FORTY YEARS AFTER THE FREEZE

By: William N. Walker

Late in the day on Sunday, August 15, 1971, The White House announced that President Nixon would address the nation at 9:00 P.M., on the state of the American economy. No fanfare accompanied the announcement and weary vacationers streaming back into the city that evening had little reason to suppose that the President was about to announce the most sweeping changes in U.S. economic policies in four decades. But that is precisely what he proceeded to do. With the Congress away on recess and the rest of the Government trying to escape the August heat, Nixon had secretly convened a weekend meeting of his top advisers at Camp David to plan an abrupt change of direction which he would proclaim that night.

First, the President said, he was imposing a 90-day freeze on all wages and prices -- the first peacetime controls program in U.S. history. Second, he closed the gold window, ordering a suspension in the convertibility of the dollar into gold or other reserve assets. Third, he declared a state of national emergency and imposed a 10% surcharge on all goods imported into the United States. The impact of the announcements was stunning.

Nixon's speech launched the U.S. economy into a decade of unprecedented turbulence, punctuated by episodes of hyperinflation, shortages, high interest rates and stagnation. Most adult Americans today were either too young to experience these traumas or are now so old as to have forgotten them. But Nixon's dramatic statement was a watershed event. No Presidential pronouncement since has so radically reordered the U.S. economic agenda both domestically and internationally.

For the rest of the world, the import surcharge and the suspension of dollar convertibility were the focus of attention. But here at home the centerpiece was the wage-price freeze. Surprisingly, there was no political outcry or objections to government overreaching. Americans quickly decided that they liked the idea that prices couldn't go up and they were prepared to tolerate controls as a means to that end. The notion that government intervention could stimulate growth, stabilize prices and improve competitiveness -- and that a conservative Republican like Richard Nixon had conceived the program -- proved irresistible.

Imposing direct economic controls has a seductive appeal to governments, even democratic ones. Appearing to take charge of a nation's economic destiny seems eminently preferable to relying upon undependable and often unpredictable market forces. But controls are a tiger which is hard to dismount. There is a seemingly irresistible momentum which extends them too long, masking adjustments which need be made and leading ultimately to serious economic damage. Certainly, that was the U.S. experience. By the time the program came to an end, less than three years after being launched, it was viewed as a political failure that had trebled the rate of inflation and bequeathed an economy in disarray. But the bitter taste came later. At the beginning, in the wake of Nixon's dramatic speech, the wage-price freeze and the follow-on controls program were hugely popular.

The ring-master for the freeze was the charismatic Treasury Secretary John B. Connally. As Governor of Texas, Connally had been wounded in the fateful Dallas motorcade in 1963 when President John F. Kennedy was assassinated. Finding little room in the national Democratic Party for his conservative outlook, Connally had switched his party affiliation to Republican and had been Nixon's surprise choice for Treasury Secretary earlier in 1971. Connally privately urged Nixon to take the bold step of imposing controls and, once the decision was made, he stepped forward to take charge. In that summer of 1971, Connally was a consummate political pro playing at the top of his game.

On Monday morning August 16, 1971, following the President's address, bedlam reigned in Washington. Companies and workers wondered what to do under the freeze. Lawyers and lobbyists tried to find out, but nobody had any answers. Documents were unavailable, Executive Orders had not been published; the rules hadn't even been written. John Connally strode onto center stage that morning, presiding over a turbulent, first-ever televised press conference in the main Treasury building. He parried reporters' frantic questions, conveying the clear message that a wage and price freeze meant exactly what it said: neither prices nor wages could increase —-period. Virtually the only exception was raw agricultural products. As Connally explained to Virginia Knauer, the President's Consumer Adviser, "Remember, Virginia, when it's a cucumber you can raise the price, but when it becomes a pickle, it's frozen".

The President established a Cost of Living Council composed of Cabinet members and other senior Government officials to run the new program. Connally was the Chairman and convened the Council's first meeting at 4 o'clock that same Monday afternoon in The White House. At the appointed hour, the new and somewhat bewildered members gathered around the polished table in the West Wing's historic Roosevelt Room. Connally proceeded to explain what a wage and price freeze meant in much the same way he had in the morning press conference: a freeze meant that neither prices nor wages could rise, "except for cucumbers". (The Council was to meet on a virtually daily basis thereafter for roughly 60 days. Like obedient schoolchildren, the members continued to occupy the very same seat around the table which they had chosen the day of the first meeting.)

Connally dominated the process and made sure everyone knew who was in charge. Three days into the program, as the regular afternoon meeting convened, an aide handed him a wire service story quoting a Defense Department source who declared that the freeze would not delay a long-awaited military pay increase which had been enacted by the Congress months before and was scheduled to take effect at the end of August.

Connally read the story, walked over to a telephone and asked the White House operator to put him through to Defense Secretary Melvin Laird. The room fell silent and all eyes were on Connally as he waited for the call to be placed. Secretary Laird, the operator reported, was out of the country and could not be reached.

"Get me Dave Packard," snapped Connally. Packard was the Deputy Secretary of Defense.

Another wait, with Cabinet officers and staffers alike watching Connally in action. Packard finally got on the phone.

"Dave, It seems there's been a misunderstanding over in your Department," said Connally. "The President's freeze order applies to the military pay increase and whoever over there is saying it doesn't is dead wrong. So, to make things clear, we need a statement from the Department stating that the current levels of pay are frozen by the President's order." Short pause. "You'll get that statement out within the hour, Dave? Good."

It was a bravura performance -- the message was loud and clear; the freeze applied to everyone.

Early in the Council's deliberations it was decided that the freeze could not simply be lifted after 90 days without some follow-up program and the Council approved a plan to usher in a period of more flexible wage and price controls called Phase II. (Phases of the controls program, like World Wars and Super Bowls, were denominated in Roman numerals.) The Council didn't want the administrative burden or political responsibility for actually runnng Phase II, so it established a Price Commission to impose price controls and a Pay Board to limit wage increases. But the Council remained in overall charge.

Phase II, like the freeze, was a political ten-strike for Richard Nixon and for the U.S. economy. Inflation slowed, economic activity recovered and organized labor grudgingly agreed to moderate wage demands. The principal union chieftains had been named to the Pay Board and their cooperation was effectively marshaled by George Shultz, who was at that time Director of OMB, and by John T. Dunlop, a little-known Harvard professor who was an expert in labor-management issues and was destined to play a central role in the drama which unfolded.

Phase II rules essentially allowed companies to pass through increased labor and component costs but, by establishing pre-notification requirements and profit margin limitations, they limited company eligibility for price increases. The real action was on the wage side.

Nixon had come to office in 1969 determined to stern the inflation of the Johnson years. He introduced a policy called "the game plan" aimed at slowing demand, instituting a small budget surplus and reducing monetary expansion. But things had not worked out. By mid-1971, while inflation had slowed, unemployment had nearly doubled to 6.2% and economic growth was sluggish. Wage settlements were the principal culprit as organized labor sought to restore income lost to inflation by heavily front-loading new labor contracts. In the jargon of the times, there was intense pressure on the Nixon Administration to invoke an "incomes policy" to overcome this inflationary "wage-price spiral". Nixon's New Economic Policy proceeded to do just that. The wage freeze and the follow-on Phase II wage standard, limiting wage increases to no more than 5.5%, reduced the inflationary pressure on prices. The labor leaders on the Pay Board were willing to support wage restraint in order to lower the rate of inflation so long as there was discipline on the price side.

Nixon had serious philosophic misgivings about the controls program. His decision to launch it was aimed at deflecting Democratic criticism of his economic performance as the countdown began to the 1972 elections. Congressional Democrats had championed the Economic Stabilization Act, enacted in 1970 over Nixon's opposition, which authorized the President to impose controls. Congress assumed a conservative President like Nixon would never invoke the authority and they intended to use it to embarrass him. By preempting the Democrats' idea, Nixon had very neatly turned the political tables.

As a young lawyer during World War II, Nixon had worked for the Office of Price Administration and he harbored a deep and abiding distaste for the bureaucratic intrusiveness of that earlier controls program. In consultations with consumer leaders in 1971, Nixon recalled from his OPA experiences an incident in which the Curtiss Candy Company shrank the size of its Baby Ruth candy bar, while charging the same price. Nixon vowed that he would never allow those kinds of shenanigans to take place under his leadership. But the cost of preventing shenanigans was an inevitable increase in the complexity of the regulatory structure. The Price Commission did what bureaucracies tend to do: it grew. As the problems became more complicated, the Phase II Regulations got thicker and more impenetrable. Companies began to chafe under the increasing bureaucracy and the growing complexity of the system.

The voters, however, loved it and Nixon was not about to jettison what had become a political asset before the 1972 election. But once he was safely returned to office, he ordered a complete review of the controls program with the aim of ending it. The controls program had been a useful political device for Nixon and it had actually helped to bring inflation under control. But it was inefficient, bureaucratic and philosophically repugnant; he wanted it done away with as soon as possible. That proved to be much easier said than done, however. Nixon didn't know it, but he was about to enter the tar baby phase of his New Economic Policy: it was to stick to him until it became transformed from a popular success into an economic and political rout.

A key objective of Phase III (as the next step in the controls program was inevitably called) was to eliminate the bureaucratic red tape imposed on companies by the price control regulations. As Herbert Stein, the Chairman of the President's Council of Economic Advisers, put it, Phase III was to be "a gentle blanket of restraint" on wage and price decisions. Both the Price Commission and the Pay Board were to be scrapped and the new program was to be self-administered -- a concept that proved to be exceedingly elusive in practice. A new general price standard was aimed at holding inflation to no more than 2.5% in 1973. Companies would be told that they must moderate their pricing behavior so as to be consistent with this goal. This meant they could "self-administer" the regulations as guidelines to measure company pricing against the inflation goal, but they could also apply exceptions to themselves, "as necessary for efficient allocation of resources or to maintain adequate levels of supply".

George Shultz by this time had succeeded John Connally as Treasury Secretary and assumed the role of Chairman of the Cost of Living Council. Shultz's aversion to the wage and price control program was well-known. As a highly-regarded economist from the University of Chicago and an exponent of free markets, Shultz had let it be known that he was opposed to wage and price controls as a matter of principle. Shultz scheduled a press conference at 11:00 A.M. on January 11, 1973 in The White House briefing room to introduce Phase III. It was a disaster. Instead of announcing the "self-administered" controls program envisioned by the Phase III planners, he characterized Phase III as "voluntary". While he said that the Administration retained the authority to re-impose mandatory controls in sectors where inflation threatened to get out of hand, his clear message, which the journalists duly communicated to the American people, was that controls were lifted and prices were free to rise. "Mandatory Wage-Price Controls Ended; Nixon Calls For Voluntary Compliance", headlined the New York Times the next morning. The stock market plunged (it would not recover for nine long years) and the political reaction was strongly negative. That same day, Nixon announced that John Dunlop would become the new Director of the Cost of Living Council to administer Phase III.

John T. Dunlop was a former chairman of the Harvard University economics department and dean of the faculty of arts and sciences. He wore a bow tie, but he was no meek academic. He was robust and barrel-chested with a prickly temperament and an earthy vocabulary. No one knew labor management relations better than Dunlop. He was personally close to both labor and business leaders and, for many years, had served as an intermediary who was trusted by both sides. Since 1971, he had been head of the Construction Industry Stabilization Committee and had used his knowledge of the equilibrium among different unions in different regions to lower the pace of wage settlements sharply in the construction industry. Most nights he could be found in the bar of the Harrington Hotel in downtown Washington settling labor disputes in his own unorthodox but highly-effective manner. Shultz knew Dunlop well and was confident he could keep wage settlements in line. Phase III rules were supposed to take care of things on the price side.

In January 1972, the Cost of Living Council staff threw a lively farewell party for Donald Rumsfeld who had been the Council's Director during Phase II and was departing to become U.S. Ambassador to NATO. A highlight of the party was a song written by one of the staffers which wondered, "will they perform for the John as they did for the Don?" Dunlop was not amused. He delivered a short, stern lecture about the importance he attached to Phase III. A policy of the kind pursued by the controls program was a legitimate tool of economic management by governments, he said. The problem had always been knowing when and how to get out of these programs once started. He felt that Phase III was an important opportunity to put into practice some of the lessons that had been learned from earlier failed attempts. It was to prove a bitter irony that, in less than six months, Phase III would collapse, showing again just how hard the task was which Dunlop embarked upon that night.

What no one understood at the time was that economic conditions had undergone a profound and dramatic change. The cycle of wage-driven price hikes had been broken during Phase II. But government and private forecasters uniformly failed to recognize that demand had begun putting such severe pressure on supplies that within a matter of months, prices of virtually all commodities -- food-stuffs, minerals and petroleum -- would explode, reaching historic highs. The rate of inflation shot up to 11% by the summer of 1973, leaving Phase III in shambles.

Part of the reason for the sudden change was the Federal Reserve Board's expansive money supply policy in 1972. Suddenly there was too much money chasing scarce goods and pushing prices higher. Phase II controls also contributed by blocking price increases, thereby masking the sea changes which the economy was about to undergo. Finally, there were unforeseen supply shortages, particularly in the commodity sector of the economy. But if the causes of the price increases were not well understood, the increases themselves became all too visible as prices rose sharply after Phase III was ushered in. Faced with mounting criticism, the Administration tried to put a tougher face on Phase III.

George Shultz delivered a speech to the U.S. Chamber of Commerce recalling that while he had said the Phase III rules were voluntary, they were about as voluntary as paying taxes. He stressed the government's authority to reassert mandatory controls, saying that the government had a "club in the closet" and that if any company got out of line, he would see to it personally that they got "clobbered".

The first target of Administration jawboning was the oil industry which had announced increases in home heating oil prices within a matter of days after Phase III began. This action provoked a strong reaction in Congress and Senator Thomas J. McIntyre (D-NH), Chairman of the Senate Banking Committee, sent a stinging letter to Dunlop demanding that the increases be rolled back, pointedly reminding him that his confirmation hearings were scheduled to begin only a few days hence. The Council warned the major US oil companies that they were forbidden to increase prices in the absence of cost justification and ordered an immediate investigation by IRS agents. The Council then convened a well-publicized hearing in which the oil companies were urged to restrain price hikes. Secretary Schultz announced that "the club was out of the closet and laid on the table". But it was to no avail. Oil prices continued to rise, even after the Administration acted on its threat and reasserted mandatory controls.

By this time, heating oil shortages were also beginning to appear and there were predictions of wide-spread shortages of gasoline during the summer driving months. In testimony before the Senate Banking Committee in May, Dunlop frankly admitted the dilemma which the Council faced: on one hand, restraining price increases to contain inflation; on the other hand, foregoing supply increments which higher prices might encourage. This dilemma was to become even more acute as time went along because of a development understood at the time by only a handful of experts: the world oil surplus, dating back to the Texas oil discoveries of the l930s had come to an end. Crude oil prices would never again return to the levels that prevailed during Phase II.

Food prices also defeated the Administration's policy. 1973 ushered in a period of very tight supplies in wheat and feed grains worldwide. In 1972, the U.S. had sold over 20 million metric tons of grain to the Soviet Union and dollar devaluations in December 1971 and again in February 1973 sharply stimulated export sales of other agricultural commodities. The Administration had anticipated some pressure on food prices during the first half of 1973 and had retained mandatory, though looser, controls over the food industry during Phase III. The results, however, were worse than even the most pessimistic predictions. During the first quarter of 1973, consumer food prices shot up at an annual rate of 29.8% while the wholesale price index for farm products rose at an annual rate of 51.9%. Red meat prices alone surged at an annual rate of 90% during the quarter.

In addition, a bizarre incident in the coastal waters off Peru became a symbol of the shortage environment that the world's agricultural markets suddenly faced. In January 1972, the feared El Nino current appeared off the coast of Peru, pushing aside the fertile waters of the Humboldt current and destroying the Peruvian anchovy crop. In 1971, Peru had mined ten million tons of this high-protein fishmeal which had become a staple feed ingredient in world livestock markets. By 1973, the anchovies had disappeared and the cost of feeding livestock rose sharply, squeezing producer profits and causing a ripple effect of price hikes along the food chain. In retrospect, as Council members sifted through the wreckage of Phase III, they were to conclude, not entirely tongue-in-cheek, that this obscure "anchovy connection” precipitated the ensuing debacle.

The Council explained that the price increases reflected fundamental market forces: a combination of very strong consumer demand, unprecedented decline in supplies carried over from the previous year and expanded exports due to currency shifts and crop failures abroad. On March 29, 1973, in an abortive attempt to slow the onslaught, the Council slapped a freeze on red meat prices, but this step backfired as ranchers retaliated by withholding supplies and creating meat shortages. Meanwhile, other food prices continued their seemingly inexorable rise.

By early June 1973, Phase III was thoroughly discredited. Public criticism was mounting and there were pressures in Congress and from business leaders for the Adminisration to take stronger direct action. Most of the Administration, however, had lost its stomach for another round of mandatory controls. Nixon's economic advisers were unanimous in advising against a stringent controls program, but Nixon ignored them. On June 13, 1973, he decreed a second price freeze and directed the Cost of Living Council to develop a new controls program to be called (what else?) Phase IV.

There was much speculation at the time as to the reasoning behind Nixon's decision. The unprecedented surge in inflation offered an economic rationale for re-imposing price controls. But members of the Cost of Living Council warned Nixon that the inflationary pressures buffeting the economy were not containable by a controls program. Indeed, new controls might have the opposite effect, worsening conditions by fueling demand and making shortages more acute.

There were other strong pressures at work on Nixon during the spring of 1973, inflation aside. The Senate Watergate Committee had begun its hearings and the Nation watched the riveting testimony of former Presidential Counsel, John Dean, accusing the President of covering up the Watergate burglary. Every morning that spring, it seemed, The Washington Post revealed some new evidence of White House misconduct and Nixon's popularity was slumping badly. Nixon had been forced to rid himself of his top White House assistants H.R. Haldeman and John Ehrlichman, so he brought back as one of his senior advisers, Melvin R. Laird, whom Nixon had known since they entered the Congress together as freshman legislators in 1947 and who had been Secretary of Defense during Nixon's first term. On the night of June 12, 1973, Nixon and Laird journeyed out on the Potomac aboard the Presidential yacht Sequoia. It was widely believed in Washington that, during their discussions that night, Laird persuaded Nixon to override the advice of his economists and to re-impose price controls in a show of political muscle to demonstrate that he was not immobilized by the spreading scandal.

Whatever his reasoning may have been, Nixon went before the Nation and for the second time in less than two years imposed a freeze on prices. Wages were not to be frozen since wage settlements had not caused the inflationary price hikes of Phase III. Twice during his speech, Nixon cautioned against the seductiveness of controls, warning that “rigid, permanent controls always look better on paper than they do in practice”. He stressed the importance to returning to a free economy stating, “We must not let controls become a narcotic -- we must not become addicted”.

The Cost of Living Council was not addicted, but still found itself with a new Presidential order to administer a 60-day price freeze and design a Phase IV controls system which would restore public confidence in the Nation’s economy. The planners confronted economic conditions which were far more difficult than they had faced in August 1971. In the first six months of 1973, industrial prices had risen at an annual rate of 12.5%. Food prices and world market prices for metals and petroleum had climbed even faster.

These factors dictated much more stringent controls than had been applied during Phase II. A key Council staff paper describing the new policy: “The general approach of Phase IV is to limit the speed and size of the pass-through of cost increases and to take all available steps to increase supply and reduce the prices of important inputs in the food and industrial sectors.”

What that implied for Phase IV on the supply side were steps to increase acreage available for planting crops, licensing and export controls to assure adequate domestic supplies of feed grains, restrictions on scrap exports and accelerated disposal of stockpiled industrial commodities. What it implied for price controls was cost absorption. Phase IV was to be a move “from the freeze to the squeeze”; companies were to be forced to absorb cost increases at the expense of profits before passing them along in the form of increased prices.

The Administration explained its policy as “spreading the bulge”. The inflationary bubble of 1973 was expected to be a temporary aberration which would dissipate as demand slackened in the face of higher prices and additional supplies became available. According to Dunlop, the American economy resembled a snake which had swallowed a tennis ball; trying to digest it whole would be painful and disruptive. The policy of Phase IV was to shrink the bulge and spread it over time. But digestion would prove to be difficult.

Farmers were furious with the second freeze. The 1971 freeze had occurred in August when most of the harvests were complete and farm prices had begun their seasonal decline. Freezing prices at early June levels created havoc and forced the Council to end the freeze on farm products a month early. Red meat prices remained frozen, however, and ranchers retaliated by withholding livestock from slaughter. Consumers began to hoard meat supplies and, by August 1973, there were serious meat shortages across virtually the entire country.

In July 1973, it appeared likely that the U.S. would exhaust its supplies of soybeans before the next harvest with potentially disastrous consequences for thousands of U.S. industries which depended upon soybean-based products for their livelihood. Spot prices for soybean futures on the Chicago Board of Trade leapt from $3.44 per bushel in January to $6.95 in mid-summer. At the Council's urging, the Commerce Department imposed an embargo on overseas sales of soybeans in order to protect domestic supplies and prices began to moderate. The shortages which had been feared did not occur and no actual disruption of export sales took place. But the Government's soybean embargo severely discredited the U.S. agriculture community's reputation as a reliable supplier. Vital U.S. customers in Asia and Europe began to diversify their purchases of agricultural products to the long term detriment of American farmers who had spent many years cultivating export markets and increasing U.S. export earnings.

Petroleum price increases were a particular source of concern to the Phase IV planners. Supplies were suddenly tight and prices were rising. If Phase IV was to retain any shred of credibility, strict controls had to be applied because of the pervasive effect of petroleum prices on the economy. Shortly after announcing the second freeze, Nixon persuaded John Love, Governor of Colorado, to resign and become the energy czar to preside over Administration efforts to fashion a new energy policy. Love accepted the offer and arrived in Washington only to discover that czars don't have much power by the Potomac. In his first meeting with Dunlop, Love insisted that oil prices be decontrolled. Dunlop bluntly refused, stating that such a step would destroy Phase IV. Dunlop told Love that only the President could order him to decontrol oil prices and that if Nixon did so, he would resign. That ended that, and several months later Governor Love returned to Colorado and disappeared from view.

Dunlop was doubtless right about the controls program. But in terms of overall economic policy, there is no doubt that decontrolling oil prices would have been the right move, even though painful. To avoid the pain, the Council made the biggest mistake of the entire controls program and one which would cause major dislocations for years to come.

Crude oil price postings had been virtually flat for many years as a result of chronic over-supply in world markets. In the twenty years 1949-1969, crude oil prices in the U.S. ranged between $2.54 and $2.94 per barrel and American consumers had come to assume that low prices for gasoline and other oil products were an inalienable birthright. But price stability ended as U.S. production declined and world demand surged. Phase IV regulations placed a ceiling on the price of domestic crude oil at $4.25 per barrel. It was the Council's intent to increase this ceiling by about 25 cents every quarter so that by April 30, 1974, when the controls program was scheduled to expire, crude oil prices would be in the $5.00-$5.25 range, comparable to expected world price levels. Events were to prove these assumptions fatally wrong.

October 20, 1973 became known as the Saturday Night Massacre when Nixon fired Attorney General Elliot Richardson and Deputy Attorney General William Ruckelshaus for refusing to dismiss Archibald Cox as Watergate Special Prosecutor. It was a night of high drama and political intrigue in Washington. Only a handful of people paid attention to an item moving over the news ticker that same evening reporting that OPEC nations had doubled the price of their crude oil exports.

This action raised world crude oil prices to almost $7.00 per barrel, creating a huge spread above the U.S. ceiling price, fixed at $4.25, and causing major problems for the Phase IV rules. In early December, the Council raised the U.S. ceiling price $1.00 to $5.25 per barrel. The public was furious, Ralph Nader filed suit to set aside the increase, Congressional hearings were immediately called and the Council's decision was attacked on all sides. The conventional wisdom at the time was that OPEC was weak and ineffectual. The public was therefore indignant that U.S. oil prices were being raised 'just to pay off some desert sheiks'.

The public soon discovered just how badly they had miscalculated OPEC's resolve and its leverage. In the wake of the Yom Kippur Arab-Israeli conflict, OPEC declared an embargo upon shipments of oil to the U.S. and other Western nations and, by the first quarter of 1974, in the greatest supply disruption the nation had ever experienced , American motorists were forced to endure long lines at the gas pump. To make matters worse, on the last day of December 1973, OPEC again doubled oil prices, to levels above $12.00 per barrel. The spread between the U.S. crude oil price ceiling and rising world prices increased. This created the need for a new "entitlements program" to ration low-cost, price-controlled U.S. crude oil among American refiners by forcing the domestic producers to transfer hundreds of millions of dollars to the refiners purchasing much higher priced foreign oil. This program lasted for several years until the crude oil price ceilings were finally scrapped and prices were allowed to find their equilibrium.

This bitter legacy -- shortages of gasoline, heating oil, red meat, soybeans and numerous other products -- together with ruinous price increases, finally discredited price controls in the eyes of the American people. By February 1974, when Dunlop appeared before the Senate Banking Committee, there were sixty Amendments proposed to the Economic Stabilization Act aimed at providing relief from controls to one segment of the economy or another. Dunlop told the Committee that the Administration did not favor continuing price controls after April 30 1974, except in the health care industry (and except in petroleum where authority to administer price controls and allocation regulations had been transferred to the Federal Energy Office in early January 1974) . In the end, the Congress simply allowed the Economic Stabilization Act to expire on April 30, 1974. Thus, the only peacetime experiment with direct economic controls in U.S. history came to an inglorious end.

The other programs announced in Nixon's speech that long ago Sunday in August were also tarnished. The import surcharge was short-lived. It was declared invalid by the General Agreement on Tariffs and Trade (GATT), the international body which governs trade relations between countries (forerunner of the World Trade Organization), and several months later it was dropped when other governments agreed to enter into a new round of multilateral trade negotiations. The gold window, by contrast, is still closed. The floating currency regime which Nixon imposed upon the world that night is the most enduring legacy of his speech, though one that has produced decidedly mixed results.

In hindsight, Nixon's program can be seen as the last gasp of unilateral U.S. economic policymaking. From the end of World War II until the early 1970's, the U.S. economy had been largely immune to outside influence. Secure in a mammoth continental market and sustained by a stable dollar which had become the world's reserve currency, the U.S. could ignore international economic events. Foreign trade was only a marginal 4% of GNP and the only problem with oil prices was cheap imports which had to be kept to a minimum so as to protect domestic oil producers.

But things began to change in the late sixties. The rate of inflation, which had been running at 1% to 1.7% between 1960 and 1965, started to rise in 1966 with the Vietnam buildup and the U.S. balance of payments dropped sharply in 1968 and 1969 and fell into deficit for the first time since World War II in 1971. Indeed, the payments deficit and speculation against the dollar were among the justifications Nixon offered for his decision to close the gold window.

But in 1971, the U.S. still dominated the world economy sufficiently to allow Nixon to act independently. No American President since has had that luxury. Multilateral diplomacy has become the watch word of economic policy. Today, international events and foreign markets weigh as heavily upon U.S. economic policy as matters which take place here at home.

So Nixon's actions in August 1971 appear in retrospect to be almost quaint; relics from another era when the U.S. was accustomed to ignoring the rest of the world -- and could afford to do so. Nixon doubtless thought as much when he launched his new policy. But he turned out to be wrong. By 1973 his economic program had been shattered -- not by domestic events, but by disappearing Peruvian anchovies, skyrocketing foreign oil prices and soaring demand on world commodity markets. The presumption that the U.S. economy could continue to go it alone turned out to be an illusion. Nixon's New Economic Policy, announced that August night forty years ago, marked the end of an American economic era and the beginning of a new international economic regime with sharp limits on American economic sovereignty.

William N. Walker

On the night of August 15, 1971, William N. Walker was Deputy Director of The White House Office of consumer Affairs. Like other Americans, he watched President Nixon's address to the Nation on television having no inkling that Nixon would announce the wage/price freeze. The next morning, he read in the newspaper on his way to work that his boss, Virginia H. Knauer, Special Assistant to the President for Consumer Affairs, had been named a member of the Cost of Living Council. He attended the dramatic first meeting of the Council in the Roosevelt Room with Mrs. Knauer and was present at most of the meetings which followed. He became a member of a small "deputies group" made up of senior staff of the Cabinet-level Council members which prepared agendas and staff papers for Council meetings.

In August 1972, Mr. Walker became General Counsel of the Cost of Living Council. He was deeply involved in the termination of Phase II and the planning and implementation of Phase III. In June 1973, when the President ordered a new freeze, Mr. Walker chaired the staff committee which oversaw the planning for Phase IV. At the height of the crisis brought about by the Arab oil embargo Mr. Walker became General Counsel of the Federal Energy Office which had responsibility not only for the petroleum price control regulations but also for new petroleum allocation regulations which attempted to ration the shortages.

Later, in 1974, after President Ford assumed office, Mr. Walker became Director of the Presidential Personnel Office. On June 6, 1975, he was sworn in as Deputy Special Representative for Trade Negotiations and for the next two years served as Ambassador and Chief US Negotiator in the Tokyo Round of Multilaterial Trade Negotiations in Geneva.

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