WALL STREET JOURNAL

Nixon Taught Us How Not to Fight Inflation

His price controls led to an exponential increase in demand, which caused a shock when they ended.

By William N. Walker
Aug. 13, 2021 5:11 pm ET

President Richard Nixon announced a 90-day freeze on all prices and wages in the U.S. on Aug. 15, 1971. Suddenly and with no warning, every shop and factory was forbidden to raise prices for every product sold anywhere in the country. It was a watershed moment—a radical program that imposed direct government control over the economy aimed at breaking the cycle of inflationary price and wage hikes.

A half-century later, the policy seems almost otherworldly. Does anyone think factory owners and shopkeepers would accept a peremptory presidential directive to freeze prices today? Resistance to government action has become deeply ingrained. In the face of the pandemic, Americans routinely flout governmental decrees to wear face masks and maintain social distance. Opposition to a freeze directive would almost certainly be swift and overwhelming.

Yet 50 years ago, retailers and employers, small and large, accepted Nixon's order. Consumers, whose purchasing power had been eroded by years of rising prices, felt as if they'd caught a break; government had stepped in and forced greedy merchants to stop gouging them, at least for a while. What was not to like?

A Democratic Congress had passed the Economic Stabilization Act in 1970, with language authorizing the president to impose price controls to fight inflation. Nixon signed the law, but Democrats were confident that a Republican president would never freeze prices. They planned to use his failure to do so as a political cudgel in the 1972 campaign. Nixon's surprise announcement turned the tables.

It worked—for a while. The freeze persuaded organized labor to temper wage demands and broke what had been an inflationary spiral of price and wage hikes that sapped consumer buying power. But Phase II of Nixon's program imposed increasingly complex rules that became both unpopular and a political burden. After the initial burst of popularity—which lasted long enough to boost Nixon's landslide re-election in 1972—the program failed spectacularly and ushered in nearly a decade of so-called stagflation—high inflation coupled with slow growth, which reduced living standards for millions of Americans.

Safely re-elected, Nixon ended the experiment on Jan. 15, 1973. The stock market promptly plummeted and the rate of inflation exploded. Government and private forecasters alike failed to recognize that during the price-freeze period, demand had grown exponentially, putting such severe pressure on supplies that within months, prices of nearly everything—commodities, foodstuffs, minerals and petroleum—would soar, an inflationary shock that left the economy in shambles.

The Nixon administration flailed at trying to halt the damage. Treasury Secretary George Shultz threatened to "take the club out of the closet" and reimpose controls, but to no avail. The administration slapped a freeze on beef prices, but ranchers retaliated by withholding cattle from slaughter, and meat disappeared from store shelves. It declared an embargo on exports of soybeans to avert an impending shortage. Nothing worked.

Then, on June 13, 1973, in a show of defiance as the Watergate hearings unfolded, Nixon decreed a second nationwide price freeze and follow-on control program. This time, the measures were deeply unpopular. The novelty had worn off for consumers, and farmers and business owners disliked the new round of bureaucratic rules. Then the economic fundamentals of the program were upended by two dramatic and unforeseen events. In October 1973, the Saudis doubled the price of crude-oil exports, leading to a rapid escalation of gasoline price. Then, the Organization of the Petroleum Exporting Countries declared an embargo on all shipments of oil to the U.S. and other Western nations. By the first quarter of 1974, imports dried up. American motorists endured long lines at the pump in the greatest supply disruption the nation has ever experienced.

This bitter legacy—shortages of gasoline, red meat, soybeans and many other products. together with ruinous price increases—discredited price controls in the eyes of the American people. Congress allowed the Economic Stabilization Act to expire, and, with it, the president's authority to impose controls, but the damage inflicted by the program continued until Paul Volcker was appointed to run the Federal Reserve in 1979 and began the interest-rate increases that would finally break inflation at the cost of a steep recession. The economy didn't recover until 1983, halfway into Ronald Reagan's first term.

Nixon's price controls put the federal government in direct control of the American economy. Despite its good intentions, the freeze caused lasting damage. It's a lesson worth pondering 50 years on, when the Biden administration is proposing new government interventions on an unprecedented scale.

Mr. Walker is a retired diplomat and lawyer and author, most recently, of "Target Switzerland: A Paul Muller Novel of Political Intrigue." He served as general counsel and deputy director of the federal Cost of Living Council, 1972-74.