variety of constraints on presidential authority and congressional demands for certain requirements in the proposed bill, he recommends in this phone call that the President go along with the deal that is available.

A foreign trade matter affecting the Soviet Union also comes up in the conversation. Senator Henry "Scoop" Jackson is pushing for an amendment that would deny "most-favored nation" status to communist countries that don't permit free emigration. (Most-favored nation status means that a country will get the same lower schedule of tariffs that most other countries receive. Contrary to the name, most countries are most favored.) Jackson's amendment – which eventually became the Jackson-Vanik amendment signed by President Ford in January 1975 – was aimed at penalizing restrictions imposed by the Soviet Union on Jews (and others) who wanted to emigrate. Nixon was afraid the Jackson trade amendment would scuttle a planned summit conference with the Soviets. In the end, the amendment was not enacted at this time and the summit was held.

Nixon tells Shultz that it will be bad for American Jews if the foreign trade amendment kills the summit. Nixon says he understands why "professional Jews" such as senators Javits and Ribicoff favored the amendment. But Jackson should realize, he says, that Jews will be blamed if there is no summit. The President has another phone call with Secretary of State Henry Kissinger the next day in which he says much the same thing and says to Kissinger he will blame the Jews and won't be afraid to use a little anti-Semitism if the summit is killed because of Jackson. Kissinger seems to be in accord with Nixon in this phone call. Readers of this blog will recall a previous musing discussing

an episode and recording in which Jews at the U.S. Bureau of Labor Statistics are suspected by Nixon and his staff of manipulating economic statistics to embarrass him.¹

You can hear a recording of both conversations – Nixon-Shultz and Nixon-Kissinger – at:

<http://www.youtube.com/watch?v=z3q6gqSoH4U>

As noted above, the news media are mainly combing the tapes for Watergate-related revelations. But I will continue to examine them for insights into policies affecting the labor market and other economic affairs in future musings.

¹ <http://www.employmentpolicy.org/topic/10/blog/mitchell%E2%80%99s-musings-10-1-12-looking-backward-supposed-bls-labor-data-conspiracy>.