Prices Up, Jobs Down

Trace the causes of stagflation and weigh the costs of government responses.

SS24.US2.15c "Identify the reasons for the economic fluctuations of the 1970s and evaluate the effectiveness of government action on the problem of stagflation."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two causes of rising prices and circle two details showing weak growth or lost jobs. Number the three government responses 1, 2, and 3 so you can compare their results.

Why Was the Economy Stuck?

1. In 1974, a driver waiting in a gasoline line might have heard that prices were rising even as neighbors lost jobs. This was stagflation: high inflation alongside weak growth and high unemployment. The United States had already faced inflationary pressure as federal spending on the Vietnam War and domestic programs rose, while the Federal Reserve allowed rapid growth in the money supply. When spending outpaced production, prices climbed. Productivity growth also slowed during the 1970s, making it harder for businesses to increase output without raising costs. These forces made the economy vulnerable before the most dramatic energy disruptions.

2. In 1973, Arab oil exporters cut production and embargoed oil sales to the United States and some other countries after the Arab-Israeli war began. Oil prices surged. In 1979, the Iranian Revolution disrupted oil supplies, pushing prices up again. Because trucks, factories, and homes depended on fuel, higher energy costs raised prices across the economy while reducing output. Workers sought higher wages to keep up with rising prices, and businesses sometimes passed those wage costs on to customers. These reactions could keep inflation going even after an initial shock, while slow growth left many people out of work.

3. Officials tried different remedies, but each had limits. President Richard Nixon imposed wage and price controls in 1971, temporarily holding down measured inflation. Once controls ended, prices rose again; controls had not removed pressures from spending and costs. President Jimmy Carter promoted energy conservation and domestic energy development, which addressed dependence on oil but could not quickly restore lost supply. Beginning in 1979, Federal Reserve chair Paul Volcker sharply tightened monetary policy to curb inflation. High interest rates reduced borrowing and demand. Inflation eventually fell, but the economy suffered a severe recession in 1981 and 1982, with unemployment rising above 10 percent.

2 ANSWER WITH EVIDENCE

Use the passage

1. How did federal spending, monetary policy, and slower productivity growth create inflationary pressure before the oil shocks?

2. Why could the oil shocks raise prices and weaken growth at the same time?

3. How effective were Nixon's wage and price controls against stagflation? Use their results to support your judgment.

4. Compare Carter's energy efforts with Volcker's monetary policy. What problem did each address, and what limited its effectiveness?

3 YOUR TURN

Your own words

In one paragraph, write a memo to a 1979 policymaker recommending two actions from the passage that target different causes of stagflation. Explain a likely tradeoff and use the later outcome in the passage to judge whether your plan would work quickly or slowly.

ANSWER KEY

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GRADE 11 · SS24.US2.15c

PART 1 · READ AND MARK

Underline two causes of rising prices and circle two details showing weak growth or lost jobs. Number the three government responses 1, 2, and 3 so you can compare their results. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How did federal spending, monetary policy, and slower productivity growth create inflationary pressure before the oil shocks?	**Federal spending rose as the Fed allowed rapid money-supply growth, so spending outpaced production. Slower productivity growth made it harder to increase output without raising costs.**
2	Why could the oil shocks raise prices and weaken growth at the same time?	**Fuel became more expensive for transportation, factories, and homes. Higher energy costs raised prices across the economy while reducing output.**
3	How effective were Nixon's wage and price controls against stagflation? Use their results to support your judgment.	**They temporarily held down measured inflation, but prices rose again after the controls ended because the pressures from spending and costs remained.**
4	Compare Carter's energy efforts with Volcker's monetary policy. What problem did each address, and what limited its effectiveness?	**Carter's efforts addressed dependence on oil but could not quickly replace lost supply. Volcker's policy eventually reduced inflation, but high interest rates reduced demand and contributed to a severe recession and high unemployment.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I would recommend energy conservation and domestic energy development while asking the Federal Reserve to tighten monetary policy gradually. Conservation and new production could reduce dependence on oil, whose price shocks raised costs and cut output, but new supplies would take time. Tighter money could restrain spending and inflation, though higher interest rates might reduce borrowing and jobs. Nixon's controls only held inflation down temporarily, so I would not rely on them. Volcker's later policy lowered inflation but came with a severe recession. That outcome suggests my plan could help, but it would work slowly and carry real costs.

Accept other passage-supported cause-and-effect explanations. For the memo, look for two actions aimed at different causes, a plausible tradeoff, and a judgment grounded in the passage's account of later results.