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Economists Oppose Wage and Price Freeze

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Economists Oppose Wage and Price Freeze

A group of economists, including several who have served as advisers to the Nixon administration, criticized the government's decision to freeze wages and prices.

Price and wage controls cannot and will not prevent inflation. For a time, controls hide the effect of inflation from the public and mislead many into believing that something useful has been done. This is an illusion, and the government is playing on the illusion in disregard of its own previous, correct statements.

Not only are controls ineffective against inflation, they are inequitable, wasteful, inefficient and destructive of personal freedom.

The illusion that the government can find an equitable set of prices and wages is always the first illusion to be swept aside. Within hours, some of the inequities produced by controls became apparent. Some contracts, negotiated and signed in good faith, were suspended solely because they did not call for immediate price and wage increases when they were signed. Already the news media report many inequities of this kind. Many more go unreported. We wish to emphasize that the inequities are not a temporary phenomenon. They are a permanent feature of any system of controls that will continue as long as the controls continue.

The longer wage and price controls remain in force, the more inequities will appear. Those who have the most power and influence with the government will be best able to press their case for relief. They will
gain. Those who are most willing to break the law will benefit from taking risks. They, too, will gain at the expense of others.

Inequities are an inevitable by-product of wage and price controls. They are the most visible distortion caused by the controls, but they are not the only distortion.

Controls reduce efficiency and productivity. Thousands of man-hours have been spent in the first few days, and hundreds of thousands more will be spent in the remaining weeks, to decide what specific provisions mean, to interpret and reinterpret regulations, to ask for relief, to collect and present petitions and evidence, to decide how and against whom to enforce controls and how to circumvent them.

The second illusion to be shattered is that a brief, voluntary program can avoid the waste of resources that must accompany every attempt to control a free market economy.

The waste of time and the services of skilled personnel in administering controls is not the only, or even the most serious waste of resources. Prices perform an indispensable function in a market economy. They guide producers toward more efficient methods of production. By preventing prices and wages from being used as a spur toward efficiency, controls work to make prices higher, not lower.

Wage and price controls reduce individual freedom of choice and freedom of action. They pit individuals against the government and encourage law-abiding citizens to become law breakers. As Paul McCracken, Chairman of the Council of Economic Advisers, said when arguing against controls just a few weeks ago: "The common image of price-wage control is
entirely wrong. The image is that a little band of dedicated, objective, analytical men in Washington would keep a few heads of powerful corporations and unions from exploiting 'us'. The fact is that it is 'us' who would be and would have to be controlled."

There is no cheap and easy way to slow an inflation that has continued for most of the past five years. Controls did not prevent inflation in World War II and did not prevent a further burst of inflation as soon as the controls were removed. Price and wage controls had no noticeable effect on the recent inflation in Britain. They will not prevent inflation here.

Rather than reduce efficiency and freedom, we believe the administration should admit that there is no simple, immediate or costless way of ending inflation. If we are to raise employment and reduce the payments deficit as quickly as Congress, the administration and the public now seem to desire, inflation will continue. We call on the President and his administration to be candid and to remove controls at once before they produce further distortion, more waste and loss of freedom.

The statement was signed by the following economists:

William R. Allen       Harry G. Johnson
George Borts           James Lorie
Karl Brunner           Robert Lucas
James Buchanan         Allan H. Meltzer
Carl Christ            Thomas Saving
Edward F. Denison      Anna J. Schwartz
Charles Ferguson       Jerome Stein
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