First Trust Portfolios Canada
Monday Morning **OUTLOOK**

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Price Controls Redux?

Unfortunately, when it comes to the government, what's old is sometimes new again.

Back in the late 1960s and 1970s the Federal Reserve printed too much money relative to Real GDP, resulting in repeated bouts of high inflation. President Nixon, having been burned by a mild recession in 1960 the first time he pursued the presidency, wanted to make sure there was no hint of recession in 1972, the year he'd be seeking re-election.

As a result, in 1971, when Nixon closed the "gold window" at the Fed – to give the Fed the chance to print money more freely – he also imposed wage and price controls to try to temporarily hide the inflation that would inevitably result. After the election the controls went away and inflation surged, averaging more than 9% per year from 1973 through 1975. No wonder Nixon got so unpopular after the election!

But price controls have a long and sordid history all over the world, including in ancient Egypt, Babylon, as well as ancient Rome and even modern-day Zimbabwe and Venezuela. During the French Revolution, in 1793, the rapid inflation caused by the paper money issued under the revolution led to price controls enforced by the death penalty, then implemented by the guillotine. But even lopping off heads didn't fix the problem and shortages were one of the damaging results.

Why do governments periodically do this? Because inflation is political kryptonite. Prior to COVID the US had inflation under control for almost forty years. Now, with inflation having remained stubbornly high the past few years – even though it's decelerated the last two years – some politicians feel compelled to act, especially because while the rate of inflation is down, the price increases of recent years are still in place.

Politicians say it couldn't possibly be their fault prices went up too fast, it must be someone else's, like those wicked "price gougers' in the private sector, lining their pockets with workers' hard-earned dollars. But if price gouging is the reason for recent inflation, why weren't these gougers doing it the past forty years? What changed?

And why has the inflation been such a global phenomenon? Inflation surged around the world, not only in the US. Is every single company in the world price gouging, and if so, doesn't that present a once in a lifetime opportunity for someone to take market share by reducing prices?

Meanwhile, the cost of government has soared but those who accuse the private sector of price gouging are ignoring that. Since 2012, Chicago school spending per student is up 97% even as test scores have gone down.

But we shouldn't just pick on Chicago schools. A recent study that used AI looked at SAT scores since 2008. Including the effect of the test getting easier, average math scores are down more than 100 points in the past fifteen years with most of the drop since 2019, right before COVID. Those who want to impose price controls on the private sector want to punish shrinkflationists. But schools have been charging more <u>and</u> shrinking the education they're giving our kids. Where is the plan to fix that?

Ultimately, the best way to fight inflation is to have the Fed focus on price stability while the government minimizes taxes and regulation to encourage competition and risk-taking. Competition, not new regulations, is the way to keep prices down. School vouchers would certainly accomplish this for education.

The key assumption behind price controls is the rationalist delusion that some group of policymakers can figure out what a "fair" price is for each and every good and service across the vast US economy. It's the pretense of the kind of central planners who ran the Soviet Union's economy for decades.

The good news is that we think price controls are a very long shot to take effect. Even already, a candidate suggesting price controls is backpedaling, probably realizing that many political allies think it's a very bad idea. Meanwhile, it's unlikely that, outside wartime, such a plan could be imposed without new legislation and that legislation would probably not have the votes to pass.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-22 / 7:30 am	Initial Claims – Aug 17	232K	**232K**		227K
9:00 am	Existing Home Sales – Jul	3.930 Mil	**4.020 Mil**		3.890 Mil
8-23 / 9:00 am	New Home Sales – Jul	0.625 Mil	**0.620 Mil**		0.617 Mil