Wage And Price Controls

President Nixon Imposes Wage and Price Controls

August 15, 1971. In a move widely applauded by the public and a fair number of (but by no means all) economists, President Nixon imposed wage and price controls. The 90 day freeze was unprecedented in peacetime, but such drastic measures were thought necessary. Inflation had been raging, exceeding 6% briefly in 1970 and persisting above 4% in 1971. By the prevailing historical standards, such inflation rates were thought to be completely intolerable.

The 90 day freeze turned into nearly 1,000 days of measures known as Phases One, Two, Three, and Four. The initial attempt to dampen inflation by calming inflationary expectations was a monumental failure.

In 1971, the U.S. was also in the process of leaving the gold standard, which was intended to allow the value of the U.S. dollar to fall. Compounding the situation were such events as Fed Chairman Arthur Burns and the Committee on Interest and Dividends (part of the controls apparatus) strenuously opposing banks attempting to raise the U.S. prime rate from 6% to 6.25% in February 1973. Inflation rates were below 4% at the start of 1973, but reached 9% by the start of 1974, which would have made the real prime rate a negative 3%. At the same time, interest rates were going up in foreign countries, putting enormous pressure on the dollar.

The wage and price controls were mostly dismantled by April, 1974. By that time, the U.S. inflation rate had reached double digits.

While there were skeptics in August, 1971, there were a great many who thought “temporary” wage and price controls could cure inflation. By 1974, this notion was thoroughly discredited, and attention gradually turned toward a monetary approach to inflation. In a complete reversal, the policy to curb inflation in now thought to be an increase in interest rates rather than an attempt to hold them down.