

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Why Price Controls Would Not Work to Stem Inflation

By: www.ProfitableInvestingTips.com

As inflation goes up and people remember the [stagflation](#) of the 1970s, talk of price controls has emerged. In order to explain why price controls would not work to stem inflation we will start with a little history. President Nixon imposed wage and price freezes by executive order using the 1970 Economic Stabilization Act. The bottom line is that his firm action was a political success. And, it did not stem inflation but rather had several unintended and severe side effects.

Nixon Shock Wage and Price Controls

In 1971 the US had an inflation rate of 5.84% and an unemployment rate of 6.1%. In an attempt to cure both problems Nixon did three things.

Dollar no longer convertible to gold at \$32 an ounce

Freeze of wages and prices

Import surcharge (tax) of 10%

This strong action was initially popular. The effects of doing this were not so popular. In the following year the dollar fell by a third against a basket of foreign currencies. The current Forex system was devised to allow for currency exchange. The price of gold rose dramatically over the decade from \$32 an ounce to peak at \$800 an ounce in the early 1980s and settled into the \$400 range. Neither inflation nor unemployment changed in immediate response to the president's actions and by the later part of the decade [inflation averaged 8.1% and unemployment 7.9%](#) according to Bureau of Labor Statistics. Leaders at the time had personal memories of the Great Depression and had been afraid to institute restrictive monetary policies (raising interest rates) but in the end Fed Chairman Paul Volcker did just that and [tamed inflation](#) but also sent unemployment back up for most of the 1980s.

Wage and Price Controls and Candy Bar Prices

Nixon's wage and price controls put some businesses in a real pickle. Candy bar makers had to import chocolate with a 10% surcharge, contend with higher labor costs, and experience other cost increases due to generalized inflation. But, they could not raise the cost of a 5 cent candy bar. What they did, however, was "create new products." Now, for just a dime or a quarter you could get a slightly larger candy bar, a candy bar with nuts as well as caramel, or some other variation. The point is that all across industry they found ways to circumvent the price controls by altering their product lines. Likewise, businesses were able to "redefine" jobs so that they could, in fact, raise wages during that inflationary era. The alternative for employers was that workers would simply quit and find new work where they would negotiate higher pay going in the door!

Directing a Symphony vs Playing Jazz and the Decline of the Soviet Empire

When Lenin took over in Russia the idea of a “worker’s paradise” was fresh. The Soviet Empire that emerged with the Russian takeover of Eastern Europe in the wake of World War II involved a global power play at its highest levels. And it involved lots of corruption lower down. Nevertheless, many who worked in the socialist-communist system in Russia and Eastern Europe really wanted to make everyone’s lives better. But, their approach was flawed. The expat Czech writer Milan Kundera likened the approach to insisting that everyone play an instrument in a symphony. And, if someone wanted to play a little jazz the state police either shot him or her or sent them to a gulag for the rest of their life.

When some of the leaders of Russia toured the US after the breakup of the Soviet Empire they were amazed by the fact that people would work extra hard to be able to afford the sort of variety that a big box store like Target offered! This was in contrast to what evolved in their system where “we pretend to work and you pretend to pay us.”

Wage and Price Controls Are a Bad Remedy

The beauty of a free market system is that you can set the rules so that people will work hard and prosper while doing what you want and need to get done. The idea of wage and price controls not only brings to mind the failure of that approach in the 1970s. It reminds us that many in the Soviet Empire wanted to create a better life for everyone and their heavy handed approach did not work. Neither will wage and price controls should the government be dumb enough to try them again.

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.

FREE training materials.

Free Weekly Investing Webinars

Don’t miss these free training events!

<http://www.profitableinvestingtips.com/free-webinar>

Forex Conspiracy Report

Read every word of this report!

<http://www.forexconspiracyreport.com>

Get 12 Free Japanese Candlestick Videos

Includes training for all 12 major candlestick signals.

<http://www.candlestickforums.com>

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.