NIXON'S PROGRAM OF WAGE AND PRICE CONTROLS

THESIS

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This investigation analyzes the government's current attempt at wage and price controls; and covers only Phases I, II, and III—with primary emphasis on Phase II. The sources of data used are current periodicals. The study is composed of five major chapters.

Chapter I presents a brief summary of prior attempts at wage and price controls, both in this country and abroad, plus a thumbnail sketch of economic conditions in this country preceding Phase I. The next three chapters deal with the three phases themselves. In each case, the guidelines are presented along with the mechanism of execution, enforcement, and actual cases of operation.

As the overall program is still in operation, final conclusions are not appropriate at this time.
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CHAPTER I

INTRODUCTION

In the summer of 1971, President Richard M. Nixon embarked on a rigorous program of price controls, which later came to be identified in phases. The President's program has generated intense controversy. This could also be the beginning of things to come in the area of government operations. It could well be that the days of a free market system will one day give way to a more "controlled" economy.

The idea of wage-price controls is not new, nor has it only been confined to this country. However, the performance of foreign attempts has not been very encouraging. For example, a few years ago, the British initiated a proposal under a control mechanism known as the National Board for Prices and Incomes. This plan failed and was abandoned early in 1971.1

In another case, the Netherlands tried wage-price controls with little or no success. In fact, they have used six different programs since World War II, none of which have proved successful. In 1970, our close neighbors, the Canadians, established the Prices and Incomes Commission to prevail on industry and labor to hold the line against

1 "Have Controls Ever Worked?", Newsweek, LXXVIII (September 13, 1971), 84.
inflation on a voluntary basis. Labor refused to go along with the proposal, thus leaving business with an impossible one-sided affair.  

Likewise, earlier attempts at wage-price controls in this country have not been exceptionally impressive. America's first attempt at direct government intervention in the economy came under the leadership of Woodrow Wilson in World War I. The plan centered around several control agencies, such as the Committee of Supplies, which directed the movement of soft goods. Also present were the Food Board and the Housing Agency, which managed their respective areas. However, the major portion of power was vested in the War Industries Board, headed by Bernard Baruch. The consensus seemed to be that Mr. Baruch bungled the job rather badly. A spokesman summed up the program by saying that in trying to control everything deemed critical, nothing was controlled well at all. The termination of this proposal was something else which tarnished its record. All controls were abandoned immediately after the Treaty of Versailles. The consequences were skyrocketing prices and an economic collapse which left thousands of returning veterans of World War I jobless.

However, the most stringent system of wage-price controls was introduced by President Franklin D. Roosevelt during World War II. The highlights of this program were

\[2\text{Ibid.} \quad 3\text{Ibid., p. 89.}\]
the enactment of a price freeze in April, 1942, and the establishment of the Office of Price Administration (OPA), headed by Paul Porter. With regard to the Office of Price Administration, Mr. Porter stated, "It was unpopular as hell, but it worked extremely well." This statement was supported by the fact that prices rose by only 6.6 per cent over a three-year period.

A major asset to this program was the spirit of patriotism which existed in the country; but this magic bubble burst three months after V-J-Day. The initial crack was a 113-day strike launched by the United Auto Workers against General Motors. The enforcement mechanism under the Office of Price Administration was unable to handle the situation. From this point on, the enforcement of price regulations began to move steadily down hill.

The death blow to the Office of Price Administration came in October, 1946, as a result of a meat crisis. At this time, meat was largely unavailable, mainly because breeders refused to supply meat at the controlled prices. Finally, President Truman, now in charge, succumbed to public pressure and removed the controls on meat. This action set in motion a trend which saw the removal of all controls in a few short months. The results were disastrous. The Consumer Price Index, which had risen only twenty-three points in four and one-half years of wartime pressure, rose another twenty-three

4 Ibid. 5 Ibid. 6 Ibid.
points in only ten months. The pattern continued with a fifteen point rise during the next eighteen months.  

Americans were just getting accustomed to a peacetime economy when North Korea invaded South Korea and the United States was once again at war. With the World War II shortages still fresh in their minds, Americans started on a scare-buying binge, which created a case of instant inflation. The Consumer Price Index jumped ten points in the year ending in May, 1951.  

President Truman's answer to this crisis was a general price freeze on January 26, 1951 and a man named Mike Di Salle. It was Mr. Di Salle who headed the newly formed Office of Price Stabilization (OPS). The economy seemed to fare very well under the management of the Office of Price Stabilization. The Consumer Price Index rose only 1.9 per cent in the year ending May, 1952 and then by only .5 per cent annually until May, 1956.  

Judging from this evidence, wage-price controls have compiled a very ambiguous record. However, they do seem to flatten the inflation spiral, at least in the beginning, regardless of their long-term consequences.  

Nevertheless, it must be pointed out that there are several major differences between these previous attempts and President Nixon's "new economic policy." Past controls were tied directly to economic stability during wartime and

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7 Ibid. 8 Ibid. 9 Ibid. 10 Ibid.
they were implemented at a time when inflation was starting to build and demand was overheated. Mr. Nixon began his program amid scattered signs that inflation was slowing and during a period of slack demand, high unemployment, and a de-escalating war.\textsuperscript{11}

Now, let us examine this country's latest attempt at directly controlling the economy.

In 20 minutes of television time last Sunday night, President Nixon committed the U. S. to a totally new and distinctly "interventionist" course in economic policy. It was one of the most radical reversals of policy in all political history, and it will produce radical changes in the climate in which business operates and foreign nations confront their U. S. competitors.\textsuperscript{12}

Technically this bomb-shell, issued by President Nixon on August 15, 1971, was known as Phase I of the "new economic policy;" more commonly it was called the wage-price freeze. Although there were several other items in Phase I besides the wage-price freeze, it affected the greatest number of Americans and consequently became the major topic of conversation (see Chapter II). Actually, Phase I was basically the forerunner of a more lengthy method of inflation control--Phase II. Phase II was a complex system of review boards designed to hold down wages and prices by arbitration through the voluntary co-operation of the American public (see Chapter III).

\textsuperscript{11}Ibid., p. 84.

Henceforth, it is the purpose of this paper to analyze Mr. Nixon's dramatic course of action. This will be done by examining three major areas of research. First, what were the economic conditions prior to Phase I? Was it really necessary to do anything? Also, were there any other attempts made before embarking on the present course of action? The second category will entail a thorough investigation of Phases I, II, and III, with special interest being given to their method of operation and, as far as possible, their effectiveness. The last section will consist of comments and observations based on the available information.

Economic Conditions Prior to Phase I

To begin this analysis of President Nixon's dramatic decision, let us investigate the economic activity occurring before August 15, 1971. The investigation will focus on the question: Was the economy really in need of help? According to a report by U. S. News and World Report, the unemployment rate for July was 5.8 per cent. This was a slight increase over the June figure of 5.6 per cent. In plain language, 5.8 per cent of the nation's labor force was out of work in July. Wholesale prices were also rising. As of August 5, there was an overall increase of 2.5 per cent a year. This was the fastest rate of increase that had occurred in fifteen years.13

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Mr. Dowd, in an article in *Ramparts Magazine*, reported that the United States was suffering from a severe import surplus of close to $700 million, the first such surplus in this century. Secondly, the country was experiencing a fiscal deficit in excess of $20 billion and a significant decrease in industrial production—down 9 per cent in July.\(^{14}\)

In the opinion of Paul A. Samuelson, the economy prior to the freeze was fighting a losing battle. He stated that recently the gross national product had been growing at a rate of 3.5 per cent. However, because of population and productivity advances, we must have a growth rate of more than 4 per cent in order to hold unemployment constant at a high percentage.\(^{15}\)

The most commonly quoted sign of inflation is the consumer price index (CPI). In May, this index rose by .6 per cent. This was the largest monthly increase in more than a year and it was twice the monthly rise experienced in April.\(^{16}\) Another source reported that the CPI for August was 4.5 per cent higher than August a year before. It also indicated that the cost of living for July had increased by .1 per cent.\(^{17}\)


The evidence presented here regarding the consumer price index is designed to show a trend: i.e., a rising trend, and one that had been in progress for several months. In light of this information, it would seem that the purchasing power of the dollar had definitely been deteriorating, and in some instances by a considerable degree.

*Time* referred to the pre-freeze economy as being "boxed-in" by conflicting pressured: a slow growth rate, high unemployment, big deficits, and continuing inflation. Specifically the article noted that the gross national product for the second quarter of 1971 only expanded by $20.4 billion over the first quarter figure, an amount which was only two-thirds of the projected growth rate. A direct result of this sluggish economy was the $22 billion tax deficit which the government experienced in 1970. The government was spending, but the economy was not responding.

What about interest rates? The watchword was still the same--trouble. According to a statement in *U. S. News and World Report*, interest rates had been climbing steadily since early in 1971. The reasoning was to obtain higher yields to offset the cheapening of dollars by inflation, to be paid back on loans. This rise in the interest rate is well illustrated by an example depicting the sale of prime-rated bonds by the Bell Telephone System. On January 26, 1971, $200 million worth of bonds were offered for sale at

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an interest rate of 6.8 per cent. On July 13, $150 million in bonds were sold at an interest rate of 7.9 per cent. By August 3, the interest rate on $100 million in bonds had risen to 8.2 per cent.\(^{19}\) The end result of this story was a 1.4 per cent jump in an eight-month period.

Thus far, the information presented has been general data concerning the economy prior to the freeze. However, a better understanding of the situation may be gained by discussing in more detail two of the major problems facing the nation at that time; i.e., the dollar crisis and the inflationary pressures caused by rising labor costs.

Throughout the spring and summer of 1971, short-term capital was rushing out of the country and swelling the huge balances already abroad. European central bankers, swamped with more dollars than they were willing to hold, began demanding that the United States stop the flow.\(^{20}\)

The origin of this problem actually goes back to the year 1944 and the establishment of the Bretton Woods agreement, which set up the international payments system. Under the terms of this agreement, the United States promised to deliver gold at thirty-five dollars an ounce to central bankers of other nations in return for dollars. The exchange


rates for these foreign currencies were then established in terms of the dollar.\footnote{Ibid., p. 22.} \footnote{Ibid.} 

The major drawback to this treaty was inflexibility. In other words, the European nations were permitted to change the value of their currencies in relation to the dollar; however, the value of the dollar was expected to remain constant. The underlying reasoning was simple. The dollar as the base of the entire system was to remain stable.\footnote{Ibid.} The base was the standard against which all other values were to be set; if it were to vary, the whole apparatus would weaken and finally collapse--consequently, the gold-dollar link.

This precarious arrangement did not present a problem so long as the United States was the dominant power in the free world. The "powerful-dollar" was the saviour for countries in financial trouble. If England or France needed help, they could simply devalue their currencies and then wait for the flow of dollars to bail them out. However, times change, as do positions of dominance. With the growth of Japan and West Germany, the relative magnitude of the United States began to decline. Henceforth, an interesting situation developed. Now there existed nations whose currencies were undervalued, rather than overvalued, in terms of the dollar. These newly developed countries now enjoyed a tremendous trade advantage over the American businessman,
an advantage which eventually caused the balance-of-payments to tip in the wrong direction.23

Finally, this devastating predicament was brought to a head by inflationary pressures which had been building in the country since 1966. We were no longer dealing with a strange development, but a general weakness in the American dollar. The "writing was on the wall" as the money speculators began to move in and shift huge balances in anticipation of the re-evaluation of one currency or another.24 The base, and consequently the entire international monetary system, was in trouble.

The second major area of discussion here is the rising costs of labor. With regard to inflation, this was one of the primary factors. In a study of 638 negotiated contracts in the first quarter of 1971, by the Bureau of National Affairs, Inc., the following results were obtained:

The typical wage increase rose to 29.6 cents an hour. That is a "median"--the center point in the range of settlements--so there were as many increases above as below. The figure takes account of pay boosts in contracts coming due this year, and does not include fringe benefits.

The median raise was 6.9 cents an hour above the level for settlements arrived at in the first quarter, 1970, and 1.9 cents higher than the 1970 average for the entire year.25

23Ibid.

24Ibid.

The undisputed leader of this procession was the construction industry, with a median increase of 82.2 cents an hour, 12.7 cents higher than a year ago.26

Just prior to the August 15 freeze, the public was handed an $11 billion bill consisting of five new labor settlements. First there was a 30 per cent raise received by the auto workers, which amounted to $3 billion over the next three years. Second, there was a $4 billion bill from the telephone company due to a 30 per cent increase received by their employees over a three-year period. The postal workers negotiated a $1 billion raise for a two-year span—a 20 per cent jump. Not to be outdone by the mailmen, the steel workers got a $1 billion pay boost spread over three years—a 31 per cent expansion. The remaining $2 billion can be credited to the railroad industry as a 42 per cent increase to be paid over the next three and one-half years.27

As alluded to earlier, the recipient of this bill was the consumer, because the management passed these higher labor costs on in the form of higher prices. Soon after the negotiations by the steel workers and the railroad employees were finished, the major steel producers boosted prices 8 per cent across the board. The railroad settlement also triggered a freight hike, a procedure which had become quite

26Ibid.
popular. Freight rates had increased a total of 43 per cent since mid-1967. Auto manufacturers were not going to be left holding the bag, either. Prices on new 1972 cars jumped an average of 5.9 per cent. 28

Now that the way was clear, other industries decided to "jump on the band-wagon." The can industry negotiated a 31 per cent pay raise, plus unlimited cost-of-living protection. The management's answer to this was an 8 per cent boost of can prices. Aluminum prices went up 6 per cent as a result of a new union contract. 29 The wage-price spiral was in full swing and moving at a fast clip.

In summary, the economy prior to Phase I was characterized by a high rate of unemployment and a sluggish growth rate. There was a tax deficit of over twenty billion dollars and purchasing power was deteriorating due to a rise in prices. Interest rates were also on the upswing. The fires of inflation were being vigorously fanned as labor unions continuously pushed up wages in a losing battle against high prices. The American dollar was suffering from a chronic weakness, as evidenced by a balance-of-payments deficit.

28 Ibid., p. 18.
29 Ibid.
Earlier Attempts at Price Control

Phase I was not Nixon's first attempt at curing the ills of the economy--a point which added to the confusion afterwards. Direct government intervention was diametrically opposite to everything the President had said or done previously. In the August 21, 1971, issue of Business Week, the following statement was made:

The man whom viewers saw on their screens bore little resemblance to the President who had counseled them for two and a half years to sit tight and wait for the Administration's anti-inflation policies to take hold. This was a new Nixon, an activist ready to use muscle at home or abroad to make his economic policies stick.30

The watch-word of the day was patience--not action.

President Nixon's attitude on controls was expressed a month earlier by John Connally, his newly appointed chief economic spokesman. It was a speech designating the course of the Administration's economic policy in the near future.

Number one, he isn't going to institute a wage-price review board.
Number two, he isn't going to impose mandatory wage-price controls.
Number three, he isn't going to ask Congress for any tax relief.
Number four, he isn't going to increase fiscal spending.31

At first, Nixon seemed to go along with the game plan laid out by Connally. He vetoed a $2 billion public works

bill on the grounds that it would be slow to take effect and that it would be inflationary. The only offensive weapon used by the President was "jawboning." This was an attempt to hold down prices and wages by using the prestige and influence of his political office. In this capacity, he talked with representatives of the steel industry and the United Steelworkers Union prior to contract negotiations. In retrospect, the steelworkers received a 31 per cent pay raise which resulted in a subsequent 8 per cent increase in steel prices. Such results do not speak well for jawboning as an anti-inflationary weapon.

Nevertheless, the Administration appeared to be quite pleased with the stimuli which had been injected into the economy in the form of monetary and fiscal policies. They felt confident that the forces set in motion by such methods would bring about a recovery. All the nation had to do was wait.

A president is not solely responsible for deciding on a particular course of action. He is not an expert in the field of economics and, consequently, must rely on the advice of others who are. Therefore, Nixon's do-nothing policy was not completely his own doing. Part of the credit should go to economists like Milton Friedman who supported the program.

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32 Ibid., pp. 67-68.
33 Ibid., p. 67.
In an interview in *Newsweek*, Friedman stated:

In every area, he (Nixon) has taken the long view, set long-range objectives and policies, and sought to steer a steady course.  

Friedman described this approach as a three-component plan to slow inflation without a severe economic decline: (1) moderate fiscal restraint, (2) moderate monetary restraint, and (3) preservation and strengthening of free markets. Does this not sound like a perfect endorsement for a do-nothing policy—moderation in all things but above everything, preserve the free market? Friedman also foretold of a most promising end result for such a program:

His aim was not complete steadiness, but more severe restraint initially and, as the initial restraint slowed down inflation, an easing off to a path that could be continued indefinitely.

This policy also had the support of George Schultz, director of the office of Management and Budget. He is a staunch supporter of the free market and a firm believer in the ability of conventional weapons to guide the economy. Schultz saw no need for any additional action to be taken: "... time and the guts to take the time, not additional medicine," was all that was necessary. Under this type of coaching, a plan of this nature was not so strange.

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38 Friedman, *op. cit.*
In an attempt to comply with this advice, Nixon asked the Federal Reserve Board early in 1970 to increase the money supply. The idea was to stimulate business investment by making more money available. However, something went wrong. For some unknown reason, the growth of the money supply got out of hand. It started at a rate of 11 per cent and then quickly accelerated to a rate of 16 per cent by May. As an expansion measure, this was a failure; in fact, it compounded the problem. Some method had to be found to reduce the money supply and at the same time, prevent interest rates from rising out of sight. Many economists felt that the effects of the "May snowball" would really be evident a few months later and, when they were, inflation would receive a big push.39

Another, not so successful attempt along these same lines of moderation and passivism, was Nixon's stab at an income policy. The procedure was to hold down labor costs by setting a limit on wage increases. The first group to come under fire was the construction industry. To reiterate, the construction industry led the nation in wage increases with an 82.2 cents an hour raise. To administer the policy, the President established the Construction Industry Stabilization Committee on March 29, 1971. Its purpose was to

hold pay raises and fringe benefits to a 6 per cent yearly limit, with additional leeway for certain "equity adjustments." 40

Needless to say, the policy did not work. Had the guidelines been adhered to, the industry would have only received a 30-cent-per-hour pay boost. However, it did help some. According to the Bureau of National Affairs study cited previously, construction increases for the first part of 1971 were down 8.8 cents, but this was still 13 cents higher than the rate a year ago. 41

Were there any reasons for the program's lack of success? The trouble was attributed to two major factors: non-enforcement and "apparent inequity." With regard to enforcement nothing at all was said. In fact, the order setting up the stabilization committee did not provide for any type of enforcement procedures. It was hoped that building unions and employers would co-operate voluntarily in this effort to stabilize wage increases. 42

The other major drawback was the policy's limited coverage. By beginning with the construction industry, it appeared as if the Administration were singling out the blue-collar worker to bear the burden of the anti-inflation program. Also there was no mention of salaries, profits, or

41 Ibid., pp. 53-54.
42 Ibid., p. 53.
land costs. The thinking of the government was logical; i.e., start with the leader. However, as Robert Lekachman stated, this is not always enough: "To succeed, policies that limit incomes must not only be fair, but must appear fair to those who are going to be affected by them."\textsuperscript{43}

This policy was also limited in the industries it covered. For instance, the 6 per cent guideline was not applicable to the steel industry, since it had lagged far behind the others in receiving pay raises. Consequently, there arose a demand for comparable wages from this industry. According to I. W. Abel, president of the steelworkers union, his members would accept nothing less than 31.5 per cent--$1.10 an hour--increase over the next three years.\textsuperscript{44} In the final analysis, the Administration's passive approach had come to this:

If it tries to impose a 6 per cent guideline, the result will be a long strike that will halt the recovery in its tracks. On the other hand, an inflationary settlement will frighten the Fed into a less expansionist stance.\textsuperscript{45}

To close the discussion on income policies, here is a worthwhile comment by Lekachman:

The moral appears to be that as long as the Administration pursues a piecemeal approach, wage earners will cry "injustice" and will sabotage efforts at enforcement. Consequently, whether the Administration approach to an incomes policy is sound or not, as practical politics it is a disaster.\textsuperscript{46}

\textsuperscript{43}Robert Lekachman, "Lid on Wage Gains?", Dun's XCVII (May, 1971), 13.

\textsuperscript{44}Ibid.

\textsuperscript{45}Ibid.

\textsuperscript{46}Ibid.
With regard to wage and price controls, the Administration had gone full circle; it was now back to decontrol. It had hoped that the ability of the American economy to produce goods more efficiently would increase faster than wage settlements. However, this too proved to be a bad gamble. As of the second quarter of 1971, output per man-hour had increased at an annual rate of 2.8 per cent. On the other hand, hourly compensation had risen at a yearly rate of 7.6 per cent. The end result was a 4.8 per cent unit labor cost rise for industry, a cost which they intended to pass on to the public.47

At this point, one should have a basic understanding of the economic conditions prior to August, 1971, and some idea of the procedure followed in contending with the situation. However, the question remains, was it really necessary that something be done? If one agreed with men like George Schultz and Milton Friedman, the answer was "no." On the other hand, there were those of equal prominence who disagreed with this answer. For instance, John Kenneth Galbraith, in an article in Business Week, stated, "Mr. Nixon's action reflects the triumph of circumstances over ideology."48 A second yes-vote came from yet another distinguished


economist, Paul A. Samuelson: "Yes, the old game plan was performing disappointingly." 49

Further, but perhaps less convincing, support of the new economic policy came from the research staff of Fortune magazine. In the September issue of 1971, it stated, "Had no action been taken, there would have been an international crisis without postwar precedent." 50

A final comment on this subject was provided by the publishers of Time. As of July, they sized up the situation and arrived at two distasteful alternatives. The President could lower taxes and increase spending at the risk of widening the budget deficit and worsening inflation, or risk entering an election year with a sluggish economy. 51 Either choice could prove disastrous.

In the final analysis, Mr. Nixon made his choice. The alternative he chose was direct wage and price controls, a complete reversal of his former position-enter Phase I.


CHAPTER II

PHASE I
The Wage-Price Freeze

The wage-price freeze was not the only measure called for in Phase I, but it was the one which received the most publicity. The complete package consisted of four major parts: a ninety-day freeze on wages and prices, certain tax concessions and adjustments, setting the dollar afloat in international exchange markets, and a 10 per cent surcharge on all dutiable imports.¹

On Sunday evening, August 15, 1971, President Richard M. Nixon greeted the people of the United States with a most startling statement, "I am today ordering a freeze on all prices and wages throughout the United States for a period of 90 days."² This is a summary sentence taken from the executive order issued by the President under the authority of the Economic Stabilization Act of 1970. (See Appendix B for a copy of this law and its subsequent revisions.) The relevant portion of that order follows:

Section 1. (a) Prices, rents, wages, and salaries shall be stabilized for a period of 90 days from the

date hereof at levels not greater than the highest of those pertaining to a substantial volume of actual transactions by each individual, business, firm or other entity of any kind during the 30-day period ending August 14, 1971, for like or similar commodities or services. If no transaction occurred in that period, the ceiling will be the highest price, rent, salary or wage in the nearest preceding 30-day period in which transactions did occur. No person shall charge, assess or receive, directly or indirectly, in any transaction prices or rents in any form higher than those permitted hereunder, whether by retroactive increase or otherwise.

(b) Each person engaged in the business of selling or providing commodities or services shall maintain available for public inspection a record of the highest prices or rents charged for such or similar commodities or services during the 30-day period ending August 14, 1971.

(c) The provisions of Section 1 and 2 hereof shall not apply to the prices charged for raw agricultural products.

Section 2. (a) There is hereby established the Cost of Living Council, which shall act as an agency of the United States and which is hereafter referred to as the Council.3 (See Appendix C for complete text.)

First, let us consider the thinking behind the initiation of the wage-price freeze. According to an article in Business Week, the freeze was a mandatory response caused by inflation. It was feared that the other parts of the program, such as the tax cuts and the surcharge, would be interpreted as highly inflationary by the people in this country; and thus the Administration would appear to have given up trying to control inflation and now simply to be striving to soften some of the consequences. Therefore, the presence of inflation demanded that a wage-price freeze be enacted to put the

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3 "The Executive Order on Wages, Prices," U. S. News and World Report, LXXI (August 30, 1971), 64.
minds of the citizens to rest. The matter was stated very nicely by Herbert Stein, a member of the Council of Economic Advisors:

Different people came to this conclusion by different routes. It was a coalescence of international and domestic problems that produced this.

President Nixon himself had this to say about the freeze:

Now, first, with regard to our freeze, when you control prices and costs, there is automatically some control on profits.
Second, when there is control on prices and costs, the only way that there can be more profits is for the industry involved to expand, and that means more jobs. And we think that's good.

Implied here is a desire by the Administration to use the freeze as a tool to stimulate the economy. The government was hoping that people would buy more while prices were fixed, leading to increased business investment and lower unemployment. The end result of all these actions would surely be an economic recovery.

Of the two possibilities suggested, inflation must be considered the primary justification for the freeze. It was one way of diminishing the wage-price spiral which had been in existence for so long. It may be that the real reason for the freeze was, as one author believed, to give

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5Ibid.
7"Who Will Control the Price Controllers?" Consumer Reports, XXXVI (October, 1971), 612.
the Administration, in co-operation with labor and management, time to figure out what to do about inflation. For whatever reason, the month of August brought with it a 90-day freeze on wages and prices.

The Mechanics of the Freeze

Now we shall examine the freeze from a functional standpoint, including the agencies designed to administer it. As quoted earlier, the executive order issued by the White House specifically created the Cost of Living Council to be the primary agency for operating the freeze; however, there were also two others which figured in the mechanism—the Office of Emergency Preparedness and the Internal Revenue Service. (See Appendix D for diagram of the freeze machinery.)

The Cost of Living Council (COLC), chaired by Treasury Secretary John B. Connally, was the policy-making board for the freeze. Under the executive order, Nixon delegated all the powers granted to him by the Economic Stabilization Act of 1970 to the Council. This action made the COLC as powerful a price control agency as its World War II and Korean War predecessors.

According to a report by the Conference Board Record, the establishment of COLC was a complete surprise due to an implied attitude by the Administration that present controls

9Ibid., p. 22.
would be different from previous attempts. One possible explanation for this action was the fact that it shifted the responsibility for clarifying, expanding, and applying the new policy from the White House to this committee.\footnote{10}{"Wage Stabilization During the 90-Day Freeze," \textit{The Conference Board Record}, VIII (October, 1971), 9.}

The actual day-to-day operation of the freeze was handled by the Office of Emergency Preparedness (OEP). The OEP, under the leadership of George A. Lincoln, tried in vain to rise to the occasion. Ten regional offices were strategically established throughout the country and staff members were commandeered from wherever possible. However, confusion and the multitude of cases proved to be overwhelming. A primary source of confusion was the conflicting opinions issued by Treasury Secretary Connally and Secretary of Commerce Stans on the operations of the freeze.\footnote{11}{Ibid.}

The third agency, the Internal Revenue Service, was pressed into action as a means of aiding the OEP. The IRS, with offices in 360 cities, was supposed to provide help in handling the mass of cases. However, this did nothing to clear up the confusion and misunderstandings.\footnote{12}{Ibid.}

One of the greatest mysteries of the freeze was the exemption policy; which raises would be allowed and which ones would not? Equitable administration is a major prerequisite for the successful operation of any wage-price controls.
There must be as few exceptions as possible. The official word on this matter was presented by Chief Economic Spokesman, John Connally; exceptions will only be granted in the case of "an inequity of major catastrophic proportions."\(^{13}\)

The thinking is that with inequities so widespread and obvious, those most hurt by the freeze will feel simply unlucky rather than persecuted. Granting exceptions in anything but extreme cases would make those without exceptions think that they have been singled out to bear the brunt of the fight against inflation.\(^{14}\)

The rule was quite clear. Exceptions would be permitted only in cases of extreme inequity; however, it was the Cost of Living Council which must interpret this standard and make judgements accordingly. The following is a passage taken from the October, 1971, issue of *The Conference Board Record* concerning these judgements:

Council rulings soon exempted promotion increases if they were bona fide. Increases scheduled for apprentices under a certified program were exempt. Teachers were permitted to receive contract increases if the agreement specified a pay raise prior to August 15. Certain pension payments under existing plans could be increased, and so on.\(^{15}\)

This somewhat confusing mechanism should be viewed in the light of two very important points. Nixon intended the freeze to be both temporary and self-enforcing. The plan was not to accompany the freeze with the establishment of a


\(^{14}\)Ibid.

\(^{15}\)"Wage Stabilization During the 90-Day Freeze," *The Conference Board Record*, VIII (October, 1971), 9.
huge price-control bureaucracy.

Detailed administration, government officials feel, would simply erode this "moral power" and lead to the type of covert bending of the rules that has marked every previous price control scheme.16

Consequently, putting a sleeping agency like the Office of Emergency Preparedness in charge of the day-to-day operation of the freeze, was taken as proof of the intention to maintain a small temporary mechanism. Secondly, the COLC was made up of Cabinet members who presumably would be busy elsewhere. Further evidence was presented by the appointment of Arnold Weber as executive director of the Council. Weber is a protege of George Schultz, an ardent opponent of wage and price controls.17

With regard to enforcement, the emphasis was on voluntary co-operation; but what about the man who was not very co-operative? In an interview with Arnold Weber, he described the procedure used in handling a typical complaint.

The first thing we do is look at the facts presented. In many of these cases we find the complaints unjustified because the person hasn't properly defined the ceiling price. He has to keep in mind that the ceiling price is the price that prevailed for 10 per cent of the transactions in the base period provided that the ceiling can be no lower than the price that was in effect on May 25, 1970.18


17Ibid., pp. 22-23.

If, after this, there seemed to be any justification for an investigation, the matter was turned over to the Internal Revenue Service. The IRS continued the inquiry by telephone and field visits. Then, finally, if in their estimation, there had been a violation of the freeze; the landlord or businessman was asked to roll back the rent or price.19

However, suppose the culprit did not wish to comply with the request. Was there any way of encouraging him to act co-operatively? On this subject, the executive order stated:

Anyone caught raising prices or wages during the 90-day period is subject to a $5,000 fine, and the Justice Dept. is empowered to seek injunctions against any such attempts.20

So if one were an unco-operative person, the worst one could expect was a $5,000 fine or an injunction ordering compliance, which if violated meant "contempt of court" charges.

Reactions to the Freeze

How did the majority of Americans see the freeze? Was it a blessing or a punishment? One of the major components of the population to be considered is labor. Today organized labor is so strong that without its co-operation, any type of control program is doomed to failure. On this subject, the President of the AFL-CIO, George Meany, stated that the

19Ibid.

plan was "inequitable, unjust, unfair, and unworkable." These words of Meany typified labor's reaction, i.e., violent opposition.

It was not wage-price controls per se that labor opposed, but only this particular sample of them. On an earlier occasion, Meany was quoted as saying that wage and price controls were the only way to halt inflation and that if he were President, he would impose such controls now.

In this case, most of the opposition stemmed largely from the timing. The freeze was imposed at a time when several unions were in the midst of contract negotiations. It interfered with the west coast dock strike that had tied up twenty-four ports since July 1, 1971; and it interrupted a Teamsters' strike in northern California's construction industry which involved some 50,000 workers. Also affected were negotiations in the aerospace industry by the Machinists; bargaining by the United Auto Workers was disturbed; 80,000 mineworkers had contracts which expired September 30, as did 45,000 longshoremen in Atlantic and Gulf ports. This statement from the government brings the situation into focus:

According to the latest Government figures, 2.4 million workers in major union contracts (contracts covering 1,000 or more employees) are directly affected by the freeze: 70,000 workers are covered by contracts that will expire or have wage reopeners, 60,000 employees were scheduled for escalator adjustments, and 1.2

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21 "Wage Stabilization During the 90-Day Freeze," The Conference Board Record, VIII (October, 1971), 11.
22 Ibid., pp. 11-12.
23 Ibid., p. 12.
million were to receive deferred wage increases. This figure does not include 49 contract situations involving 150,000 workers, mostly in the apparel industry, whose contracts provide for either wage reopeners or wage adjustments depending on the movements of the Consumer Price Index, nor does it include railroad workers, postal workers, or Federal Civil Service.24

Although bad timing was at the root of some of labor's hostile reaction, there were other points which added fuel to the fire. For instance, there was the limited coverage of the freeze. Wages were to be strictly controlled but nothing was said about profits or dividends. Secondly, labor objected to the 10 per cent tax credit granted to businessmen on new machinery and equipment produced in this country and put into service after August 16. They claimed that it was "an industry giveaway" since industry was only operating at 73.2 per cent of capacity; consequently, very little increase was likely to occur in business spending for plant equipment.25

What about the rest of the people? How did they react to the freeze? Many people were hurt by the freeze. Others were helped by it; but over-all, the feeling was favorable. In particular, many businessmen were in a bind because they could not adjust their prices to offset wage increases granted before August 15. Food processors were extremely hampered because, although their prices were frozen, farm produce prices were free to rise.26

24Ibid., pp. 13, 15.  
25Ibid., p. 12.  
One of the groups made very happy with the situation was investors. The reason for their attitude was that profits, interest rates, and dividends were not included in the freeze. Nixon simply asked corporations to hold back dividend increases. The stock market was on the up-swing, especially those stocks reaping benefits from the tax concessions in this phase, i.e., capital goods companies, construction firms, and the auto industry. The bond market was also responding favorably to declining interest rates. 27

As for teachers, the outlook was not so good. The seasonal aspects of their job caused them to be especially hard hit by the freeze. All pay boosts for instructors had to be stopped until after the 90-day period. Others equally hard pressed were federal employees. Some 1.2 million federal white-collar workers and 2.7 million military personnel had to accept a six-month postponement of a 6 per cent pay raise. The freeze even restricted longevity pay for these workers. This effected another 275,000 civilians and 100,000 military people. Also, a flat $250 pay raise for 700,000 postal employees was cancelled. 28

However, the farmer fared quite well under the new program. The prices of farm produce were not controlled, while those of the things he bought were. The tax credits on machinery and equipment were also very helpful. 29

The plight of the retired person improved under the freeze. His fixed-dollar went a bit farther because price increases had been halted. Moreover, there was no ban on pension boosts or increased Social Security benefits. However, all this good fortune did not spread to the college student. Previously announced increases in tuition and room and board were permitted for the 1971-72 term.30

In regard to the American tourist, things fell pretty much back into place. The foreign exchanges reopened and once again began accepting dollars in unlimited quantities. There was only one slight difference; the dollar was now worth a few cents less than before.31 Generally speaking, it would appear that the freeze helped more than it hurt.

The Remainder of Phase I

The wage-price freeze was only one part of Phase I, and perhaps not the most important part at that. In many minds, setting the dollar afloat in the international exchange markets was an accomplishment of the first magnitude. This was an attempt to avert the dollar crisis described earlier in the introduction. In retrospect, the United States was experiencing a balance-of-payments deficit due to the undervaluation of certain currencies. To compound the situation, inflationary pressures in this country were high. President

30Ibid., pp. 24-25.
31Ibid., p. 25.
Nixon, exhibiting the influence of his advisors, stated that the overvaluation of the dollar was forcing America "to compete with one hand tied behind her back."³²

The currencies causing the most trouble were the mark, franc, and the yen. An earlier attempt was made to handle the matter by means of an international agreement, but Japan refused to comply; consequently, the President initiated a gold embargo. This act cut the tenuous but psychologically important link between the dollar and the yellow metal. Thus, the other nations were forced to do one of two things; either take an unlimited amount of irredeemable dollars at the old rate or reduce the price they would pay for dollars.³³

To provide additional pressure in the area, President Nixon imposed a 10 per cent surcharge on imports. In effect, this was "instant devaluation" because most of the goods shipped to the United States were highly sensitive to tariffs. Again, the idea was to enable the American businessman to compete in world trade on an equal footing by offsetting the price advantage of foreign goods gained through unrealistic exchange rates. Inherent in this power-play was a built-in offer to remove the surcharge when the other countries revalued their currencies.³⁴ However, the ultimate goal of

³⁴Ibid.
the entire gambit was a completely new international monetary system.

Now, this means that we need a new approach to the problem of exchange rates. We need a new system; the other one was crisis prone. And that is one of the reasons why the surcharge will not be removed until we get action on that front.35

It is policies like this which will put the United States in a strong bargaining position to bring about these results.

The major drawback to such drastic action was the fear of retaliation. This was primarily true in response to the surcharge. A statement that appeared in The London Financial Times pretty well reflected the less than jubilant attitude with which this part of Nixon's program was received abroad.

The Administration has set out an international policy which is the essence of hard self-interest. It is important that America's partners should respond in an equally realistic spirit.36

One of the countries hardest hit by these measures was Japan. The surcharge consequence is obvious, as thousands of items in the United States are stamped "made in Japan."

Concerning the gold link, the Japanese fought to maintain the old exchange rate between the dollar and the yen. The final result was the absorption of more than $1 billion in dollars by the monetary authorities of Japan.37

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37Ibid.
On the other hand, the United States got some relief in this situation. Most American exports were high-technology goods, and thus, were not tax sensitive. However, these countries could still have hampered our trade by establishing quotas. This, in effect, would have restricted our investments abroad. 38

With the wage-price freeze in effect, the Administration saw little reason to apply additional fiscal stimulation to the economy; consequently, the remaining part of Phase I was simply a weak gesture--the tax concessions. 39 Specifically, these measures called for a 10 per cent investment tax credit on all capital goods produced in this country and the repeal of the auto excise tax. The plan here was to provide businessmen with a reason to buy capital equipment and expand their plants, thus supplying more jobs; however, the end result might not be the desired one. The investment credit was 10 per cent only for the first year; after that, it dropped to five per cent. Therefore, businessmen might take advantage of this extra saving by spending immediately, resulting in the build-up of unnecessary plant capacities. Also, the repeal of the auto excise tax gave an artificial lift to the economy.


sale of 1972 cars. This creation of a false euphoria could lead to a big let-down later on.  

This completes the discussion of Phase I, Nixon's most dramatic move in the area of wage-price controls. This action was not to be the ultimate answer, but merely a launching pad for the main battery of controls--Phase II.

major components in a more detailed manner. The President presented the second segment of his program in six parts:

(1) Appointment of a 15-member Pay Board with equal representation of management, labor and the public. The board will set wage guidelines. It will have authority to prohibit, reduce or defer pay increases if it determines they are inconsistent with the standards.

(2) Establishment of a Price Commission of seven public members. It will work out standards for acceptable price and rent increases and administer those standards.

(3) A request to Congress by Mr. Nixon for authority—which the President said he does not plan to use—to control dividends and interest rates.

A special committee, headed by Arthur Burns, Chairman of the Federal Reserve Board, will set up and put into action a program of voluntary restraints on both dividends and interest, such as has been used in the current freeze.

(4) A policy of clamping down on any "windfall profits" that may accrue to companies that find their earnings increased "exorbitantly" as the result of a hold-down on wages and other costs. The Price Commission will have the task of policing this area.

(5) A drive to boost productivity—output per man-hour—as a means of curbing prices and spurring production.

(6) Special efforts to find ways of holding down costs of medical care, and to foster economies in the operation of State and local governments.

Having presented the basis of Phase II, the remainder of this chapter will be devoted to studying the machinery designed to implement the program. More specifically, primary attention will be given to the Pay Board and the Price

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Commission; however, some space will also be allotted to the Cost of Living Council and the Committee on Interest and Dividends.

Price Commission

President Nixon introduced the Price Commission to the nation by means of a nation-wide television broadcast:

I am appointing a Price Commission to hold down prices. It will be made up of persons outside of Government--all public members, not beholden to any special-interest group.

The Price Commission will develop yardsticks and will be empowered to restrain price and rent increases to the necessary minimum, and to prevent windfall profits. Its goal will be to continue to drive down the rate of inflation.

This goal, however, can only be achieved with the active co-operation of workingmen and businessmen, farmers and consumers, members of the Congress, of our State and local governments. This means all of us.  

Early in November of 1971, the names of these public members were announced. The Commission was composed of seven people with, C. Jackson Grayson, dean of the business school at Southern Methodist University, as its chairman. The remaining commissioners included William Scranton, former governor of Pennsylvania; John W. Queenan, a retired partner in a New York accounting firm; William T. Coleman, a partner in a Philadelphia law firm; Marina Whitman, an economics professor at the University of Pittsburgh; Wilson Newman, an official in the National Bureau of Economic Research; and

Robert Lanzilotti, dean of the business college at the University of Florida. 5

The first order of business for the Commission was to establish the price guidelines by which decisions were to be made. On November 11, 1971, the Price Commission issued an official statement defining its purpose and setting the standards by which it would operate:

The policies of the Price Commission announced herein are designed to achieve a goal of holding average price increases across the economy to a rate of no more than 2.5 per cent per year. This in line with the President's goal to stabilize the economy, reduce inflation and minimize unemployment and with the Cost of Living Council's objective of reducing the rate of inflation to not more than 2 to 3 per cent by the end of 1972. 6

Regarding its pricing policy, the Commission stated,

Prices may not exceed their freeze period levels except as changed by published regulations or on order of the Commission.

The basic policy is that price increases will not be allowed except those that are justified on the basis of cost increases in effect on or after Nov. 14, 1971, taking into account productivity gains. While price increases, in the aggregate, must not exceed 2.5 per cent per year, many adjustments will be below 2.5 per cent, and some will be above 2.5 per cent as justified on the basis of cost increases and other factors. Price increases will not be granted to any individual or firm to provide retroactive relief for the impact of the Aug. 16-Nov. 13, 1971, freeze. 7


7 Ibid.
This statement also made reference to regulated industries and windfall profits. Regulated industries would still be answerable to their respective regulative authority, but the Commission now claimed the right of final approval in all cases involving price increases. On the subject of windfall profits it explained, that in order to achieve the goal of reducing inflation to 2-3 per cent by the end of 1972, regulations would be enacted to convert windfall profits into price reductions. 8 This was the first official statement issued by the Price Commission and it was hurriedly compiled to furnish the nation with some type of pricing standards following the freeze; consequently, several updates and clarifications were published later. (A few of these will be dealt with in the latter part of this section.)

What type of coverage was Phase II designed to have? In theory, every industry was supposed to be covered; however, the greatest surveillance was given to those industries and unions that had the biggest impact on wages and prices. 9 Evidence of this coverage was provided by the reporting procedure dictated by the Price Commission for firms desiring a price raise;

(a) Firms with sales of 100 million dollars or more must prenotify the Price Commission on proposed price increases. Unless the Commission advises otherwise

8Ibid., p. 89.

within 30 days after the notification is received, the notified price changes may take affect.

(b) Those firms with sales of between 50 million dollars and 100 million dollars must make quarterly reports to the Price Commission on changes in price, costs, and profits.

(c) All other firms are not required to prenotify or report on a regular basis, but will be subject to the standard and criteria that the Price Commission will establish.\textsuperscript{10}

In terms of actual numbers, the first tier included some 500-1,000 companies. The second category encompassed another 6,000-10,000 concerns. The remaining businesses fell into the last group.\textsuperscript{11}

In general, the Price Commission announced that aggregate price increases must be held to an average of 2.5 per cent annually; this meant that some raises would be allowed which were above this level. The question was, how to determine the amount of raise permissible? The key seemed to lie in a firm's profit margin. In no case could prices be increased to the point where a company's profit margin—the ratio of pretax profits to sales—was raised above a certain base. This base was determined by obtaining the average of the best two of a firm's last three operating years ending before August 15, 1971. In the final analysis, a price increase could not push the profit margin over this average.\textsuperscript{12}


Now we know that the amount of a price increase depended upon the relationship of a company's profit margin to its base period; but just how did one go about raising the prices? If a business was in either group two or three, all it had to do was follow the guidelines, make the change, and then hope for the best; but what about those in group one? For them, the procedure was not quite so simple. They had to file a PC-1 form and an accompanying letter with the Commission for each price increase. This form was specially developed by the Commission to provide it with data on prices, costs, productivity, and profit margins. This form was obtained from the local stabilization office. The Commission also had access to other information about an enterprise from reports by the Security and Exchange Commission.13

Having received the request, and accompanying PC-1 form, the data was forwarded to an analyst from one of several divisions: mineral and chemical production, basic materials, machinery production and fabrication, transportation, trade, services, foods and textiles, public utilities and regulated industries, and rent. The analyst's job was to evaluate the information and arrive at a recommendation. From here the case was reviewed by a committee or the chairman himself, and a final decision was then reached.14


14"A Price Policy is Born," Nation's Business, LX (March, 1972), 34.
The Price Commission had a maximum of thirty days to reach a decision and notify the company. However, in most cases, if news had not been received within seventy-two working hours, the price change could take effect.15

In theory the reporting system sounded good--bear down hardest on the "big boys"--but in the light of reality, several drawbacks were exposed. The PC-1 form itself was not that informative. It was drafted in a hurry by auditors and accountants to control a sector of the economy with which they were not connected. Secondly, the analysts themselves were also auditors and accountants, not trained businessmen; consequently, they were very confused by the complicated organization of today's giant corporations. Another problem appeared as staff members became involved in calculating productivity rises. This particular problem was extremely apparent in relation to service industries.16

Coupled with these internal limitations, was a very important external one--paperwork. The Price Commission had only a staff of around four hundred people to cope with all the requests and complaints, not to mention wrestling with the mountain of difficult calculations. However, there might have been method in this madness. Delays could have


been part of the plan. For after all, a price increase delayed was a price increase denied, at least for the present.17

In defense of this procedure, it should be remembered that the entire system was based on voluntary compliance. All staff members were hired primarily to provide services, such as furnishing information, advice, interpretations, and rulings. In this respect, the Commission had also commandeered the assistance of the Agricultural Stabilization and Conservation Service. Its people had been trained and given the necessary information to respond to inquiries. However, this assistance was only on a part-time basis.18

There was one attempt made to refine this awkward system--term limit pricing (TLP). The idea came out of the home office of Dow Chemical Corporation in Midland, Michigan. It was the result of work done by Alden J. Klomparens, assistant general sales manager; M. H. P. Morand, vice-president in charge of marketing; and W. B. Burks, comptroller. On December 9, 1971, it was announced by the Price Commission and was officially known as Decision List #12.19


TLP provided several advantages besides reducing some of the work load on the Commissions's staff. It gave firms in tier one flexibility in establishing prices without themselves becoming bogged down in paper work. Term limit pricing was also in keeping with Nixon's goal of voluntary controls and a small bureaucratic system of administration. If the situation remained the same, it was estimated that the present 140 analysts would have had to process some 40,000 requests annually.20

Dow Chemicals came to the rescue for purely selfish reasons. The former means of control were seriously threatening its market flexibility. Dow had arrangements with many of its customers which prevented price changes except on a quarterly basis. Secondly, it produced well over a thousand products; therefore, the task of submitting a request for a raise on each and every item would have been overwhelming.21

The end result of Dow's work was a blanket increase on all products. It came in the form of a 2 per cent average base price raise; however, there were certain stipulations that went with this concession. First, Dow could not submit another price request for a full year. Also, they must file quarterly reports, not exceed the agreed upon goal in any quarter, and could not recoup in following quarters.

20Ibid., pp. 32, 38.
21Ibid., p. 36.
The firm itself was responsible for administering these controls internally. From all this came the unheralded announcement of Decision List #12-Term Limit Pricing.\textsuperscript{22}

On December 22, the Price Commission published its new simplified approach to price increase approvals for group one firms in order to insure long-term price stability. Only price increases of 2 per cent or less, across the board, would be considered. A parent company could apply for a price increase covering all product lines for a twelve-month period. These increases were subject to standards governing profit margins, costs, and adjustments for productivity and volume changes. Top limits would be set for individual price raises.\textsuperscript{23}

Just what advantages did a company receive under this type of arrangement? A firm that used TLP could change individual prices any time during the twelve-month period without first notifying the commission, provided the weighted average price increase did not exceed the approved level and the top limits were observed.\textsuperscript{24}

Now, let us re-focus our attention on the guidelines established by the Price Commission. As noted earlier, the original list was amended several times, as dictated by individual cases. No attempt will be made in this paper to mention all of these; however, a few will be listed simply.

\textsuperscript{22}\textit{Ibid.}, pp. 36, 38. \textsuperscript{23}\textit{Ibid.}, p. 38. \textsuperscript{24}\textit{Ibid.}
as an illustration of change. Concerning regulated indus-
tries, the change was toward more stringent supervision.
The Price Commission began by suspending all pending rate
hikes for privately owned utility companies. The former
policy had been to rubber-stamp any utility raise authorized
by the regulating agency. This new position was a result of
complaints received by the Commission. They discovered that
40 per cent of their mail was complaints in this area. After
this realization, the members began a closer examination of
the situation and found that many of the 900 increases being
granted by local agencies were not even remotely related to
the overall limit of 2.5 per cent. In fact, several were
around the 10 per cent mark, while others soared as high as
30 per cent.\footnote{25}

A second difficulty arose in the area of prenotification
for firms in tier one. The focus here was on conglomerates,
large, diversified companies. Conglomerates no longer had
to prenotify the Commission of a price change in one of their
divisions, unless that particular division had sales above
the $100 million level. Previously the sales of the entire
company were considered and a request for a change in any
division, no matter how small, had to be made by the parent
firm.\footnote{26}

\footnote{25}{"Tackling the Sticky Ones," \textit{Time}, XCIX (February 21,
1972), 23-4.}

\footnote{26}{"A Sharper Focus on Phase 2 Controls," \textit{Business
Week} (January 29, 1972), 58.}
The last illustration of revision in this section concerns small businesses. The Commission amended its rules to exempt all retail businesses with annual sales of less than $100,000 from any type of control. However, small service industries, such as television repair shops and dry cleaners, were to remain covered. It was reasoned that, although such small retail businesses made up about 75 per cent of the total number of retail firms, they only accounted for about 15 per cent of total retail sales; consequently, market forces would keep their prices in line.\textsuperscript{27}

These changes pleased some people and displeased others. Many people saw them as a gamble, which in fact the Administration conceded, by reserving the right to change its mind. Specifically, members of the Price Commission visualized the new ruling on conglomerates as a means of allowing some of the giants to slip completely out of group one and thus, avoid close scrutiny. As for the new attitude toward "mom and pop" stores, a few contended that it could let loose some of the ghetto businesses which exerted extensive pricing power in their neighborhood.\textsuperscript{28}

Before leaving this discussion on regulations and standards, it should be pointed out that not everything was meant to be controlled. Several items were completely exempted from any type of restriction. Included on this list

\textsuperscript{27}Ibid.
\textsuperscript{28}Ibid.
were such things as used products, collector's coins and stamps, raw farm produce, raw seafoods, royalties and copyrights, federal, state, and local taxes, stocks and bonds.  

To conclude this section, some individual cases will be presented to show the Price Commission at work. A good point to keep in mind here is, how well did these decisions adhere to the established guidelines? Was there any consistency throughout the cases? As early as November, 1971, the Commission began granting individual price increases above the 2.5 per cent guideline. During this month, it approved three such hikes. One was a 7.6 per cent raise on tin mill products for the Bethlehem Steel Corporation. The second amounted to a 7.2 per cent push on similar products for the National Steel Corporation. These tin mill products accounted for 67 per cent of total industry shipments. The third over-limit raise was a 3.9 per cent boost on products of Western Electric.

Gradually the Commission started getting tougher in an attempt to hold the line against inflation. In December of the same year, it trimmed a 6.71 per cent price raise by the Old Ben Coal Corporation to 3.78 per cent. This was in the wake of an approved 15 per cent boost in wages and fringe benefits for the coal miners. Thus, less than 60 per cent

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of this rise in labor costs was allowed to be offset by higher prices and passed along to the customer. The Commission was serving notice to the businessman that, no matter what the Pay Board did, it was standing fast against inflation.31

The Commission continued this steadfast attitude in relation to the automobile industry. Because of their efforts, retail price increases on 1972 model cars were 40 per cent smaller than had originally been planned by the "Big Three" automobile producers. General Motors had originally announced a 4.3 per cent raise, but this figure was trimmed to only 2.5 per cent. Ford declared a 5.25 per cent hike; however, they were granted an increase of just 2.9 per cent. Chrysler posted a 5 per cent jump and received most of it, 4.5 per cent. Nevertheless, Chrysler followed the lead of General Motors and increased its prices only 3 per cent.32

Thus it seemed that after approving a few over-scale raises, the Commission had finally settled down to the task at hand. According to U. S. News and World Report, the Commission had received five hundred requests for price increases by December 3, 1971, but had granted only fifty. This number also included those which had been granted and

32Ibid.
scaled down. Of the total amount submitted, some were rejected; others were still pending; and several were returned for additional information.33

One very interesting problem acted on by the Commission was spiralling medical costs and, surprisingly enough, they took a harsh stand against the matter. The members ruled that doctor's fees must be limited to an average annual increase of 2.5 per cent. They even placed a ceiling of 6 per cent on hospital cost increases.34

The setting of these health guidelines manifested itself in several other things. The Commission later stated that any aggregate wage or salary increase, including fringe benefits, which exceeded 5.5 per cent could not be passed on in the form of higher prices. Secondly, it caused the Commission to change one of its own rules. Every health institution, no matter how small, was required to report any price increase above 2.5 per cent, with full cost justification. Formerly, only those enterprises with sales of $50 million or more were obligated to file any type of reports whatsoever.35

This action also led to the expansion of the enforcement mechanism. Every governor was now required to appoint a state advisory board as the first level of a price increase review

33Ibid.
35Ibid.
system for institutions requesting raises above 6 per cent. From here the enforcement road took the usual path through the Internal Revenue Service and then on to the Commission.36

Lastly, it brought about something which had been a goal of medical reformers for several years. Doctors, as well as hospitals, were ordered to post base prices and subsequent increases prominently in their places of business. Interestingly enough, the American Medical Association accepted these measures without even a whimper.37

This last example demonstrated the ability of the Price Commission to amend its guidelines as the different situations presented themselves. In this particular instance, the Commission granted price increases to two subsidiaries as if they were independent companies. The two firms involved were Jones and Laughlin Steel Corporation, a subsidiary of Ling-Temco Vought, Inc., and the Enjay Chemical Company, owned by Esso Chemical Company—an affiliate of Standard Oil of New Jersey.38

Prior to this point, the parent company had to apply for all price increases and the decision was based on whether or not the raise would lift the parent's profit margin above the ceiling established for it. Now, the parent company still had to initiate the request, but, if

it could make a strong enough case, the Commission would consider the subsidiary to be an independent firm with its own profit margin.\footnote{Ibid.}

According to Ling-Temco Vought, it received income from its steel subsidiaries only through dividends; consequently, the Commission could not relate the granting of a price increase for Jones and Laughlin to the parent company's operating profits. Thus, the Commission examined the profit margin of Jones and Laughlin and found it very low. The end result was the granting of an exception to the profit margin requirement and a 4.56 per cent increase on steel mill products for Jones and Laughlin. This move was expected to raise their revenue by 3.64 per cent.\footnote{Ibid.}

The Enjay Chemical case was much simpler. It received its increase under the limitations of term limit pricing, and this was also the primary reason for its approval. The idea was to encourage firms with diverse product lines to use this procedure.\footnote{Ibid.}

There did not appear to be any discernable pattern for approving price increases. The guidelines were not strictly adhered to and the reasoning for approval or rejection seems to have been haphazard. The entire procedure was very confusing. One clue to the granting of these decisions might be in the words of a White House aide, "It is easier to be
for pay raises than to be against them, but easier to be
against price raises than for them."42

Pay Board

The other major control mechanism in Phase II was the
Pay Board. President Nixon initiated it in the following
manner:

I am also appointing a Pay Board to stop inflationary wage and salary increase--the kind of increases that
don't really benefit the workingman. For example, in
the past six years workers have received big wage in-
creases. But every wife of a worker, who has to do the
family shopping, will tell you that those increases
have practically all been eaten up by rises in the
cost of living.

The Pay Board will be made up of representatives
of labor, management and the public. Both the Price
Commission and the Pay Board will seek voluntary co-
operation from business and labor, but they will be
backed by the authority of law to make their decisions
stick. Their staffs will be small. Stabilization
must be made to work not by an army of bureaucrats but
by an all volunteer army of patriotic citizens in every
walk of life.43

The Pay Board was designed to be the keystone of the
new restraint program. It was also established as an auton-
omous panel. This meant that, if the White House felt the
rulings made by the Board were too lenient to drive inflation
back to the goal of 2-3 per cent, Nixon's only recourse was
to dissolve the machinery and start again. The second
characteristic was a stipulation set forth by organized

42"Price Controls Get Tougher," U. S. News and World
Report, LXXI (December 13, 1971), 40.

43"How Nixon Spells Out His Postfreeze Program,"
U. S. News and World Report, LXXI (October 18, 1971), 82.
labor as assurance that the Board would not be under the thumb of the Administration. The President agreed in light of the failure of wage-price restraints in other countries due to the lack of cooperation of organized labor.\textsuperscript{44}

The Pay Board was composed of fifteen members, five from each of three groups—the public sector, the business sector, and organized labor. The five representing the public were: George H. Boldt, federal district judge for the state of Washington; Arnold Weber, former director of the Cost of Living Council; Neil H. Jacoby, professor of economics and business, University of California at Los Angeles; William Caples, the president of Kenyon College in Gambier, Ohio; and Kermit Gordon, president of the Brookings Institute.\textsuperscript{45}

The seats acknowledging the business sector were occupied by Rocco Siciliano, president of T. I. Corporation, a holding company; Virgil Day, vice-president of General Electric; Robert Bassett, chairman of a Chicago publishing company; Leonard McCollum, chairman of Continental Oil; and Benjamin Biaggini, president of Southern Pacific Company.\textsuperscript{46}

The views of organized labor were well represented by George Meany, president of the AFL-CIO; I. W. Abel, president of the United Steelworkers Union; Leonard Woodcock, president

\textsuperscript{44}"Phase 2: How It Will Work," \textit{Business Week} (October 16, 1971), 21.


\textsuperscript{46}\textit{Ibid.}
of the Machinists and Aerospace Workers; and Frank Fitzsimmons, president of the Teamsters Union.47

The first order of business for the new Pay Board was to establish some guidelines.

Effective Nov. 14, 1971, the general pay standard shall be applicable to new labor agreements and, where no labor agreement is in effect, to existing pay practices. The general pay standard would provide:

On and after Nov. 14, 1971, permissible annual aggregate increases would be those normally considered supportable by productivity improvement and cost-of-living trends. Initially, the general pay standard is established as 5.5 per cent. The appropriateness of this figure will be reviewed periodically by the board, taking into account such factors as the long-term productivity trend of 3 per cent, cost-of-living trends and the objective of reducing inflation. In reviewing new contracts and pay practices, the Pay Board shall consider collective-bargaining and pay practices and the equitable position of the employees involved, including the impact of recent changes in the cost-of-living upon the employees' compensation.48

Concerning existing contracts, the Board added this further note.

Existing contracts and pay practices previously set forth will be allowed to operate according to their terms, except that specific contracts or pay practices are subject to review, when challenged by a party at interest or by five or more members of the Board, to determine whether any increase is unreasonably inconsistent with the criteria established by this Board.49

What about the raises that came due during the freeze?

The official word stated that workers could start collecting

47Ibid.
49Ibid.
the new wage immediately after the freeze, but they would not be permitted to receive the pay lost while the freeze was in progress. However, there are exceptions to every rule and this one regarding retroactive pay was no different.

Scheduled increases in payment for services rendered during the freeze of Aug. 16 through Nov. 13, 1971, may be made only if approved by the board in specific cases. The board may approve such payments in cases which are shown to meet any of the following criteria:

(i) Prices were raised in anticipation of wage increases scheduled to occur during the freeze.

(ii) A wage agreement made after Aug. 15, 1971, succeeded an agreement that had expired prior to Aug. 16, 1971, and retroactivity was an established practice or had been agreed to by the parties.

(iii) Such other criteria as the board may hereafter establish to remedy severe inequities.

The Board did offer one ray of hope in this area.

No retroactive downward adjustment of rates now being paid will be required by operation of the general pay standard unless the rates were raised in violation of the freeze or of the general pay standard.

The Pay Board also issued rulings on several subjects not mentioned in the initial statement. These included such things as future pay raises, executive compensation, longevity pay, and incentive plans. On the matter of future pay raises, the Board ruled that increases of this nature written into existing contracts would be allowed to take effect even though they might exceed the 5.5 per cent guideline, unless,


52Ibid.
of course, the raise was challenged. According to the official word, executives would not receive any special consideration from the Board. All pay guidelines were to apply equally to executive salaries and benefits, including the 5.5 per cent limit.

The question of longevity raises seemed to cause the Board some trouble. It first defined these raises as those a worker is entitled to, under a contract or employment agreement, after laboring a specified length of time. In an early ruling, the Board maintained that this type of raise was not limited by the 5.5 per cent ceiling. However, in a later decision, it stated that existing provisions for merit increases, whether written into labor contracts or applied as part of a company's general salary policy, could not result in pay boosts higher than 7 per cent. Secondly, most new merit contracts must conform to the even lower 5.5 per cent for overall pay raises. This latter statement was somewhat of an improvement over the former. It applied equally to all employees. The initial ruling only made reference to union workers. They were the ones to be exempt from the 5.5 per cent ceiling. Nothing was said about non-union employees.

54 Ibid., p. 23.
Even though this new position appeared to be more equitable, it did not alter the situation very much. The main reason was at that time few workers were covered by contracts which contained specific rules for merit increases. The employees usually just received a raise whenever their boss felt they had successfully completed a trial period. The major burden of this decision fell on the salaried employee, who negotiated individually for pay raises.57

The final item, regarding information on specific pay questions, dealt with the matter of incentive plans.

Companies with written bonus plans in effect before Nov. 14 can make their accustomed incentive payments, provided that the total is no more than 5 1/2% greater than the highest amount they spent for incentive compensation in one of the past three fiscal years. Companies without formal plans--those that rely on year-to-year discretionary bonuses--can make payments if they have paid incentive compensation or bonus awards in two of the past three fiscal years prior to Nov. 14. They are subject to the same payment regulations as bonus-plan companies.58

However, the above statement was not meant to be taken as the last word. The Pay Board indicated that exceptions to these guidelines might be possible. The outcome depended on whether a firm could show that its incentive program was directly related to increased productivity. This loophole stemmed from the claim by many executives that top level productivity could best be measured by company profits.59

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57 Ibid., p. 24.
58 "Bonuses as Usual, But Not For All," Business Week (January 1, 1972), 19.
59 Ibid.
Even without the granting of an exemption, it was still possible for corporations to give bonuses greater than the limit. Such a maneuver was allowed under the general 5.5 per cent wage and salary standard applied to each employee unit. For example, if a company decided to grant bonuses higher than 5 1/2% of its base period, all it had to do was make cutbacks in other kinds of compensation.\(^{60}\)

There was also an official statement issued on the subject of stock options as a form of monetary compensation.

The Pay Board also indicated that stock options granted before Dec. 16 may be exercised. New options may be granted, but they must be issued at 100% of market value, and companies cannot award more shares under older plans than they did during an average of the past three years prior to Aug. 15. For newer option plans in existence less than three years, the company cannot award more shares than the average number granted annually during the plan's existence.\(^{61}\)

All the restrictions and limitations mentioned so far seem to revolve around the figure 5.5 per cent. Just what did it really mean? It meant that the overall pay raises must be held to 5.5 per cent of the base period; i.e., the pay scales in effect for the twelve-month period immediately prior to the beginning of 1971. The base period started with the labor contract's effective date, providing there was such an agreement; otherwise, the period began with the end of the freeze, November 14, 1971.\(^{62}\)

This figure did not apply to individuals, but to the average increase granted to an "appropriate employee unit." Such a unit was usually a company but it could be a large department or bargaining unit within a company or, in some cases, an entire industry. Consequently, one person could receive a raise of 10-20 per cent, as long as others obtained little or no gain. All a firm had to do was make sure the end result of its pay manipulations did not exceed the magic number.63

As in the case of prices, there was also a reporting procedure for pay raises. It too, concentrated on the large corporations.

Wage increases affecting 5,000 or more workers will have to have prior approval of the Pay Board. Pay raises affecting 1,000 to 5,000 workers can be given without advance permission provided the company files a report with the Pay Board on the size of the raise and the number of employees involved. And wage increases affecting fewer than 1,000 workers need not be reported. In both cases, the actions will be subject to spot checks by the Government.

The Cost of Living Council notes that some companies may be in one category for prices and another for wages. In such cases, the Council may require employers who must give notification for pay increases to do the same for price increases, even if they do not fall into the category of a large or medium-sized company.64

In the matter of reporting, the Pay Board issued a special rule with regard to the construction industry. As previously noted, this industry led the nation in magnitude


of pay increases. To cope with this situation, the Board demanded that all firms in the building trade, regardless of size, provide advance notification of any wage increase.65

A second characteristic common to both wage and price controls was that of exemptions. To round out this maze of pay regulations, the Board announced that employees making less than the federal minimum wage, government workers whose pay is controlled by Congress, and the military were exempt from any restrictions. The exempt list also contained other types of payments such as workmen's compensation, Social Security benefits, welfare allotments, royalties, alimony, and child support.66

To provide additional insight into the conditions found by the Pay Board, selected decisions are presented. An examination of cases will illustrate the problems and work of the Pay Board. To begin with, let us return to a ruling mentioned earlier in the section on the Price Commission--soft-coal. The crux of the matter was the approval of a 15 per cent increase for mine workers. The Board based its decision on the fact that there were certain equities in the mine bargaining which they recognized. According to Virgil Day, an industry member of the Board, "To have done otherwise would have undermined the Phase II program."67

65Ibid.


One interpretation of this decision was the establishment of the policy to be followed by the Pay Board; i.e., "getting the last cows through the gate and then closing it." The "last cows" were pictured to be the railroad, dock, and aerospace workers because they were involved in bargaining from the last 1971 negotiating period. Once these stragglers were in, the Board, through the words of Day, promised 1972 would become a 5.5 per cent year and 1973 would be the same or less. 68

The reasoning for the previous decision seems puzzling. The following example is also quite confusing. It involved two segments of the same industry which were handled in a completely different manner. On the one hand, the Board vetoed an agonizingly negotiated settlement between the West Coast Longshoremen's Union and the Pacific Maritime Association and then turned right around and approved a large pay increase for two of Trans-World Airlines' top executive officials. Why? Both raises involved portions of the transportation industry. The basic difference seemed to be that one centered around poor people who performed manual labor while the latter focused on the elite. 69

Perhaps a little more information might add some insight to the situation. One of the officials involved was Charles

68Ibid.

Tillinghast, chairman of Trans World Airlines. His increase amounted to a 75 per cent jump over the next three years. Specifically, Tillinghast's salary went from $100,640 to $125,000 in 1972, which increased to $150,000 in 1973, and then finally reached $175,000 by 1975. These Figures did not include stock options, generous retirement plans, or other fringe benefits.70

The other executive concerned was E. C. Wiser, second in command at Trans World Airlines. In 1971, his salary was $95,337; it was raised to $120,000 in 1972. After this initial boost, Wiser was to receive a $20,000 raise annually until at least 1976, by which time he was guaranteed an income of $180,000. The stipulation with regard to fringe benefits applied here as it did in the Tillinghast case.71

As justification for such action, it was suggested that these two men were responsible for getting Trans World Airlines out of the red. However, a closer examination of this point revealed something altogether different. It was true that in 1971 the company began to show a small profit, but it was also true that these same men were in control when losses were being recorded.72

Another surprising fact was that this dynamic team actually did nothing to bring about the new prosperous position. The profits resulted from the cancellation of the government-subsidized supersonic transport, a project

70Ibid., p. 452. 71Ibid. 72Ibid.
feverishly supported by Tillinghast. Following this cancellation, legislation was passed to return the money contributed by the airlines--$1 million for each delivery position held. Through this action, the taxpayers gave Trans World Airlines some $18 million. The end result of this pay raise was to reward Tillinghast and Wiser for a situation they did not create but in fact, fought hard to prevent. In reality, the profits came from a windfall paid for by the taxpayers.\footnote{Ibid.}

The final decision to be presented here concerns the aerospace industry. In this instance, the Pay Board vetoed a fifty-one cent an hour raise primarily because of the criticism it received for granting the 15 per cent increase to soft-coal miners and the 46 per cent increase to railway signalmen. This request only amounted to 12 per cent, thirty-five cents of which was a cost-of-living increase that had been deferred under the terms of the 1968 contract. After making this allowance, the request was well within the 5.5 per cent guideline established by the Board.\footnote{"The Phase that Launched 1,000 Slips," Newsweek, LXXIX} Nevertheless, it was still denied.

What do these examples show? Some raises were allowed to get a "last cow" through the gate. Others were denied because of criticism received from letting a "cow" through
the gate. One was approved to raise men's salary from one hundred thousand dollars to almost two hundred thousand dollars. Then there were those well within the guidelines, and yet not permitted. As with the price decision, no logical pattern based on the guidelines is apparent.

Having now discussed both the Price Commission and the Pay Board, this seems like an appropriate place to look at the enforcement mechanism. Similar to the freeze, Phase II was designed to operate on a voluntary basis. Nevertheless, President Nixon did make allowances for the uncooperative individual.

... But if there are some who try to take advantage of the patriotic cooperation of their fellow Americans, I can assure you that the Government must be and will be prepared to act against them.

For that reason, in a meeting with the bipartisan legislative leaders today in the Cabinet Room, I have asked the Congress to extend for one year the Economic Stabilization Act which gives the President the power he needs to stop inflation.75

The details of the system were spelled out in an interview with Donald Rumsfeld, director of the Cost of Living Council. The mechanism began with the stabilization offices, otherwise known as the Service and Compliance Administration. This branch was manned by 3,000 people, mostly agents of the Internal Revenue offices scattered throughout the country.76

This local segment reported to Rumsfeld, who in turn answered to John Connally, chairman of the Cost of Living Council.77

The purpose of the local stabilization offices was to answer inquiries, furnish advice, and provide rulings, as well as to receive complaints. If there were any questions which could not be handled at this level, they were forwarded to the proper authority; i.e., the Cost of Living Council, the Pay Board, or the Price Commission.78

Violators were made known to these offices either through their own investigations or by a complaint. When this occurred, a systematic inquiry was conducted to determine the validity of the violation. During the examination, agents had access to all source documents, including tax returns.79

If, in fact, it was determined that a violation had been committed, the government had several options as means of punishment. It could levy a $2,500 civil fine or a $5,000 criminal fine. It also had the power to seek injunctions, subpoena information, and the power to seek restitution. Both types of fines could be levied against individual and corporations.80

However, as the law stood, there could be no jail sentences unless an injunction was violated. Then normal contempt of court proceedings could be initiated. Consequently, most cases were resolved by some sort of informal

77 Ibid. 78 Ibid. 79 Ibid. 80 Ibid., p. 45.
settlement. This was the same procedure used during the freeze. Also noteworthy, very few violators during the freeze were turned over to the Justice Department because the culprits simply stopped what they were doing. This type of law enforcement implies that people who disregard the regulations and get caught, need only to mend their ways.81

Committee on Interest and Dividends

In Phase II, President Nixon rejected the proposal to tax corporate profits because he felt that such profits were needed to fuel the business expansion which would cut unemployment and create jobs.82 However, he did establish a Committee on Interest and Dividends.

. . . Consequently, I am appointing a Government committee on interests and dividends to apply a yardstick to both of those areas. That committee will be headed by Dr. Arthur Burns, Chairman of the Board of Governors of the Federal Reserve System.83

At this time Nixon seemed to be preoccupied with the high interest rates, as he used them to justify his new Committee.

The nation needs interest rates as low as they can be to meet the credit requirements of American families on equitable terms and to stimulate noninflationary economic expansion. I am confident that this can be

81Ibid.


accomplished on a voluntary basis. As a safeguard, however—as I informed the bipartisan leaders today—I will ask the Congress for standby controls over interest rates and dividends.\textsuperscript{84}

The Committee on Interest and Dividends actually had an "iffy" role in Phase II. If everything went all right, it would simply monitor its designated areas. However, if interest did not go down or if dividends were too high in relation to wage criteria, the Committee would step in with the enforcement powers granted by Congress and remedy the situation.\textsuperscript{85}

The first hard guideline issued by this new regulatory agency was a 4 per cent limit on dividend increases for 1972. This figure was arrived at by a most unusual procedure—potluck. Treasury officials freely admitted that the number could just as easily have been 3 or 5 per cent. Four was chosen on the outside chance that labor would agree to the same figure as a wage ceiling. As one might recall, this suggestion did not meet with much support since the wage guideline was set at 5.5 per cent.\textsuperscript{86}

According to financial records, chance might have been the only reason for the choice of this limit. In the first years of the 1960's, dividends rose on a compound basis of

\textsuperscript{84}Ibid.

\textsuperscript{85}"Phase 2: How It Will Work," \textit{Business Week} (November 6, 1971), 43.

\textsuperscript{86}"How Planners Set the First Guideline," \textit{Business Week} (November 6, 1971), 43.
5.5 per cent. During the middle 1960's, this rate jumped to 6 per cent. Then between 1967 and 1971, the rate fell back to 3 per cent per year, due to a decline in corporate profits. Consequently, it seemed that the Committee just added a point to the last number, assuming that the result would still leave companies with a constructive dividend program.87

This guideline was not as bad as it first appeared. Corporations had the choice of any year back to 1969 on which to base the 4 per cent increase. However, there was some concern that profits would improve over the next year to the point where the ceiling would become a real handicap. Also, there was the possibility that such a limit would hinder the ability of companies to raise money by floating stock.88

A primary objective of the standard was to keep the Committee from becoming entangled in the complicated practice of setting detailed dividend policy for individual corporations. It was designed to cover those companies registered with the Securities and Exchange Commission, including those unlisted on any exchange. In this way, the Committee hoped to avoid, as much as possible, the complexities of the modern corporation, such as the accumulated earnings tax. The only individual treatment would involve those firms without any record of paying dividends during the base years.89

87Ibid. 88Ibid. 89Ibid.
On November 15, 1971, the Committee issued an official statement stipulating the established guidelines.

1. General Guidelines. Cash dividends on any class of common stock to be paid in 1972 should be declared at such rates that the aggregate annual payment per share--adjusted for stock splits and issuance of stock dividends--will not exceed by more than 4 per cent the highest aggregate annual payment per share in any of the company's fiscal years ending in 1969, 1970 or 1971, adjusted through Dec. 31, 1971, for stock splits and issuance of stock dividends.

2. Guideline adjustment. A company that paid no dividend on common stock in the years enumerated in paragraph 1 or whose permissible dividend payments in 1972, under paragraph 1, would aggregate less than 15 per cent of net income--after taxes and dividends on preferred stock--in its fiscal year ending in 1971, may declare cash dividends on common stock at such rates that the aggregate dividends paid on common stock in 1972 will not exceed 15 per cent of said 1971 net income.

3. Companies to which the guidelines apply. (a) Paragraphs 1 and 2 apply to any company that (i) has more than 1 million dollars in total assets and a class of equity securities held of record by 500 or more persons, and (ii) is subject to the reporting requirements of the Securities Exchange Act of 1934, or is an insurance company with capital stock. (b) Paragraphs 1 and 2 do not apply to a regulated investment company, real estate investment trust, or personal holding company, as defined in Subchapters M and G of the Internal Revenue Code.

4. Effective date, prior guidelines. These guidelines are effective Nov. 15, 1971, and supersede prior guidelines, with respect to dividends to be paid in 1972. Dividends to be paid in 1971 remain subject to the prior guidelines, issued by the Cost of Living Council, except dividends of companies excluded by paragraph 3(a) and (b) hereof.90

How vast was the coverage wielded by the Committee?

With regard to dividends, their rulings included some 10,000 firms which accounted for all but a small fraction of the

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the dividend payments made each year. To aid in this area, the freeze on dividends was extended until the end of 1971 in order to avoid the complex computations involved in determining such payments for part of a quarter. In the realm of interest rates, the Committee closely scrutinized the prime interest rate, the charge on home mortgage loans, and the fee for consumer credit loans.

Another view of the coverage aspect is presented by the exemptions. Such things as personal holding companies were exempted because most of the income was passed on to their shareholders, who, in turn, were covered by other parts of the stabilization program; consequently, failure to pay out dividends would have submitted these owners to an extraordinary tax burden. For example, in this particular case, there was an extra tax of 10 per cent on any undistributed income to discourage the use of holding companies as a means of avoiding paying personal income taxes.

This section could not possibly be complete without an update of the previous guidelines. The basic 4 per cent ceiling on common stock dividends remained; however, the Committee added several adjustments.

A company that raised its regular dividend rate before August 15 may use that higher payout as its

91Ibid., p. 21.


base, to which 4 per cent may be added in 1972.

A company that becomes publicly held—with 500 or more common stockholders—during 1972 will be exempt from the dividend ceiling that year.

A corporation with fewer than 500 common stockholders is exempt from dividend restrictions—and that will be the case even though the firm has preferred stock held by more than 500 shareholders.

Companies involved in mergers or new acquisitions of other firms in 1972 get a choice in figuring their dividend base. A new or merged company can "pool" the records of the two firms to figure a weighted average. Or it can use the base of the predecessor company whose stockholders got or kept the highest number of shares in the deal.94

The Committee also extended its list of exempt organizations. In addition to firms with fewer than 500 common stockholders or those with total assets of less than $1 million, the following were excluded from dividend controls.95

Companies wholly owned by other corporations, real estate investment trusts, mutual funds, personal holding companies, nonprofit organization, mutual and cooperative associations. Also excluded: "dividends" paid on savings deposited in savings and loan associations and similar associations, and life insurance "dividends" that actually are rebates of premiums.96

Rent Board

The Rent Board was a special subcommittee of the Price Commission; consequently, it will suffice here to mention the basic guidelines and something about their coverage. The new rent guidelines became effective on December 29, 1971, and their primary objective was to hold residential rent

95Ibid.
96Ibid.
increases for 1972 to no more than 3.5 per cent. This compared with an average increase of 4.5 per cent in 1971.97

The rent guidelines were as follows:

Most tenants will be paying at least 2 1/2 per cent more by the end of '72. All landlords are permitted to raise residential rentals by that amount to cover higher operating costs without formally justifying the increase. In addition, rents may be raised—dollar for dollar—to cover increases in State and local property taxes, Government fees and levies and increases in charges for municipal services exclusive of gas and electricity.98

The total of the increases was expected to average between 3-3.5 per cent for most tenants; however, in certain cases they could be more. For instance, rents would be higher if government taxes and fees rose rapidly. Also, major capital improvements could increase the rent.99 In the second instance, there was a condition which had to be met. The capital improvements made must have been worth half the value of the unimproved property.100

How extensive was the coverage of these guidelines?

All residential rents are covered, except those already controlled by local rent-control agencies in such cities as New York. All office buildings and stores are exempted. So is farm property. Residential motels, hotels, and mobile homes are also covered when used for residential rather than transient purposes.


98Ibid.

99Ibid.

Rates for transients will be treated as prices, not rents.  

The list of exemptions began here almost immediately; and it grew even larger. It later came to include owner-occupied dwellings, of four units or less, that rented on more than a month-to-month basis; single-family homes that rented on a similar basis, provided the landlord owned no more than four; luxury apartments—those commanding a monthly rent of $500 and up.  

Others on the list worth mentioning were new homes and apartments and industrial buildings. With all these exemptions, it was extremely difficult to tell just exactly what rents were covered. The primary justification given for such action was to lighten the workload of the Price Commission. The Commission discovered that over half the complaints, inquiries, and requests for exemptions centered on the rent category.  

A rollback could be ordered if rents had been raised above the guideline after August 15, 1971. However, in most cases there was no requirement to refund the excess money charged. Also, these rollbacks did not apply to long-

term leases. Thus, one might force the rent down, but the money paid at the higher level was simply lost.

How could a landlord legally raise the rent under these guidelines? The procedure was simple. All he need do was notify his tenants and the Internal Revenue Service of the planned increase with a letter explaining the cost increases involved. This letter must be written at a time which provided a thirty-day notice for all parties concerned. On the other hand, if a tenant felt a raise was unjustified, he wrote the Internal Revenue and they, in turn, would investigate the matter.

The final remarks in this section are in reference to the time interval used for computing rent increases. The interval used as the base for these calculations was the freeze period--August 15-December 13, 1971. If there were no rent transactions during this period, the base rent was computed by adding 5 per cent to the rent prevailing for a particular unit as of May 25, 1970.

106Ibid.
107Ibid.
Cost of Living Council

The Cost of Living Council had a very passive role in Phase II. Its main task ended with the initiation of the second part of Nixon's new economic program.

The Council's function during Phase 2, Mr. Nixon said, is to serve as a "policy-review group" for the post-freeze program. It will monitor the pay and price units, see that they are adequately staffed, determine how far their programs will extend initially, and recommend the enforcement proceedings to be set up by the Justice Department. But the Council is not to serve as an appeal level for the case decisions made by either the Board or the Commission. Nor will it "approve, revise, veto, or revoke" standards set by them.108

As one can see, the power of the Council in this phase was extremely limited. The only truly active council member was Donald Rumsfeld, director of operations. Rumsfeld was in charge of the enforcement mechanism for this portion of the program. He also was responsible for helping the Pay Board and the Price Commission get organized and staffed.109

The Council did not even have a veto power. If it disagreed with a decision made by either of the regulating groups, it could only complain. All appeals had to be taken to the courts. Its major control lay in the ability to review guidelines and set basic policy. One example of this

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control was the establishment of the over-all objective of Phase II—cutting the rate of inflation to 2-3 per cent by the end of 1972.\textsuperscript{110}

\textsuperscript{110}"Answers To Your Questions," U. S. News and World Report, LXXI (October 18, 1971), 24.
CHAPTER III

PHASE II

Phase II was the crux of Nixon's new control policy. In this second portion, guidelines were established and the battle lines of inflation brought into sharper focus. Consequently, it was no longer necessary to refuse all wage and price increases, but only those which tended to heighten inflationary pressures. Furthermore, new and more complicated bureaucratic machinery was set up to interpret these guidelines and thereby determine which increases were permissible. All in all, it was a very formidable undertaking, or as U. S. News and World Report stated,

President Nixon on October 7 moved the nation a giant step further into a Government-managed economy and made it clear that Americans are going to be living with federal controls for a long time to come.1

In the same issue, Nixon set forth the goals of Phase II:

The policy's basic aim: to get the rate of increase in the cost of living down to no more than 2 or 3 per cent by the end of 1972--and to push for still further reductions later.

The whole program is open-ended. No time limit has been set for its duration. It will be kept in operation until the back of inflation clearly has been broken.2

With these goals in mind, let us begin this investigation with a general description of Phase II, and then examine its

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2 Ibid.
CHAPTER IV

PHASE III

Phase III was an attempt to return to the free-market system. Gone were the mandatory wage, price, and rent controls and in their place was a request for management and labor to exercise restraint in their pursuit of pay and profits.\textsuperscript{1}

What were the reasons behind this change from a mandatory to a voluntary system of controls? According to the White House, the move was based on two things--an extensive consultation process and experience gained from operating the previous program. This consultation process was composed of sixty-three meetings involving over 400 individuals who represented a complex system of interests.\textsuperscript{2}

After reviewing the results of this consultation process and the experience gained from operating the present system, it is clear that the burden of a control system, will mount in the coming period if the present system continued for long unchanged in an expanding economy. Red tape and administrative burdens both for the Government and for the public, would expand. Delays and interferences with the normal conduct of business would become more serious. Inequities in the treatment

\textsuperscript{1}"Phase Three Means Phase Out," \textit{Newsweek}, LXXXI (January 22, 1973), 14.

of different individuals and businesses would multiply. Incentives to efficiency and investment would be weakened.\textsuperscript{5}

What were the basic goals of Phase III? The overall goal was to further reduce the rate of inflation.

Our goal is to reduce the rate of inflation further in 1973 and to establish general confidence in the reasonable stability of prices beyond 1973. Specifically, we propose as a guide to the policies of Government as well as to private behavior that the rate of inflation should be reduced to 2 1/2 per cent or below by the end of 1973.\textsuperscript{4}

To accomplish this national objective, several guidelines were established. Price rises were to be cut to 2.5 per cent or less by the end of 1973. Wage increases were still limited to the Phase II level of 5.5 per cent. Unemployment was to be reduced to less than 5 per cent by mid-1973. The rise in dividends was to be limited to 4 per cent per share over their 1972 levels.\textsuperscript{5}

The primary features of Phase III were as follows:

The Government will develop standards for private conduct that would be consistent with the national anti-inflation goal. The wage standard will be developed with the advice of management and labor.

The standards will be self-determined. That is, business and workers will be able to determine by themselves what conduct conforms reasonably to the guides and will not require prior approval for their actions.

Procedures will be established which will permit the Government to see whether conduct is reasonably consistent with the standards.

\textsuperscript{3}Ibid.

\textsuperscript{4}Ibid.

The Government will retain authority to set mandatory rules, controlling future conduct, where it appears that voluntary behavior is inconsistent with the goals of the program. To this end the President is asking for a one-year extension of the Economic Stabilization Act.

Except in special areas (food, health, construction industry, and interest and dividends) the present program will be replaced by one which is self-administering and based on voluntary compliance.

Pay and price divisions have been established in the Cost of Living Council. The Price Commission and Pay Board cease to exist.

A Labor-Management Advisory Committee is being established.

Dr. John Dunlop has been named by the President as the new director of the Cost of Living Council.6

What did all this mean with regard to wage and price increases? Generally speaking, price increases could not exceed increases in costs.

Even where costs have increased, prices should not be increased if the firm's profit margin exceeds the firm's base-period profit margin. Alternatively, a firm may increase prices to reflect increased cost without regard to its profit margin if the firm's average price increases would not exceed 1.5 per cent in a year.7

To provide additional leeway under this phase, the definition of base-period was expanded. In the calculation of profit margins the base period was revised to include any fiscal year that had been concluded since August 15, 1971.

As for the definition and measurement of the other terms, such as costs, prices and profits, the regulations established by the Price Commission were to be used.8

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7Ibid., p. 59.

8Ibid.
On the matter of wages, the standards set by the Pay Board were to be taken as a guide to appropriate maximum wage increases, until such standards were later modified. It was the duty of the Labor-Management Advisory Committee to advise the Cost of Living Council on the modification of said guidelines. The Committee was composed of ten men, five labor union presidents and five top corporate executives.  

Unions and employers will be asked to hold wages and salary settlements this year to the general pattern of settlements in 1972. The guideline "ceiling" of 5.5 percent is retained. Government officials stress that the Phase II rules on pay, extended into 1973, allow "adjustments in excess of the standard" -- the 5.5 percent figure -- when necessary to "prevent gross inequities, serious market disruptions or localized shortages of labor."  

The role of the government in this area was to urge both labor and management to spend less time on inflationary wage bargaining and more time on other issues, such as improving the competitive position of United States industries, stepping up productivity, and improving working conditions. Behind the government's plea for restraint, was the belief that food prices would level off and thus relieve the pressure for huge wage boosts by union members.  

What type of monitoring and enforcement measures did Phase III have? The monitoring authorities in this Phase  

9Ibid.  
11Ibid.
were the Cost of Living Council and the Internal Revenue Service. They received information through reports obtained from firms and employee units, spot checks and audits of firm records, and from government and trade data. The reporting procedures went as follows:

With the exception of firms subject to special rules (food and health) or exceptions:
All firms with sales of more than 50 million dollars (approximately 3,500 firms) are required to keep records of profit-margin changes as well as price changes which will permit the computation of weighted average price increases. Firms will have the obligation of producing these upon request.
All firms with sales of 250 million dollars or more (approximately 800 firms) are required to file quarterly reports concerning any weighted average price change and their profit margin.
Regulated industries will be guided by the general criteria listed in present Price Commission regulations, and restraint is expected to be reflected in their actions and the actions of the regulatory agencies.
Requirements will not apply to rental units not already exempt under the present program. Landlords are expected to exercise restraint, but no standards or binding requirements will be issued. This step is taken in view of the expanding supply of rental units, increasing vacancy rates, and the modest rate of inflation shown in this sector. It is estimated that the present program affects less than 30 per cent of residential rental units.

Wage Reporting:
All employee units of 1,000 or more will be required to keep records of wage-rate changes. They will have the obligation of producing these upon request.
All employee units of 5,000 or more will be required to file reports with CLC indicating wage-rate changes.12

13Ibid.
Phase III had what was called "a stick in the closet" method of enforcement. In other words, the government, through the Cost of Living Council, reserved the authority to step in and establish mandatory standards whenever it appeared that action by a particular industry was inconsistent with the program goals. More specifically, the Council had the power to

- Require parties to supply information and assurances demonstrating that their actions are not or will not be inconsistent with the standards or goals of the program;
- Hold Public hearings;
- Issue a special rule or order of the Council setting out a specific, legally binding level for proposed price or pay action that would restrain an industry or firm from that point on. Such a rule or order could include the requirement to roll back already affected price or wage increases.

The preceding pages of this chapter have presented the essence of Phase III. It was a short-lived program and one designed to operate primarily on a voluntary basis. To conclude this section, a brief discussion will be presented on the trouble-spots in the economy--food, health, and construction. Special committees were created to concentrate on these areas.

Perhaps at this point it would be helpful to describe the administrative mechanism of Phase III. The key force under this plan was the Cost of Living Council. Its membership

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was expanded to include the Secretary of Health, Education and Welfare, and Mrs. Anne Armstrong, counselor to the President. The Council also inherited the staffs and authority of the Pay Board and Price Commission. Under this primary authority, several committees were established:

- Labor-Management Committee
- Cost of Living Council Committee on Food
- Food Industry Advisory Committee
- Cost of Living Council Committee on Health
- Health Industry Advisory Committee
- Construction Industry Stabilization Committee
- Committee on Interest and Dividends

Taking the food industry first, the White House stated:

Food processors will be required mandatorily to comply with present regulations, somewhat modified, including prenotification and approval of cost-justified price increases. Food retailers will be held to present margin markups. Minor administrative modifications will be made. Pay units in the food processing and retailing industries will continue to be covered by present regulations.17

The Cost of Living Council Committee on Food was designed to review and recommend appropriate changes in government policies having an adverse effect on food prices. The Committee was headed by the Chairman of the Cost of Living Council and composed of the Chairman of the Council of Economic Advisors, Secretary of Agriculture, Director of the Office of Management and Budget, and the Director of the Cost of Living Council.18

On March 29, 1973, the President imposed even tighter controls on the food industry. He declared that all meat-

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16Ibid. 17Ibid. 18Ibid.
packers, wholesalers, and grocery stores could not charge more for beef, pork, veal, or lamb than the highest price they had charged on sales in the thirty days which ended on that date. The deadline for the posting of these new ceiling prices was April 9, and, to make sure that the limits were followed, the Internal Revenue Service was assigned the role of enforcer.19

On this same date, Nixon informed the food industry that pay, as well as price increases, must have the prior approval of the Cost of Living Council. As another means of reducing inflation in this sector, the President removed all restrictions, quotas, and tariffs on food imports. The theory was that an increased food supply would slacken the demand, thus reducing the pressure for higher prices.20

The rise in health costs has provided another trouble-spot in our economy. For this sector, Phase III was basically an extension of Phase II.

The present controls applicable to this sector will be continued until appropriate modifications are recommended by the committee described below.21

The committee referred to above was the Cost of Living Council Committee on Health. It was chaired by the Director of the Cost of Living Council and composed of the Chairman


20Ibid., pp. 20-21.

of the Council of Economic Advisors, the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Secretary of Health, Education, and Welfare. Its purpose was to review and make appropriate recommendations concerning changes in government programs that could lessen the rise of health costs.\(^{22}\)

The White House also created a second committee. It was known as the Health Industry Advisory Committee and composed of knowledgeable individuals outside the ranks of the federal government. It had the responsibility of advising the Cost of Living Council on matters such as the operation of controls in the health industry and alterations in government programs which would help alleviate the rise in health costs. Secondly, the Committee was to work to mobilize insurance companies and other third-party payers to use their influence to curb the upsurge in health costs.\(^{23}\)

As was the case for the health industry, Phase III did not bring much change for the construction industry.

The present Construction Industry Stabilization Committee will continue its work with the twin goals of improving the bargaining structure in the industry and achieving additional progress in bringing the rate of wage growth in this sector into line with the general wage growth in the economy.\(^{24}\)

Other measures were later taken to increase the supply of lumber and thus, hopefully, reduce the price. The government increased the cutting of timber on federal lands by

\(^{22}\)Ibid. \(^{23}\)Ibid. \(^{24}\)Ibid.
10 per cent and at the same time, urged Japan to decrease its purchase of logs from the Pacific Northwest. It even tried to speed up lumber shipments by breaking railroad bottlenecks.25

The oil industry also received special attention under Phase III as a result of the fuel crisis. In March of 1973, President Nixon placed direct controls on the nation's twenty-three largest oil companies to prevent huge increases in gasoline prices in the summer. The controls, administered by the Cost of Living Council, allowed the oil companies a 1 per cent price boost on their product-mix which could be raised to 1.5 per cent if costs increased heavily; i.e., the cost of imported oil.26

One final area which deserves some space is interest and dividends. Once again, Phase II was simply extended.

The present highly successful voluntary program will be continued under the direction of the Committee on Interest and Dividends, chaired by Dr. Arthur Burns of the Federal Reserve.27

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26"Credibility and Controls," Time, CI (March 19, 1973), 70.

Price Index for December, the month immediately succeeding the termination of the freeze, was 123.1. This was a .5 per cent increase over the preceding month.

At this point, one weakness suggests itself with regard to the coverage of the freeze. Farm products were exempted from any type of control. Thus, while other prices were fixed, the price of food was still allowed to rise. However, food processors were not permitted to pass on these costs to the public until after the freeze. From November to December, 1971, the Consumer Price Index for food rose 1.3 per cent. This weakness takes on added importance when one realizes that rising food prices lead to demands for higher wages which in turn promote higher prices throughout the economy—result: continued inflation.

The international aspects of Phase I, the 10 per cent surcharge and cutting the gold-dollar line, were attempts to remedy this country's balance of trade deficit. They also appear as initial steps toward the drive to establish a new international monetary system. The realization that the United States is no longer in a position to support the currencies of the world has finally dawned upon this nation. Countries like Japan and West Germany are no longer small, struggling nations but are now financial and commercial competitors. Consequently, the surcharge was a direct attempt to counteract the trade advantage enjoyed by those countries with under-valued currencies.
Phase II appeared to be President Nixon's major program for curing inflation. It was a complex system of wage and price controls centering around three primary units, the Price Commission, the Pay Board, and the Committee on Interest and Dividends. The plan appeared to be realistically designed. There was a separate agency assigned to regulate three very important factors in our economy, wages, prices, and interest and dividends. Also, it focused the greatest attention on those segments of the economy exerting the greatest influence, firms with sales of $100 million or more and labor contracts affecting 5,000 or more workers.

Also active in Phase II was the Cost of Living Council. Perhaps it should be recognized as the fourth major agency in this Phase. It was chaired by John Connally, personally picked by President Nixon as his chief economic advisor. Certainly Mr. Connally had more influence with the White House than men of the stature of C. Jackson Grayson. Although the Council was assigned a passive role in Phase II, it seems very likely that the hand of John Connally appeared in several pay and price decisions. One observation which perhaps supports this assumption, is that the Cost of Living Council was the only agency to appear in all three phases and it even continued on in to Phase IV.

During 1972, which was essentially the duration of Phase II, the monthly increase in the Consumer Price Index ranged around .3 per cent with sporadic jumps to .6 per cent and
.5 per cent (See Table 25, Appendix A.). Now, if we assume that this continued high inflation was due to deficiencies in Phase II, were there any possible reasons?

Phase II seemed to suffer from two basic difficulties--confusion over wage-price decisions and a weak enforcement mechanism. With regard to the former, the Pay Board and the Price Commission did not adhere strictly to the established guidelines. They adjusted and modified them according to new situations and circumstances. Also these two agencies made seemingly contradictory decisions, as exemplified by the case involving the Old Ben Coal Corporation. Here the Pay Board approved a large pay raise, while the Price Commission denied a similar price increase. The point is, that since the reasoning for denying or allowing some wage and price increases was not based entirely on the guidelines, people were very confused. There was uncertainty as to which increases would be allowed.

This confusion was further enhanced by the long list of exemptions which accompanied certain portions of the program. This was especially true in the area of rents. For example, the Rent Board established the following as free from rent controls: all office buildings and stores; farm property; owner-occupied dwellings of four units or less that rented on more than a month-to-month basis; single family homes that rented on a similar basis, provided the landlord owned no more than four; luxury apartments, those commanding a
monthly rent of $500 or more; new homes and apartments; and industrial buildings. With such a list, it is not surprising that people had difficulty in deciding which rents were actually covered.

As stated earlier in Chapter III, the enforcement mechanism of Phase II was essentially one of voluntary cooperation, with the various agencies providing the necessary guidelines. The only penalties were a maximum fine of $7,500 and contempt of court proceedings for violation of a subpoena.

In today's economy of giant corporations and labor unions, neither of the above alternatives appear as serious deterrents. The fine would be of no consequence and the latter would seldom come to pass. As noted earlier, the violators that were caught simply corrected their behavior and the matter was dropped.

With this type of enforcement, it is easy to understand why the emphasis was on voluntary cooperation. Perhaps it was here that the weakness occurred. The history of big business has not shown it as trying to hold prices down. In fact, the past shows that "charging what the traffic will bear" is much closer to the truth.

As for labor, the giant unions of today are continuously striving to push up wages with little or no regard for the rest of the economy. Today it is a world of giants with each one striving for supremacy. The era of the small
competitive business is over. The international corporation today wields tremendous financial as well as political power. Today's labor unions are equally powerful, consisting of thousands of members, with the ability to cripple the nation by strikes. In this atmosphere a mild enforcement program seems to be out of place.

A further observation about the specific machinery of enforcement might be enlightening. This concerns the choice of the Internal Revenue Service as a the major tool of investigation. The Internal Revenue Service already had a tremendous task which required all its time and attention. This additional responsibility was one which the Service was not equipped to handle. Also the connotations associated with the Internal Revenue Service are not exactly pleasant. Thus, when such an agency is put in charge of enforcement, these unpleasant feelings may taint the new controls as well as the overall program itself.

One other drawback of Phase II might be the inexperience of the personnel involved. This may turn out to be the greatest weakness of all because no program is better than the men who administer it. One example of this inexperience was the deficiencies in the development in the PC-1 form. It was developed by auditors and accountants; men who did not understand the complexities of the modern corporation.

A second aspect regarding administrative personnel is exemplified by C. Jackson Grayson, Jr. Was this an example
of putting the wrong man in a position of authority?

Mr. Grayson was head of the Price Commission, yet he did not believe in the government's system of wage and price controls.¹

... that the operation of our price system—the free-market system—is the best possible allocator of resources. It is far better than any control system ever could be. Controls can work—and they did work—over the short run. But in the long run, they never can substitute for the price mechanism as a way to get goods and services where they are needed. 

... the main thing is to keep the competitive attitude and structure strong and healthy. I'm convinced there is no model man could create—no matter how many economists, mathematicians or psychologists he employed—that would operate as well as the U.S. business system does where it is truly competitive.²

With this type of attitude, Mr. Grayson hardly seemed the man to chair the Price Commission. If a person does not believe in what he is doing, what kind of a job is he likely to do?

Before leaving Phase II, Mr. Grayson's philosophy deserves further attention. Concerning the spirit of competition in the economy:

On the negative side, I saw less competitive behavior among some businessmen than I had presumed existed. I still think competition is alive in the marketplace, and that we can continue to count on it. But there was some evidence of lack of competition that disturbed me.³

The free market depends on competition, but there are some businessmen who do not practice it. How efficient can such

²Ibid., pp. 35-36.
³Ibid., p. 35.
a system be? Thus, Grayson was advocating a system whose basis was being undermined, and yet he preferred it to government controls.

In examining Phase III, it seems to have been an attempt to return to the free market system. The wage and price controls of Phase II were replaced with a request for business and labor to use restraint in their pursuit of pay and profits. Voluntary cooperation took on an added importance since now the regulating agencies were gone. Also gone was any type of enforcement mechanism.

Phase III was basically an extension of Phase II guidelines with appropriate modifications to be made by the newly created Labor-Management Committee. All the power the government retained was vested in the rejuvenated Cost of Living Council. The power wielded by the Council was of an "iffy" nature. If labor and management did not conduct themselves in a manner consistent with national goals, then the Council would step in and establish mandatory rules which were consistent with such goals.

If there was any restraint exerted, it was in the so-called trouble spots of the economy, food, construction, and health care industries. This too primarily consisted of the extension of Phase II guidelines, plus newly created subcommittees to advise the Cost of Living Council of necessary alterations.
In studying Phase III, one thing stands out. The entire Phase was very brief, approximately three months. Perhaps this may be a clue to its importance as well as its effectiveness.

This paper only dealt with the first three phases of President Nixon's "New Economic Program." Currently, Phase IV is in operation and possibly other phases will follow. Therefore, any final conclusions would be inappropriate at this time. However, this study should at least lead to some very important questions. Are wage and price controls the tools to use in guiding the economy, or are men like Milton Friedman right when they say that the economy is best left to the "free market?" The only way to answer such questions is to wait until the entire program is over. Then accurate data can be collected from which evaluations and conclusions can be drawn. The program's effect on inflation, unemployment, and other economic goals can be seen.

Nevertheless, one may still speculate. In a changing economy, surely the methods on control must also change. Gone is the era of the "butcher, baker, candlestick maker" economy. The present era is an economy of large conglomerates like General Motors and immense labor unions like the AFL-CIO. Rules that applied in former times are no longer operative in this new age. The law of supply and demand no longer determines prices but rather new practices such as price fixing, price leadership, and indirectly strikes. The power of these giants is tremendous.
APPENDIX A

CONSUMER PRICE INDEX
CHAPTER V

SUMMARY AND CONCLUSIONS

Since this program of wage and price controls is still in operation, no final conclusions can be drawn at this time. This final chapter will consist of a brief summary and any comments which might be suggested by the information presented in this study.

Keeping in mind these limitations, how does Phase I appear? Basically, it exhibits itself as a worthwhile move. Inflation was continuing steadily upward, sometimes at considerable jumps. For example, between April and May of 1971, the Consumer Price Index rose .6 per cent and .7 per cent between May and June of the same year (See Table 122, Appendix A.). This inflation was a combination of both types, demand-pull and cost-push. The former is the condition of too many dollars chasing too few goods. The second type is best exemplified by the tendency of labor to continuously seek higher wages, which in turn are passed on to the consumer in the form of higher prices.

During the freeze period--August 15 to November 14, 1971--the Consumer Price Index rose by no more than .2 per cent. (See Table 122, Appendix A.) This evidence would seem to indicate that the freeze was somewhat instrumental in slowing the spiraling rate of inflation. In addition, the Consumer
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**TABLE 122. The Consumer Price Index and Major Groups, 1935-71**

[1967-1990]
25. Consumer Price Index—U.S. average—general summary and groups, subgroups, and selected items

(1967 = 100 unless otherwise specified)

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<td>All items (1957-59=100)</td>
<td>141.8</td>
<td>142.4</td>
<td>143.2</td>
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<td>Housing</td>
<td>124.3</td>
<td>125.9</td>
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<td>128.2</td>
<td>128.5</td>
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<td>133.4</td>
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<td>122.8</td>
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<td>Transportation</td>
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<td>137.1</td>
<td>138.3</td>
<td>139.5</td>
<td>140.7</td>
</tr>
</tbody>
</table>

| Special | groups | | | | | | | | | | | | |
| All items less shelter | 119.1 | 120.3 | 121.4 | 122.5 | 123.6 | 124.7 | 125.8 | 126.9 | 128.0 | 129.1 | 130.2 | 131.3 | 132.4 |
| All items less food | 122.1 | 123.3 | 124.5 | 125.6 | 126.7 | 127.8 | 128.9 | 130.0 | 131.1 | 132.2 | 133.3 | 134.4 | 135.5 |
| All items less medical care | 120.3 | 121.5 | 122.7 | 123.9 | 125.1 | 126.3 | 127.5 | 128.7 | 129.9 | 131.1 | 132.3 | 133.5 | 134.7 |
| Commodities | | | | | | | | | | | | | |
| Nondurables | 117.7 | 118.8 | 119.9 | 121.0 | 122.1 | 123.2 | 124.3 | 125.4 | 126.5 | 127.6 | 128.7 | 129.8 | 131.0 |
| Services | 120.5 | 121.6 | 122.7 | 123.8 | 124.9 | 126.0 | 127.1 | 128.2 | 129.3 | 130.4 | 131.5 | 132.6 | 133.7 |
| Commodities less food | 116.8 | 117.9 | 119.0 | 120.1 | 121.2 | 122.3 | 123.4 | 124.5 | 125.6 | 126.7 | 127.8 | 128.9 | 130.0 |
| Services less rent | 123.6 | 124.7 | 125.8 | 126.9 | 128.0 | 129.1 | 130.2 | 131.3 | 132.4 | 133.5 | 134.6 | 135.7 | 136.8 |
| Household services less rent | 131.1 | 132.2 | 133.3 | 134.4 | 135.5 | 136.6 | 137.7 | 138.8 | 139.9 | 141.0 | 142.1 | 143.2 | 144.3 |
| Transportation services | 124.5 | 125.6 | 126.7 | 127.8 | 128.9 | 129.1 | 130.2 | 131.3 | 132.4 | 133.5 | 134.6 | 135.7 | 136.8 |
| Medical care services | 133.3 | 134.4 | 135.5 | 136.6 | 137.7 | 138.8 | 139.9 | 141.0 | 142.1 | 143.2 | 144.3 | 145.4 | 146.5 |

| See footnotes at end of table. | | | | | | | | | | | | |

102
APPENDIX B

ECONOMIC STABILIZATION ACT
AN ACT

To amend the Defense Production Act of 1950, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—DEFENSE PRODUCTION ACT AMENDMENTS

§ 101. Extension of Act

The first sentence of section 717(a) of the Defense Production Act of 1950 (50 U.S.C. App. 2166(a)) is amended—

(1) by striking out "August 15, 1970" and inserting in lieu thereof "June 30, 1972"; and

(2) by striking out "section 714" and inserting in lieu thereof "sections 714 and 719".

§ 102. Definitions

Section 702 of the Defense Production Act of 1950 (50 U.S.C. App. 2152) is amended—

(1) by inserting "space," after "stockpiling," in subsection (d); and

(2) by adding at the end thereof a new subsection as follows:

"(f) The term 'defense contractor' means any person who enters into a contract with the United States for the production of material or the performance of services for the national defense."

§ 103. Uniform cost-accounting standards

Title VII of the Defense Production Act of 1950 is amended by adding at the end thereof a new section as follows:

"COST-ACCOUNTING STANDARDS BOARD

"Sec. 719. (a) There is established, as an agent of the Congress, a Cost-Accounting Standards Board which shall be independent of the executive departments and shall consist of the Comptroller General of the United States who shall serve as Chairman of the Board and four members to be appointed by the Comptroller General. Of the members appointed to the Board, two, of whom one shall be particularly knowledgeable about the cost accounting problems of small business, shall be from the accounting profession, one shall be representative of indus-
ity, and one shall be from a department or agency of the Federal Government who shall be appointed with the consent of the head of the department or agency concerned. The term of office of each of the appointed members of the Board shall be four years, except that any number appointed to fill a vacancy in the Board shall serve for the remainder of the term for which his predecessor was appointed. Each member of the Board appointed from private life shall receive compensation at the rate of one two-hundred-sixtieth of the rate prescribed for level IV of the Federal Executive Salary Schedule for each day (including traveltime) in which he is engaged in the actual performance of duties vested in the Board.

(b) The Board shall have the power to appoint, fix the compensation of, and remove an executive secretary and two additional staff members without regard to chapter 51, subchapters III and VI of chapter 53, and chapter 75 of title 5, United States Code, and those provisions of such title relating to appointment in the competitive service. The executive secretary and the two additional staff members may be paid compensation at rates not to exceed the rates prescribed for levels IV and V of the Federal Executive Salary Schedule, respectively.

c) The Board is authorized to appoint and fix the compensation of such other personnel as the Board deems necessary to carry out its functions.

d) The Board may utilize personnel from the Federal Government (with the consent of the head of the agency concerned) or appoint personnel from private life without regard to chapter 51, subchapters III and VI of chapter 53, and chapter 75 of title 5, United States Code, and those provisions of such title relating to appointment in the competitive service, to serve on advisory committees and task forces to assist the Board in carrying out its functions and responsibilities under this section.

e) Except as otherwise provided in subsection (a), members of the Board and officers or employees of other agencies of the Federal Government utilized under this section shall receive no compensation for their services as such but shall continue to receive the compensation of their regular positions. Appointees under subsection (d) from private life shall receive compensation at rates fixed by the Board, not to exceed one two-hundred-sixtieth of the rate prescribed for level V in the Federal Executive Salary Schedule for each day (including traveltime) in which they are engaged in the actual performance of their duties as prescribed by the Board. While serving away from their homes or regular place of business, Board members and other appointees serving on an intermittent basis under this section shall be allowed travel expenses in accordance with section 5703 of title 5, United States Code.

(f) All departments and agencies of the Government are authorized to cooperate with the Board and to furnish information, appropriate personnel and without reimbursement, and such financial and other assistance as may be agreed to between the Board and the department or agency concerned.

(g) The Board shall from time to time promulgate cost-accounting standards designed to achieve uniformity and consistency in the cost-accounting principles followed by defense contractors and subcontractors under Federal contracts. Such promulgated standards shall be used by all relevant Federal agencies and by defense contractors and subcontractors in estimating, accumulating, and reporting costs in connection with the pricing, administration and settlement of all negotiated prime contract and subcontract national
defense procurements with the United States in excess of $100,000, other than contracts or subcontracts where the price negotiated is based on (1) established catalog or market prices of commercial items sold in substantial quantities to the general public, or (2) prices set by law or regulation. In promulgating such standards the Board shall take into account the probable costs of implementation compared to the probable benefits.

"(h)(1) The Board is authorized to make, promulgate, amend, and rescind rules and regulations for the implementation of cost-accounting standards promulgated under subsection (g). Such regulations shall require defense contractors and subcontractors as a condition of contracting to disclose in writing their cost-accounting principles, including methods of distinguishing direct costs from indirect costs and the basis used for allocating indirect costs, and to agree to a contract price adjustment, with interest, for any increased costs paid to the defense contractor by the United States because of the defense contractor's failure to comply with duly promulgated cost-accounting standards or to follow consistently his disclosed cost-accounting practices in pricing contract proposals and in accumulating and reporting contract performance cost data. Such interest shall not exceed 7 per centum per annum measured from the time such payments were made to the contractor or subcontractor to the time such price adjustment is effected. If the parties fail to agree as to whether the defense contractor or subcontractor has complied with cost-accounting standards, the rules and regulations relating thereto, and cost adjustments demanded by the United States, such disagreement will constitute a dispute under the contract dispute clause.

"(2) The Board is authorized, as soon as practicable after the date of enactment of this section, to prescribe rules and regulations exempting from the requirements of this section such classes or categories of defense contractors or subcontractors under contracts negotiated in connection with national defense procurements as it determines, on the basis of the size of the contracts involved or otherwise, are appropriate and consistent with the purposes sought to be achieved by this section.

"(3) Cost-accounting standards promulgated under subsection (g) and rules and regulations prescribed under this subsection shall take effect not earlier than the expiration of the first period of sixty calendar days of continuous session of the Congress following the date on which a copy of the proposed standards, rules, or regulations is transmitted to the Congress; if, between the date of transmittal and the expiration of such sixty-day period, there is not passed by the two Houses a concurrent resolution stating in substance that the Congress does not favor the proposed standards, rules, or regulations. For the purposes of this subparagraph, in the computation of the sixty-day period there shall be excluded the days on which either House is not in session because of adjournment of more than three days to a day certain or an adjournment of the Congress sine die. The provisions of this paragraph do not apply to modifications of cost accounting standards, rules, or regulations which have become effective in conformity with those provisions.

"(i) (A) Prior to the promulgation under this section of rules, regulations, cost-accounting standards, and modifications thereof, notice of the action proposed to be taken, including a description of the terms and substance thereof, shall be published in the Federal Register. All parties affected thereby shall be afforded a period of not less than thirty days after such publication in which to submit their views and comments with respect to the action proposed to be taken. After full
consideration of the views and comments so submitted the Board may promulgate rules, regulations, cost-accounting standards, and modifications thereof which shall have the full force and effect of law and shall become effective not later than the start of the second fiscal quarter beginning after the expiration of not less than thirty days after publication in the Federal Register.

"(B) The functions exercised under this section are excluded from the operation of sections 551, 553-559, and 701-706 of title 8, United States Code.

"(C) The provisions of paragraph (A) of this subsection shall not be applicable to rules and regulations prescribed by the Board pursuant to subsection (h) (2).

"(j) For the purpose of determining whether a defense contractor or subcontractor has complied with duly promulgated cost-accounting standards and has followed consistently his disclosed cost-accounting practices, any authorized representative of the head of the agency concerned, of the Board, or of the Comptroller General of the United States shall have the right to examine and make copies of any documents, papers, or records of such contractor or subcontractor relating to compliance with such cost-accounting standards and principles.

"(k) The Board shall report to the Congress, not later than twenty-four months after the date of enactment of this section, concerning its progress in promulgating cost-accounting standards under subsection (g) and rules and regulations under subsection (h). Thereafter, the Board shall make an annual report to the Congress with respect to its activities and operations, together with such recommendations as it deems appropriate.

"(l) There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this section.

§ 104. Loan guarantees

Section 301 of the Defense Production Act of 1950 (50 U.S.C. App. 201) is amended by adding at the end thereof a new subsection as follows:

"(e) (1) Except with the approval of the Congress, the maximum obligation of any guaranteeing agency under any loan, discount, advance, or commitment in connection therewith, entered into under this section shall not exceed $20,000,000.

"(2) The authority conferred by this section shall not be used primarily to prevent the financial insolvency or bankruptcy of any person, unless

"(A) the President certifies that the insolvency or bankruptcy would have a direct and substantially adverse effect upon defense production; and

"(B) a copy of such certification, together with a detailed justification thereof, is transmitted to the Congress and to the Committees on Banking and Currency of the respective Houses at least ten days prior to the exercise of that authority for such use."

TITLE II—COST OF LIVING STABILIZATION

§ 201. Short title

This title may be cited as the "Economic Stabilization Act of 1970"

§ 202. Presidential authority

The President is authorized to issue such orders and regulations as he may deem appropriate to stabilize prices, rents, wages, and salaries at levels not less than those prevailing on May 25, 1970. Such orders
and regulations may provide for the making of such adjustments as may be necessary to prevent gross inequities.

§ 203. Delegation
The President may delegate the performance of any function under this title to such officers, departments, and agencies of the United States as he may deem appropriate.

§ 204. Penalty
Whoever willfully violates any order or regulation under this title shall be fined not more than $5,000.

§ 205. Injunctions
Whenever it appears to any agency of the United States, authorized by the President to exercise the authority contained in this section to enforce orders and regulations issued under this title, that any person has engaged, is engaged, or is about to engage in any acts or practices constituting a violation of any regulation or order under this title, it may in its discretion bring an action, in the proper district court of the United States or the proper United States court of any territory or other place subject to the jurisdiction of the United States, to enjoin such acts or practices, and upon a proper showing a permanent or temporary injunction or restraining order shall be granted without bond. Upon application of the agency, any such court may also issue mandatory injunctions commanding any person to comply with any regulation or order under this title.

§ 206. Expiration
The authority to issue and enforce orders and regulations under this title expires at midnight February 28, 1971, but such expiration shall not affect any proceeding under section 204 for a violation of any such order or regulation, or for the punishment for contempt committed in the violation of any injunction issued under section 205, committed prior to March 1, 1971.

Approved August 15, 1970.

[Public Law 91-384 approved August 17, 1970]
AN ACT
To amend the Small Business Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—SMALL BUSINESS ADMINISTRATION

SEC. 101. Paragraph (4) of section 4(c) of the Small Business Act is amended—

(1) by striking out "$1,900,000,000" and inserting in lieu thereof "$2,200,000,000";
(2) by striking out "$300,000,000" and inserting in lieu thereof "$500,000,000"; and
(3) by striking out "$200,000,000" and inserting in lieu thereof "$300,000,000".

TITLE II—AUTHORIZATION FOR PRESIDENT TO STABILIZE PRICES, RENTS, WAGES, AND SALARIES


Approved December 17, 1970.
Public Law 92-8

JOINT RESOLUTION
To provide a temporary extension of certain provisions of law relating to interest rates and cost-of-living stabilization.

March 31, 1971
[S. J. Res. 55]

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,

REGULATION OF INTEREST RATES ON DEPOSITS AND SHARE ACCOUNTS IN FINANCIAL INSTITUTIONS

Section 1. Section 7 of the Act of September 21, 1966, as amended (Public Law 91-151; 83 Stat. 371), is amended by striking out “March 22, 1971” and inserting in lieu thereof “June 1, 1971”.

AUTHORITY TO APPLY PRICE AND WAGE CONTROLS

Sec. 2. Section 206 of the Economic Stabilization Act of 1970 (title II of Public Law 91-379), as amended (Public Law 91-558), is amended by striking out “March 31, 1971” and “April 1, 1971” and inserting in lieu thereof “May 31, 1971” and “June 1, 1971”, respectively.

Approved March 31, 1971.
AN ACT

To extend certain laws relating to the payment of interest on time and savings deposits and economic stabilization, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

EXTENSION OF AUTHORITY FOR THE FLEXIBLE REGULATION OF INTEREST RATES ON DEPOSITS AND SHARE ACCOUNTS IN FINANCIAL INSTITUTIONS

SECTION 1. Section 7 of the Act of September 21, 1966, as amended (Public Law 91-151; Public Law 92-8), is amended by striking out "1971" and inserting in lieu thereof "1973".

REMOVAL OF TIME LIMITATION ON THE AUTHORITY OF THE PRESIDENT TO APPROVE CERTAIN VOLUNTARY AGREEMENTS

SEC. 2. The first sentence of section 717(a) of the Defense Production Act of 1950 (50 U.S.C. App. 2166(a)) is amended by striking out "714 and 719" and inserting in lieu thereof "708, 714, and 719".

PRICE AND WAGE CONTROLS

SEC. 3. (a) Section 202 of the Economic Stabilization Act of 1970 (Public Law 91-379) is amended—

(1) by inserting "(a)" before the text of such section; and

(2) by adding at the end thereof a new subsection as follows:

"(b) The authority conferred on the President by this section shall not be exercised with respect to a particular industry or segment of the economy unless the President determines, after taking into account the seasonal nature of employment, the rate of employment or underemployment, and other mitigating factors, that prices or wages in that industry or segment of the economy have increased at a rate which is grossly disproportionate to the rate at which prices or wages have increased in the economy generally."

(b) Section 206 of such Act is amended by striking out "May 31, 1971" and "June 1, 1971" and inserting in lieu thereof "April 30, 1972" and "May 1, 1972", respectively.

Approved May 18, 1971.
Public Law 92-210

AN ACT
To extend and amend the Economic Stabilization Act of 1970, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Economic Stabilization Act Amendments of 1971."

ECONOMIC STABILIZATION ACT OF 1970

Sec. 2. Title II of the Act entitled "An Act to amend the Defense Production Act of 1950, and for other purposes", approved August 15, 1970 (Public Law 91-379), as amended, is amended to read as follows:

[Text of the amendment is not fully visible in the image provided.]
TITLE II—COST OF LIVING STABILIZATION

§ 201. Short title

This title may be cited as the 'Economic Stabilization Act of 1970'.

§ 202. Findings

It is hereby determined that in order to stabilize the economy, reduce inflation, minimize unemployment, improve the Nation's competitive position in world trade, and protect the purchasing power of the dollar, it is necessary to stabilize prices, rents, wages, salaries, dividends, and interest. The adjustments necessary to carry out this program require prompt judgments and actions by the executive branch of the Government. The President is in a position to implement promptly and effectively the program authorized by this title.

§ 203. Presidential authority

(a) The President is authorized to issue such orders and regulations as he deems appropriate, accompanied by a statement of reasons for such orders and regulations, to—

(1) stabilize prices, rents, wages, and salaries at levels not less than those prevailing on May 25, 1970, except that prices may be stabilized at levels below those prevailing on such date if it is necessary to eliminate windfall profits or if it is otherwise necessary to carry out the purposes of this title; and

(2) stabilize interest rates and corporate dividends and similar transfers at levels consistent with orderly economic growth.

Such orders and regulations shall provide for the making of such adjustments as may be necessary to prevent gross inequities, and shall be consistent with the standards issued pursuant to subsection (b).

(b) In carrying out the authority vested in him by subsection (a), the President shall issue standards to serve as a guide for determining levels of wages, salaries, prices, rents, interest rates, corporate dividends, and similar transfers which are consistent with the purposes of this title and orderly economic growth. Such standards shall—

(1) be generally fair and equitable;

(2) provide for the making of such general exceptions and variations as are necessary to foster orderly economic growth and to prevent gross inequities, hardships, serious market disruptions, domestic shortages of raw materials, localized shortages of labor, and windfall profits;

(3) take into account changes in productivity and the cost of living, as well as such other factors consistent with the purposes of this title as are appropriate;

(4) provide for the requiring of appropriate reductions in prices and rents whenever warranted after consideration of lower costs, labor shortages, and other pertinent factors; and

(5) call for generally comparable sacrifices by business and labor as well as other segments of the economy.

(c) (1) The authority conferred on the President by this section shall not be exercised to limit the level of any wage or salary (including any insurance or other fringe benefit offered in connection with an employment contract) scheduled to take effect after November 13, 1971, to a level below that which has been agreed to in a contract which
related to such wage or salary, and (B) was executed prior to August 15, 1971, unless the President determines that the increase provided in such contract is unreasonably inconsistent with the standards for wage and salary increases published under subsection (b).

(2) The President shall promptly take such action as may be necessary to permit the payment of any wage or salary increase (including any insurance or other fringe benefit offered in connection with an employment contract) which (A) was agreed to in an employment contract executed prior to August 15, 1971, (B) was scheduled to take effect prior to November 14, 1971, and (C) was not paid as a result of orders issued under this title, unless the President determines that the increase provided in such contract is unreasonably inconsistent with the standards for wage and salary increases published under subsection (b).

(3) In addition to the payment of wage and salary increases provided for under paragraphs (1) and (2), beginning on the date on which this subsection takes effect, the President shall promptly take such action as may be necessary to require the payment of any wage or salary increases (including any insurance or other fringe benefits offered in connection with employment) which have been, or in the absence of this subsection would be, withheld under the authority of this title, if the President determines that:

(A) such increases were provided for by law or contract prior to August 15, 1971; and
(B) prices have been advanced, productivity increased, taxes have been raised, appropriations have been made, or funds have otherwise been raised or provided for in order to cover such increases.

(d) Notwithstanding any other provisions of this title, this title shall be implemented in such a manner that wage increases to any individual whose earnings are substandard or who is a member of the working poor shall not be limited in any manner, until such time as his earnings are no longer substandard or he is no longer a member of the working poor.

(e) Whenever the authority of this title is implemented with respect to significant segments of the economy, the President shall require the issuance of regulations or orders providing for the stabilization of interest rates and finance charges, unless he issues a determination, accompanied by a statement of reasons, that such regulations or orders are not necessary to maintain such rates and charges at levels consonant with orderly economic growth.

(f) The authority conferred by this section shall not be exercised to preclude the payment of any increase in wages—

(1) required under the Fair Labor Standards Act of 1938, as amended, or effected as a result of enforcement action under such Act; or

(2) required in order to comply with wage determinations made by any agency in the executive branch of the Government pursuant to law for work (A) performed under contracts with, or to be performed with financial assistance from, the United States or the District of Columbia, or any agency or instrumentality thereof, or (B) performed by aliens who are immi-
grants or who have been temporarily admitted to the United States pursuant to the Immigration and Nationality Act; or

"(3) paid in conjunction with existing or newly established employee incentive programs which are designed to reflect directly increases in employee productivity.

"(g) For the purposes of this section the term 'wages' and 'salaries' do not include contributions by any employer pursuant to a compensation adjustment for—

"(1) any pension, profit sharing, or annuity and savings plan which meets the requirements of section 401(a), 404(a)(2), or 403(b) of the Internal Revenue Code of 1954;

"(2) any group insurance plan; or

"(3) any disability and health plan;

unless the President determines that the contributions made by any such employer are unreasonably inconsistent with the standards for wage, salary, and price increases issued under subsection (b).

"(h) No State or portion thereof shall be exempted from any application of this title with respect to rents solely by virtue of the fact that it regulates rents by State or local law, regulation or policy.

"(i) Rules, regulations, and orders issued under this title shall insofar as practicable be designed to encourage labor-management cooperation for the purpose of achieving increased productivity, and the Executive Director of the National Commission on Productivity shall when appropriate be consulted in the formulation of policies, rules, regulations, orders, and amendments under this title.

§ 204. Delegation

"The President may delegate the performance of any function under this title to such officers, departments, and agencies of the United States as he deems appropriate, or to boards, commissions, and similar entities composed in whole or in part of members appointed to represent different sectors of the economy and the general public. Members of such boards, commissions, and similar entities shall be appointed by the President by and with the advice and consent of the Senate; except that—

"(1) the foregoing requirement with respect to Senate confirmation does not apply to any member of any such board, commission, or similar entity (other than the Chairman of the Pay Board, established by section 7 of Executive Order Numbered 11627 of October 15, 1971, and the Chairman of the Price Commission, established by section 8 of such Executive order) who is serving, pursuant to appointment by the President, on such board, commission, or similar entity on the date of enactment of the Economic Stabilization Act Amendments of 1971, and who continues to serve, pursuant to such appointment, on such board, commission, or similar entity after such date; and

"(2) any person serving in the office of Chairman of such Pay Board, and any person serving in the office of Chairman of such Price Commission, on the date of enactment of the Economic Stabilization Act Amendments of 1971, may continue to serve in such capacity on an interim basis without regard to the foregoing requirement with respect to Senate confirmation until the expiration of sixty days after the date of enactment of the Economic Stabilization Act Amendments of 1971, and the provisions of sections 910-913 of title 5, United States Code, shall be applicable with respect to the procedure to be followed in the Senate in considering the nomination of any person to either of such offices submitted to the Senate by the President during such sixty-day period, except that references in such provisions to a 'resolution with respect to a reorganization plan' shall be deemed for the purpose of this section to refer to such nominations.
Where such boards, commissions, and similar entities are composed in part of members who serve on less than a full-time basis, legal authority shall be placed in their chairmen who shall be employees of the United States and who shall act only in accordance with the majority vote of members. Nothing in section 203, 205, 207, 208, or 209 of title 18, United States Code, shall be deemed to apply to any member of any such board, commission, or similar entity who serves on less than a full-time basis because of membership on such board, commission, or entity.

"§ 205. Confidentiality of information"

"All information reported to or otherwise obtained by any person exercising authority under this title which contains or relates to a trade secret or other matter referred to in section 1905 of title 18, United States Code, shall be considered confidential for the purposes of that section, except that such information may be disclosed to other persons empowered to carry out this title solely for the purpose of carrying out this title or when relevant in any proceeding under this title.

"§ 206. Subpoena power"

"The head of an agency exercising authority under this title, or his duly authorized agent, shall have authority, for any purpose related to this title, to sign and issue subpoenas for the attendance and testimony of witnesses and the production of relevant books, papers, and other documents, and to administer oaths. Witnesses summoned under the provisions of this section shall be paid the same fees and mileage as are paid to witnesses in the courts of the United States. In case of refusal to obey a subpoena served upon any person under the provisions of this section, the head of the agency authorizing such subpoena, or his delegate, may request the Attorney General to seek the aid of the district court of the United States for any district in which such person is found to compel such person, after notice, to appear and give testimony, or to appear and produce documents before the agency.

"§ 207. Administrative procedure"

"(a) The functions exercised under this title are excluded from the operation of subchapter II of chapter 5, and chapter 7 of title 5, United States Code, except as to the requirements of sections 552, 553, and 555(c) of title 5, United States Code.

"(b) Any agency authorized by the President to issue rules, regulations, or orders under this title shall, in regulations prescribed by it, establish procedures which are available to any person for the purpose of seeking an interpretation, modification, or rescission of, or seeking an exception or exemption from, such rules, regulations, and orders. If such person is aggrieved by the denial of a request for such action under the preceding sentence, he may request a review of such denial by the agency. The agency shall, in regulations prescribed by it, establish appropriate procedures, including hearings where deemed advisable, for considering such requests for action under this section.

"(c) To the maximum extent possible, the President or his delegate shall conduct formal hearings for the purpose of hearing arguments or acquiring information bearing on a change in wages, salaries, prices, rents, interest rates, or corporate dividends or similar transfers, which have or may have a significantly large impact upon the national economy, and those hearings shall be open to the public except that a private formal hearing may be conducted to receive information considered confidential under section 205 of this title.

"§ 208. Sanctions; criminal fine and civil penalty"

"(a) Whoever willfully violates any order or regulation under this title shall be fined not more than $5,000 for each violation."
"(b) Whoever violates any order or regulation under this title shall be subject to a civil penalty of not more than $2,500 for each violation.

§ 209. Injunctions and other relief

Whenever it appears to any person authorized by the President to exercise authority under this title that any individual or organization has engaged, is engaged, or is about to engage in any acts or practices constituting a violation of any order or regulation under this title, such person may request the Attorney General to bring an action in the appropriate district court of the United States to enjoin such acts or practices, and upon a proper showing a temporary restraining order, or a preliminary or permanent injunction shall be granted without bond. Any such court may also issue mandatory injunctions commanding any person to comply with any such order or regulation. In addition to such injunctive relief, the court may also order restitution of moneys received in violation of any such order or regulation.

§ 210. Suits for damages or other relief

"(a) Any person suffering legal wrong because of any act or practice arising out of this title, or any order or regulation issued pursuant thereto, may bring an action in a district court of the United States, without regard to the amount in controversy, for appropriate relief, including an action for a declaratory judgment, writ of injunction (subject to the limitations in section 211), and/or damages.

"(b) In any action brought under subsection (a) against any person renting property or selling goods or services who is found to have overcharged the plaintiff, the court may, in its discretion, award the plaintiff reasonable attorney’s fees and costs, plus whichever of the following sums is greater:

(1) an amount not more than three times the amount of the overcharge upon which the action is based, or

(2) not less than $100 or more than $1,000;

except that in any case where the defendant establishes that the overcharge was not intentional and resulted from a bonafide error notwithstanding the maintenance of procedures reasonably adapted to the avoidance of such error the liability of the defendant shall be limited to the amount of the overcharge: Provided, That where the overcharge is not willful within the meaning of section 208(a) of this title, no action for an overcharge may be brought by or on behalf of any person unless such person has first presented to the seller or renter a bona fide claim for refund of the overcharge and has not received repayment of such overcharge within ninety days from the date of the presentation of such claim.

"(c) For the purposes of this section, the term ‘overcharge’ means the amount by which the consideration for the rental of property or the sale of goods or services exceeds the applicable ceiling under regulations or orders issued under this title.

§ 211. Judicial review

"(a) The district courts of the United States shall have exclusive original jurisdiction of cases or controversies arising under this title, or under regulations or orders issued thereunder, notwithstanding the amount in controversy; except that nothing in this subsection or in subsection (h) of this section affects the power of any court of competent jurisdiction to consider, hear, and determine any issue by way of defense (other than a defense based on the constitutionality of this title or the validity of action taken by any agency under this title) raised in any proceeding before such court. If in any such proceeding an issue by way of defense is raised based on the constitutionality of this title or the validity of agency action under this title, the case shall be subject to removal by either party to a district court of the United
States in accordance with the applicable provisions of chapter 89 of title 28, United States Code.

"(b)(1) There is hereby created a court of the United States to be known as the Temporary Emergency Court of Appeals, which shall consist of three or more judges to be designated by the Chief Justice of the United States from judges of the United States district courts and circuit courts of appeals. The Chief Justice of the United States shall designate one of such judges as chief judge of the Temporary Emergency Court of Appeals, and may, from time to time, designate additional judges for such court and revoke previous designations. The chief judge may, from time to time, divide the court into divisions of three or more members, and any such division may render judgment as the judgment of the court. Except as provided in subsection (d)(2) of this section, the court shall not have power to issue any interlocutory decree staying or restraining in whole or in part any provision of this title, or the effectiveness of any regulation or order issued thereunder. In all other respects, the court shall have the powers of a circuit court of appeals with respect to the jurisdiction conferred on it by this title. The court shall exercise its powers and prescribe rules governing its procedure in such manner as to expedite the determination of cases over which it has jurisdiction under this title. The court shall have a seal, hold sessions at such places as it may specify, and appoint a clerk and such other employees as it deems necessary or proper.

"(2) Except as otherwise provided in this section, the Temporary Emergency Court of Appeals shall have exclusive jurisdiction of all appeals from the district courts of the United States in cases and controversies arising under this title or under regulations or orders issued thereunder. Such appeals shall be taken by filing of a notice of appeal with the Temporary Emergency Court of Appeals within thirty days of the entry of judgment by the district court.

"(e) In any action commenced under this title in any district court of the United States in which the court determines that a substantial constitutional issue exists, the court shall certify such issue to the Temporary Emergency Court of Appeals. Upon such certification, the Temporary Emergency Court of Appeals shall determine the appropriate manner of disposition which may include a determination that the entire action be sent to it for consideration or it may, on the issues certified, give binding instructions and remand the action to the certifying court for further disposition.

"(d)(1) Subject to paragraph (2), no regulation of any agency exercising authority under this title shall be enjoined or set aside, in whole or in part, unless a final judgment determines that the issuance of such regulation was in excess of the agency's authority, was arbitrary or capricious, or was otherwise unlawful under the criteria set forth in section 706(2) of title 5, United States Code, and no order of such agency shall be enjoined or set aside, in whole or in part, unless a final judgment determines that such order is in excess of the agency's authority, or is based upon findings which are not supported by substantial evidence.

"(2) A district court of the United States or the Temporary Emergency Court of Appeals may enjoin temporarily or permanently the application of a particular regulation or order issued under this title to a person who is a party to litigation before it. Appeals from interlocutory decisions by a district court of the United States under this paragraph may be taken in accordance with the provisions of section 1292(b) of title 28, United States Code; except that reference in such section to the courts of appeals shall be deemed to refer to the Temporary Emergency Court of Appeals.

"(e)(1) Except as provided in subsection (d) of this section, no interlocutory or permanent injunction restraining the enforcement,
operation, or execution of this title, or any regulation or order issued thereunder, shall be granted by any district court of the United States or judge thereof. Any such court shall have jurisdiction to declare (A) that a regulation of an agency exercising authority under this title is in excess of the agency's authority, is arbitrary or capricious, or is otherwise unlawful under the criteria set forth in section 706(2) of title 5, United States Code, or (B) that an order of such agency is invalid upon a determination that the order is in excess of the agency's authority, or is based upon findings which are not supported by substantial evidence.

Appeal. "(2) Any party aggrieved by a declaration of a district court of the United States respecting the validity of any regulation or order issued under this title may, within thirty days after the entry of such declaration, file a notice of appeal therefrom in the Temporary Emergency Court of Appeals. In addition, any party believing himself entitled by reason of such declaration to a permanent injunction restraining the enforcement, operation, or execution of such regulation or order may file, within the same thirty-day period, a motion in the Temporary Emergency Court of Appeals requesting such injunctive relief. Following consideration of such appeal or motion, the Temporary Emergency Court of Appeals shall enter a final judgment affirming, reversing, or modifying the determination of the district court and granting such permanent injunctive relief, if any, as it deems appropriate.

(f) The effectiveness of a final judgment of the Temporary Emergency Court of Appeals enjoining or setting aside in whole or in part any provision of this title, or any regulation or order issued thereunder, shall be postponed until the expiration of thirty days from the entry thereof, except that if a petition for a writ of certiorari is filed with the Supreme Court under subsection (g) within such thirty days, the effectiveness of such judgment shall be postponed until an order of the Supreme Court denying such petition becomes final, or until other final disposition of the action by the Supreme Court.

(g) Within thirty days after entry of any judgment or order by the Temporary Emergency Court of Appeals, a petition for a writ of certiorari may be filed in the Supreme Court of the United States, and thereupon the judgment or order shall be subject to review by the Supreme Court in the same manner as a judgment of a United States court of appeals as provided in section 1254 of title 28, United States Code. The Temporary Emergency Court of Appeals, and the Supreme Court upon review of judgments and orders of the Temporary Emergency Court of Appeals, shall have exclusive jurisdiction to determine the constitutional validity of any provision of this title or of any regulation or order issued under this title. Except as provided in this section, no court, Federal or State, shall have jurisdiction or power to consider the constitutional validity of any provision of this title or of any such regulation or order, or to stay, restrain, enjoin, or set aside, in whole or in part, any provision of this title authorizing the issuance of such regulations or orders, or any provision of any such regulation or order, or to restrain or enjoin the enforcement of any such provision.

(h) The provisions of this section apply to any actions or suits pending in any court, Federal or State, on the date of enactment of this section in which no final order or judgment has been rendered. Any affected party seeking relief shall be required to follow the procedures of this title.

§ 212. Personnel

(a) Any agency or officer of the Government carrying out functions under this title is authorized to employ such personnel as the President deems necessary to carry out the purposes of this title.
"(b) The President may appoint five officers to be responsible for carrying out functions of this title of whom three shall be compensated at the rate prescribed for level III of the Executive Schedule (3 U.S.C. 5314) and two at the rate prescribed for level V of the Executive Schedule (3 U.S.C. 5316). Appropriate titles and the order of succession among such officers may be designated by the President.

"(c) Any member of a board, commission, or similar entity established by the President pursuant to authority conferred by this title who serves on less than a full-time basis shall receive compensation from the date of his appointment at a rate equal to the per diem equivalent of the rate prescribed for level IV of the Executive Schedule (3 U.S.C. 5315) when actually engaged in the performance of his duties as such member.

"(d) (1) In addition to the number of positions which may be placed in GS-16, 17, and 18, under section 5108 of title 5, United States Code, not to exceed twenty positions may be placed in GS-16, 17, and 18, to carry out the functions under this title.

"(2) The authority under this subsection shall be subject to the procedures prescribed under section 5108 of title 5, United States Code, and shall continue only for the duration of the exercise of functions under this title.

"(e) The President may require the detail of employees from any executive agency to carry out the purposes of this title.

"(f) The President is authorized to appoint, without regard to the civil service laws, such advisory committees as he deems appropriate for the purpose of consultation with and advice to the President in the performance of his functions under this title. Members of advisory committees, other than those regularly employed by the Federal Government, while attending meetings of such committees or while otherwise serving at the request of the President may be paid compensation at rates not exceeding those authorized for individuals under section 5332 of title 5, United States Code, and, while so serving away from their homes or regular places of business, may be allowed travel expenses, including per diem as authorized by section 5703 of title 5, United States Code, for persons in the Government service employed intermittently.

"(g) (1) Under such regulations as the President may prescribe, officers and employees of the Government who are appointed, without a break of service of one or more work days, to any position for carrying out functions under this title are entitled, upon separation from such position, to reemployment in the position occupied at the time of appointment or in a position of comparable grade and salary.

"(2) An officer or employee who, at the time of his appointment under paragraph (1) of this subsection, is covered by section 8336(c) of title 5, United States Code, shall continue to be covered thereunder while carrying out functions under this title.

"§ 213. Experts and consultants

"Experts and consultants may be employed, as authorized by section 3109 of title 5, United States Code, for the performance of functions under this title, and individuals so employed may be compensated at rates not to exceed the per diem equivalent of the rate for grade 15 of the General Schedule established by section 5332 of title 5, United States Code. Such contracts may be renewed from time to time without limitation. Service of an individual as an expert or consultant under this section shall not be considered as employment or the holding of an office or position bringing such individual within the provisions of section 3323(a) of title 5, United States Code, section 872 of the Foreign Service Act of 1946, or any other law limiting the reemployment of retired officers or employees.
§ 214. Small business

(a) It is the sense of the Congress that small business enterprises should be encouraged to make the greatest possible contribution toward achieving the objectives of this title.

(b) In order to carry out the policy stated in subsection (a)—

(1) the Small Business Administration shall to the maximum extent possible provide small business enterprises with full information concerning (A) the provisions of this title relating or of benefit to such enterprises, and (B) the activities of the various departments and agencies under this title;

(2) in administering this title, such exemptions shall be provided for small business enterprises as may be feasible without impeding the accomplishment of the purposes of this title; and

(3) in administering this title, special provision shall be made for the expeditious handling of all requests, applications, or appeals from small business enterprises.

§ 215. Mass transportation systems

No company, or other entity constituting a public benefit corporation, charged by law or contract with the responsibility to operate a mass transportation facility or facilities, the fares of which are not otherwise regulated, shall increase any fare without first obtaining approval under this section from the President or his delegate.

§ 216. Reports

(a) In transmitting the Economic Report required under section 3(a) of the Employment Act of 1946 (15 U.S.C. 1022), the President shall include a section describing the actions taken under this title during the preceding year and giving his assessment of the progress attained in achieving the purposes of this title. The President shall also transmit quarterly reports to the Congress not later than thirty days after the close of each calendar quarter describing the actions taken under this title during the preceding quarter and giving his assessment of the progress attained in achieving the purposes of this title.

(b) In carrying out his authority under this title, the President shall study and evaluate the relationship between excess profits, the stabilization of the economy, and the creation of new jobs. The results of such study shall be incorporated in the reports referred to in subsection (a).

§ 217. Funding

(a) There are authorized to be appropriated to the President, to remain available until expended, such sums as may be necessary to carry out the provisions of this title.

(b) The President may accept and use in furtherance of the purposes of this title money, funds, property, and services of any kind made available for such purposes by gift, devise, bequest, grant, or otherwise.

§ 218. Expiration

The authority to issue and enforce orders and regulations under this title expires at midnight April 30, 1973, but such expiration shall not affect any action or pending proceedings, civil or criminal, not finally determined on such date, nor any action or proceeding based upon any action committed prior to May 1, 1973.

§ 219. Ratification

The assignment of personnel and expenditure of funds pursuant to the authority conferred on the President by this title prior to the date of enactment of the Economic Stabilization Act Amendments of 1971 are hereby approved, ratified, and confirmed.
§ 220. Severability

"If any provision of this title or the application of such provision to any person or circumstances is held invalid, the remainder of the title, and the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby."

FEDERAL EMPLOYEE COMPENSATION

Sec. 3. Notwithstanding any provision of section 3(c) of the Federal Pay Comparability Act of 1970 (Public Law 91-656), or of section 5305 of title 5, United States Code, as added by section 3(a) of Public Law 91-656, and the provisions of the alternative plan submitted by the President to the Congress pursuant thereto on August 31, 1971, such comparability adjustments in the rates of pay of each Federal statutory pay system as may be required under such sections 5305 and 3(c), based on the 1971 Bureau of Labor Statistics survey—

(1) shall not be greater than the guidelines established for the wage and salary adjustments for the private sector that may be authorized under authority of any statute of the United States, including the Economic Stabilization Act of 1970 (Public Law 91-379; 84 Stat. 799), as amended, and that may be in effect on December 31, 1971; and

(2) shall be placed into effect on the first day of the first pay period that begins on or after January 1, 1972.

Nothing in this section shall be construed to provide any adjustments in rates of pay of any Federal statutory pay system which are greater than the adjustments based on the 1971 Bureau of Labor Statistics survey.

NATIONAL PRODUCTIVITY POLICY

Sec. 4. (a) (1) It is the policy of the United States to promote efficient production, marketing, distribution, and use of goods and services in the private sector, and improve the morale of the American worker, all of which are essential to a prosperous and secure free world, and to achieve the objectives of national economic policy.

(2) The Congress finds that the persistence of inflationary pressures, and of a high rate of unemployment, the underutilization and obsolescence of production facilities, and the inadequacy of productivity are damaging to the effort to stabilize the economy.

(3) The Congress, therefore, finds a national need to increase economic productivity which depends on the effectiveness of management, the investment of capital for research, development, and advanced technology and on the training and motivation of the American worker.

(4) The Congress further finds that at a time when economic stabilization programs require price-wage restraints, management and labor have a strong mutual interest in containing "cost-push" inflation and increasing output per man-hour so that real wages may increase without causing increased prices, and that, without in any way infringing on the rights of management or labor, machinery should be provided for translating this mutuality of interest into voluntary action.

(b) It shall be the objective of the President's National Commission on Productivity (hereinafter referred to as the "Commission")—

(1) to enlist the cooperation of labor, management, and State and local governments, in a manner calculated to foster and promote increased productivity through free competitive enterprise
toward the implementation of the national policy declared in the Employment Act of 1946 to create and maintain "conditions under which there will be afforded useful employment opportuni-
ties, including self-employment, for those able, willing, and seeking
to work, and to promote maximum employment, production, and 
purchasing power";

(2) to promote the maintenance and improvement of worker
motivation and to enlist community interest in increasing pro-
ductivity and reducing waste;

(3) to promote the more effective use of labor and management
personnel in the interest of increased productivity;

(4) to promote sound wage and price policies in the public inter-
est, and to seek to accomplish that objective within a climate of 
cooperation and understanding between labor, management, and 
the public, and within a framework of peaceful labor-manage-
ment relations and free and responsible collective bargaining;

(5) to promote policies designed to insure that United States
products are competitive in domestic and world markets;

(6) to develop programs to deal with the social and economic
problems of employees adversely affected by automation or other
technological change or the relocation of industries.

(c) (1) It shall be the duty and function of the Commission, in order
to achieve the objectives set forth in subsection (b) of this section, to
encourage and assist in the organization and the work of labor-man-
agement-public committees and similar groups on a plant, community,
regional, and industry basis. Such assistance shall include aid—

(A) in the development of apprenticeship, training, retrain-
ing, and other programs for employee and management education 
for development of greater upgraded and more diversified skills;

(B) in the formulation of programs designed to reduce waste 
and absenteeism and to improve employee safety and health;

(C) in the revision of building codes and other local ordinances 
and laws, in order to keep them continuously responsive to current 
economic conditions;

(D) in planning for provision of adequate transportation for 
employees;

(E) in the exploration of means to expand exports of the prod-
ucts of United States industry;

(F) in the development, initiation, and expansion of employee
incentive compensation, profit-sharing and stockownership sys-
tems and other production incentive programs;

(G) in the dissemination of technical information and other
material to publicize its work and objectives;

(II) to encourage studies of techniques and programs similar 
to those in paragraphs (A) to (G) of this subsection, as they are 
applied in foreign countries; and

(II) in the dissemination of information and analyses concern-
ing the economic opportunities and outlook in various regions and 
communities, and of information on industrial techniques designed 
for the increase of productivity.

(2) The Commission shall transmit to the President and to the 
Congress not later than March 1 of each year an annual report of its 
previous year's activities under this Act.
(3) The Commission shall perform such other functions, consistent with the foregoing, as it determines to be appropriate and necessary to achieve the objectives set forth in subsection (b) of this section.

(d)(1) In exercising its duties and function under this Act—

(A) the Commission may consult with such representatives of industry, labor, agriculture, consumers, State and local governments, and other groups, organizations, and individuals as it deems advisable to insure the participation of such interested parties;

(B) the Commission shall, to the extent possible, use the services, facilities, and information (including statistical information) of other Government agencies as the President may direct as well as of private agencies and professional experts in order that duplication of effort and expense may be avoided;

(C) the Commission shall coordinate such services and facilities referred to in subsection (B) above in order to supply technical and administrative assistance to labor-management-public committees and similar groups referred to in subsection (c)(1);

(D) the Commission shall establish the regional offices and such local offices as it deems necessary;

(E) the Commission shall hold regional and industrywide conferences to formulate ideas and programs for the fulfillment of the objectives set forth in subsection (C);

(F) the Commission may formulate model programs to ameliorate the effects of unemployment caused by technological progress;

(G) the Commission may furnish assistance to parties in collective bargaining entering into collective bargaining agreements; and

(H) the Commission may review collective bargaining agreements already in effect or those being negotiated to ascertain their effects on productivity; and it may have the power to make recommendations with respect to the agreements made or about to be made in specific industries.

(2) The Commission may accept gifts or bequests, either for carrying out specific programs which it deems desirable or for its general activities.

(e)(1) The Executive Director of the Commission shall be the principal executive officer of the Commission in carrying out the objectives, functions, duties and powers of the Commission described in subsections (b) through (d) of this section.

(2) The Executive Director of the Commission, with the approval of the Chairman of the Commission, is authorized (A) to appoint and fix the compensation of such officers and employees, and prescribe their functions and duties, as may be necessary to carry out the provisions of this section, and (B) to obtain the services of experts and consultants in accordance with the provisions of section 3109 of title 5, United States Code.

(f) There is hereby authorized to be appropriated the sum of $10,000,000 to carry out the purposes of this section during the period ending April 30, 1973.

Approved December 22, 1971.
APPENDIX C

EXECUTIVE ORDER ESTABLISHING THE FREEZE
THE EXECUTIVE ORDER ON WAGES, PRICES

Full text of the President's executive order of Aug. 15, 1971, providing for a wage-price-rent freeze:

WHEREAS, in order to stabilize the economy, reduce inflation and minimize unemployment, it is necessary to stabilize prices, rents, wages and salaries; and

WHEREAS, the present balance-of-payments situation makes it especially urgent to stabilize prices, rents, wages and salaries in order to improve our competitive position in world trade and to protect the purchasing power of the dollar:

NOW, THEREFORE, by virtue of the authority vested in me by the Constitution and statutes of the United States, including the Economic Stabilization Act of 1970 (P.L. 91-379, 84 Stat. 799), as amended, it is hereby ordered as follows:

Section 1. (a) Prices, rents, wages and salaries shall be stabilized for a period of 90 days from the date hereof at levels not greater than the highest of those pertaining to a substantial volume of actual transactions by each individual, business, firm or other entity of any kind during the 30-day period ending Aug. 14, 1971, for like or similar commodities or services. If no transactions occurred in that period, the ceiling will be the highest price, rent, salary or wage in the nearest preceding 30-day period in which transactions did occur. No person shall charge, assess or receive, directly or indirectly, in any transaction prices or rents in any form higher than those permitted hereunder, and no person shall, directly or indirectly, pay or agree to pay in any transaction wages or salaries in any form, or to use any means to obtain payment of wages and salaries in any form, higher than those permitted hereunder, whether by retroactive increase or otherwise.

(b) Each person engaged in the business of selling or providing commodities or services shall maintain available for public inspection a record of the highest prices or rents charged for such or similar commodities or services during the 30-day period ending Aug. 14, 1971.

(c) The provisions of Sections 1 and 2 hereof shall not apply to the prices charged for raw agricultural products.

Section 2. (a) There is hereby established the Cost of Living Council, which shall act as an agency of the United States and which is hereinafter referred to as the Council.

(b) The Council shall be composed of the following members: the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisers, the Director of the Office of Emergency Preparedness, and the Special Assistant to the President for Consumer Affairs. The Secretary of the Treasury shall serve as chairman of the Council, and the Chairman of the Council of Economic Advisers shall serve as vice chairman. The Chairman of the Board of Governors of the Federal Reserve System shall serve as adviser to the Council. [The Secretary of Housing and Urban Development was added to the Council later.]

(c) Under the direction of the chairman of the Council, a special assistant to the President shall serve as executive director of the Council, and the executive director is authorized to appoint such personnel as may be necessary to assist the Council in the performance of its functions.
Section 3. (a) Except as otherwise provided herein, there are hereby delegated to the Council all of the powers conferred on the President by the Economic Stabilization Act of 1970.

(b) The Council shall develop and recommend to the President additional policies, mechanisms and procedures to maintain economic growth without inflationary increases in prices, rents, wages and salaries after the expiration of the 90-day period specified in Section I of this Order.

(c) The Council shall consult with representatives of agriculture, industry, labor and the public concerning the development of policies, mechanisms and procedures to maintain economic growth without inflationary increases in prices, rents, wages and salaries.

(d) In all of its actions the Council will be guided by the need to maintain consistency of price and wage policies with fiscal, monetary, international and other economic policies of the United States.

(e) The Council shall inform the public, agriculture, industry and labor concerning the need for controlling inflation and shall encourage and promote voluntary action to that end.

Section 4. (a) The Council, in carrying out the provisions of this Order, may (I) prescribe definitions for any terms used herein, (II) make exceptions or grant exemptions, (III) issue regulations and orders, and (IV) take such other actions as it determines to be necessary and appropriate to carry out the purposes of this Order.

(b) The Council may redelegate to any agency, instrumentality or official of the United States any authority under this Order, and may, in administering this Order, utilize the services of any other agencies, federal or State, as may be available and appropriate.

(c) On request of the Chairman of the Council, each executive department or agency is authorized and directed, consistent with law, to furnish the Council with available information which the Council may require in the performance of its functions.

(d) All executive departments and agencies shall furnish such necessary assistance as may be authorized by Section 214 of the Act of May 3, 1945, 59 Stat. 134 (31 U.S.C. 691).

Section 5. The Council may require the maintenance of appropriate records or other evidence which are necessary in carrying out the provisions of this Order, and may require any person to maintain and produce for examination such records or other evidence, in such form as it shall require, concerning prices, rents, wages and salaries and all related matters. The Council may make such exemptions from any requirement otherwise imposed as are consistent with the purposes of this Order. Any type of record or evidence required under regulations issued under this Order shall be retained for such period as the Council may prescribe.

Section 6. The expenses of the Council shall be paid from such funds of the Treasury Department as may be available therefrom.

Section 7. (a) Whoever willfully violates this Order, or any order or regulation issued under authority of this Order, shall be fined not more than $5,000 for each such violation.

(b) The Council shall in its discretion request the Department of Justice to bring actions for injunctions authorized under Section 205 of the Economic Stabilization Act of 1970 whenever it appears to the Council that any person has engaged, is engaged, or is about to engage in any acts or practices constituting a violation of any regulation or order issued pursuant to this Order.
APPENDIX D

ORGANIZATIONAL CHART OF THE FREEZE
WHO'S IN CHARGE OF WAGE-PRICE CURBS

PRESIDENT NIXON

John B. Connally, Jr.
Treasury Secretary
Chairman, Cost of Living Council

Paul W. McCracken
Chairman, Council of Economic Advisers
Vice Chairman, Cost of Living Council

Arthur F. Burns
Chairman, Federal Reserve Board
Advisor to Cost of Living Council

COST OF LIVING COUNCIL: Sets administrative policies for "freeze," plans what comes later. Executive Director: ARNOLD R. WEBER

George P. Shultz
Director, Office of Management and Budget

George A. Lincoln
Director, Office of Emergency Preparedness

James D. Hodgson
Secretary of Labor

Maurice H. Staks
Secretary of Commerce

Clifford M. Hardin
Secretary of Agriculture

George W. Romney
Secretary of Housing and Urban Development

Virginia H. Knauer
Special Assistant to the President for Consumer Affairs


JUSTICE DEPARTMENT: Reviews cases forwarded by OEP, takes legal action if wage-price-rent rules are violated. Civil Division, headed by Assistant Attorney General L. Patrick Gray III, will seek injunctions. If violations go on, courts can levy fines—$100,000 a day, for example—until violations stop.

U.S. NEWS & WORLD REPORT, August 30, 1
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