



Mitchell's Musings 9-9-13: Nixon's Wage-Price Controls and their Watergate Entanglement

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In past musings, we have utilized recordings from the Kennedy, Johnson, and Nixon administrations to illuminate various employment-related policies. After the Watergate affair exposed the secret taping of "White House" conversations in the Nixon years, prior recordings of earlier presidents became known and are also now available.¹ We noted that recently a new batch of recordings from 1973 was made public through the Nixon Library. The new recordings add to our understanding of economic policy of that era. Our musing of August 26 utilized the new recordings to discuss such policy.²

Not surprisingly, reporters began sifting through the newly-released tapes, looking for new revelations related to Watergate, the Vietnam War, and other major issues of that period. Economic policy has not been emphasized in those efforts, but is also an important part of the historical record. In particular, what do we learn about the wage-price controls program then in effect?

By way of background, the President had imposed wage-price controls in August 1971, starting with a 90-day freeze on wages and prices known as Phase I. It was followed in November of that year by Phase II with more flexible controls administered by a tripartite (labor, management, public) Pay Board. At the time, inflation was widely seen as some combination of "demand-pull" and "wage-push" (more politely at times termed "cost-push"). The notion was that major prices were "administered" and could be seen at the macro level as markups over wage costs. Wages were viewed as being set in key big union settlements when set patterns for other settlements and, ultimately, for nonunion wages. If wage increases could be held down, there would be less inflation.

Phase II lasted until January 1973. At that point, a more relaxed Phase III came into effect. Phase III was seen as a pathway to eventual decontrol. However, inflation remained a problem, aggravated by a falling U.S. dollar in international currency markets as the remnants of fixed exchange rates were ended. Food prices in particular began to rise. The problem was that commodity prices for food at the wholesale level were market-driven and not "administered." They also had little to do with wages. Attempts to set price ceilings on food could easily create shortages.

On June 13, 1973, however, President Nixon went on TV and imposed a second (60-day) freeze, this time on prices only. Wages were not frozen but were supposed to remain moderate under Phase III guidelines. Obviously, rising prices – especially food prices – had created political problems for the administration. But given the propensity for ceilings on food prices to create shortages, why did Nixon go the price freeze route? Wouldn't his economic advisors have counseled against such a move?

¹ "White House" is in quotes because not all recorded conversations took place in the White House. In addition, there are many phone conversations in which one party is at some other location.

² <http://www.employmentpolicy.org/topic/226/blog/mitchell%E2%80%99s-musings-8-26-73-new-nixon-tapes-wage-price-controls-soviet-tradejewish-emi>

I have just begun exploring the newly-released White House tapes. The process is made difficult because the search engine available for exploring the tapes is clumsy. Nonetheless, it is clear from early searching that Watergate was becoming an all-consuming focus of presidential attention by June 1973. Congressional hearings on Watergate were underway and creating headlines. Former White House counsel John Dean was giving damaging testimony. The President was looking for ways of showing he was still in charge of national and international affairs and that Watergate was just a political/news media diversion from more important matters.

Watergate aficionados will recognize many of the names mentioned in the various phone calls we have selected for this musing; others who are less familiar with Watergate can Google the names for details. The key thing that comes through is the tone of the conversations, all but one of which occurred immediately after the second freeze TV broadcast. (One conversation occurred the next day.) Three events are intertwined with Watergate throughout: 1) the speech announcing the second freeze that preceded the calls (and the freeze itself), 2) a deal the same day as the freeze in Paris with the North Vietnamese that was supposed to further the Paris Peace Accords on the Vietnam War, and 3) an upcoming summit conference with Soviet leader Brezhnev.³ (Nixon also references his opening to China.)

The first call is with Alexander Haig, White House chief of staff. The freeze and freeze speech are depicted as proving that President Nixon is back in charge, as restoring confidence in the President after the Watergate disclosures, etc. In a later call, Nixon talks with pollster Louis Harris. Nixon explains to Harris that he froze prices but not wages because recent wage settlements have not been inflationary. Why should he freeze wages and antagonize Frank Fitzsimmons, the Teamsters president, or United Auto Workers president Leonard Woodcock? (The Teamsters were then negotiating with the major trucking firms; the Auto Workers would soon be negotiating with the “big-3” American automobile manufacturers.) If food prices kept rising, these two union officials couldn’t negotiate reasonable settlements, hence the price-only freeze. Nixon also mentions a plan to restrict exports of soybeans and other food commodities to hold back food prices domestically by cutting off foreign demand.

The President also has a call with Charles (“Chuck”) Colson, special counsel to the president. Nixon was pleased with what Louis Harris had told him about the freeze speech and indicates Harris and another friendly pollster should get the president’s political polling contracts as a reward for being helpful. *During that call, Nixon reveals that he overrode both Treasury Secretary George Shultz and Council of Economic Advisors chair Herbert Stein in imposing the second freeze.* Colson and Nixon see the freeze and the decision to override his economic advisors as politically necessary.

A second call with Haig takes place. Haig gives Nixon much the same view as in his first call about how successful the freeze speech had been in demonstrating that the President was in charge. They discuss how Kissinger, who is returning from the latest Paris deal with North Vietnam, should talk only about

³ The Nixon Library has posted a video of the ceremony with Brezhnev in which the two leaders sign various accords at Summit signing 6-21-73, <http://www.youtube.com/watch?v=fBAo2Aky74Y> .

foreign affairs and should not say anything about Watergate. (Nixon says Kissinger should be ordered not to discuss Watergate.) Finally, there is a lengthy call with H.R. Haldeman on Watergate strategy the day after the freeze speech. Again the theme of diverting from Watergate is referenced. Haldeman was Haig's predecessor, but he had to step down earlier because of involvement in the Watergate affair. However, that call indicates that he was still acting as an advisor.

I have put the first Haig call and the Harris call at: <http://www.youtube.com/watch?v=NBpKzRPoA3M>

The Colson, second Haig, and Haldeman calls are at <http://www.youtube.com/watch?v=oTrj0duQeww>. (Just the freeze excerpt from a much longer call about Watergate strategy is included in the Haldeman call.)

Obviously, any presidential economic policy undertaken for whatever reasons has political ramifications and the wage-price controls program under Nixon was no exception. The initial 1971 decision to undertake controls was controversial among White House economic advisors. However, at the time there was significant support among macro-economists for the decision. By the time of the second freeze, however, there was clearly opposition by key economists with the administration and the freeze became so interconnected with Watergate that its implementation has to be seen as entirely political. Indeed, the President and his non-economic (political) advisors admit as much in their phone calls in the wake of the second freeze speech. In contrast, the various foreign policy initiatives referenced clearly were being undertaken willingly and enthusiastically by Nixon's international affairs experts such as Kissinger, and were consistent with their initiatives from the pre-Watergate period.