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Remembering Nixon's Wage and Price Controls

By Gene Healy

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Remember "TARP," "Too Big to Fail," "Government Motors," "pay czar," the buzzwords of the Bush-Obama era? They reflected a disturbing trend toward presidential interference in economic life.

Forty years ago this week, President Richard Nixon showed us just how dangerous unchecked executive power can be to the free-enterprise system.

On Aug. 15, 1971, in a nationally televised address, Nixon announced, "I am today ordering a freeze on all prices and wages throughout the United States."

After a 90-day freeze, increases would have to be approved by a "Pay Board" and a "Price Commission," with an eye toward eventually lifting controls — conveniently, after the 1972 election.

Putting the U.S. economy "into a permanent straitjacket would … stifle the expansion of our free enterprise system," Nixon said. As President George W. Bush put it in 2008, sometimes you have to "abandon free-market principles to save the free-market system."

There was no national emergency in the summer of '71: unemployment stood at 6 percent, inflation only a point higher than it is now. Yet, after Nixon's announcement, the markets rallied, the press swooned, and, even though his speech pre-empted the popular Western *Bonanza*, the people loved it, too — 75 percent backed the plan in polls.

As Nobel Prize-winning economist Milton Friedman correctly predicted, however, Nixon's gambit ended "in utter failure and the emergence into the open of the suppressed inflation." The people would pay the price — but not until after he'd coasted to a landslide re-election in 1972 over Democratic Sen. George McGovern.

By the time Nixon reimposed a temporary freeze in June 1973, Daniel Yergin and Joseph Stanislaw explain in *The Commanding Heights: The Battle for the World Economy*, it was obvious that price controls didn't work: "Ranchers stopped shipping their cattle to the market, farmers drowned their chickens, and consumers emptied the shelves of supermarkets."

Several lessons from Nixon's folly remain highly relevant today.

First, it's usually Congress that lays the foundation for an imperial presidency with unconstitutional delegations of authority to the executive branch. The Economic Stabilization Act of 1970 gave Nixon legislative cover for his actions.

The act was "a political dare," according to top Nixon official George Shultz — the Democrats thought Nixon wouldn't use the powers they'd granted him, but he called their bluff.

Second, the damage presidents do with economic powers they shouldn't have can take years to repair. Price hikes from the 1973 Arab oil embargo made it politically difficult to unwind controls on gasoline, which led to the gas lines of the late 1970s.

Third, the episode shows the enduring relevance of cartoonist Walt Kelly's Pogo Principle: "We have met the enemy and he is us." As noted, the freeze was overwhelmingly popular. "Bold" presidential action on the economy often is, even when "just stand there — don't do something!" would be wiser counsel.

In the recent debt-limit fight, for example, liberal Democrats who'd spent eight years railing against Bush's executive unilateralism begged Obama to break the law and unilaterally raise the debt ceiling, using a fig leaf of a constitutional argument based on the 14th Amendment.

Occasionally, though, we learn something from our mistakes. As Shultz told Nixon in 1973, at least the debacle had convinced everyone "that wage-price controls are not the answer."

Ironically, Nixon's actions also helped galvanize an emerging libertarian movement opposed to the bipartisan welfare-warfare state. "I remember the day very clearly," Rep. Ron Paul, R-Texas, recalled in 2001, saying the events of Aug. 15, 1971, drove the reluctant young obstetrician into politics.

For years, Paul waged a one-man war against economic nostrums and presidential command and control. Lately, though — with the rise of the Tea Party and his strong showing in the Ames straw poll — he's not looking so lonely anymore.

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