The 1970s Squeeze

Tracing the causes and trade-offs of stagflation

USH.C.8.1.A "Examine the economic challenges of the 1970s, including stagflation (characterized by slow economic growth, high unemployment, and rising inflation) which affected the Carter administration."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two ways rising energy costs affected prices, circle the three conditions that made up stagflation, and number two policy responses. Use your marks to trace why the economy was difficult to manage.

When Prices Rose and Growth Slowed

1 At a gas station in 1979, a driver might wait in a long line and then pay more than expected. A disruption of Iranian oil production helped push fuel prices upward. Earlier in the decade, the 1973 Arab oil embargo had also driven up energy costs. Fuel was not just a household expense: trucks needed it to deliver food, and factories needed energy to make goods. When these costs rose, businesses often raised prices. Families then found that the same paycheck bought less, even when store shelves were full. The two oil shocks did not cause every problem, but they made inflation harder to contain.

2 At several points in the 1970s, economic growth slowed, unemployment was high, and prices kept rising. Economists called this mix stagflation. It was especially hard to manage because remedies could work against one another. If the government spent more money to encourage hiring, extra demand might add to inflation. If policymakers restrained spending or raised interest rates to slow price increases, businesses might cut investment and hiring. For a worker who lost a job, rising grocery and heating bills made the loss more painful. For a worker who kept a job, pay raises might still fail to match rising prices.

3 President Jimmy Carter, in office from 1977 to 1981, faced this trade-off as inflation accelerated late in his term. His administration backed energy conservation to reduce fuel use and supported the creation of the Department of Energy in 1977 to coordinate energy policy. Carter also appointed Paul Volcker to lead the Federal Reserve in 1979. The Federal Reserve, which makes monetary policy independently of the president, raised interest rates sharply to fight inflation. Higher rates made loans for houses and business expansion more expensive, risking weaker growth and fewer jobs. Carter could not simply order prices down without consequences, and voters judged his administration amid the squeeze.

2 ANSWER WITH EVIDENCE

Use the passage

1. How could a disruption of Iranian oil production lead to higher prices for goods besides gasoline? Trace the steps described in the passage.

2. Why did economists call the 1970s conditions described in the passage stagflation rather than just inflation?

3. Why could raising interest rates to fight inflation make another part of stagflation worse?

4. How did Carter's energy conservation approach differ from the Federal Reserve's approach to inflation?

3 YOUR TURN

Your own words

Write a four- to five-sentence memo to a Carter-era adviser recommending one response named in the passage. Explain how it could address an economic problem and identify a limit or cost, using evidence from at least two paragraphs.

ANSWER KEY

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HIGH SCHOOL · USH.C.8.1.A

PART 1 · READ AND MARK

Underline two ways rising energy costs affected prices, circle the three conditions that made up stagflation, and number two policy responses. Use your marks to trace why the economy was difficult to manage. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How could a disruption of Iranian oil production lead to higher prices for goods besides gasoline? Trace the steps described in the passage.	**The disruption pushed fuel prices up. Trucks and factories needed fuel, so higher costs could lead businesses to raise the prices of delivered food and manufactured goods.**
2	Why did economists call the 1970s conditions described in the passage stagflation rather than just inflation?	**Prices rose while economic growth slowed and unemployment was high. Inflation alone describes rising prices, not the full combination.**
3	Why could raising interest rates to fight inflation make another part of stagflation worse?	**Higher rates made borrowing more expensive. Businesses might cut investment and hiring, weakening growth or worsening unemployment.**
4	How did Carter's energy conservation approach differ from the Federal Reserve's approach to inflation?	**Carter backed conservation to reduce fuel use. The independent Federal Reserve raised interest rates to slow price increases by making borrowing more expensive.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I recommend expanding Carter's energy conservation efforts to reduce fuel use. Fuel costs raise the price of delivered food and factory goods, so using less energy could ease some price pressure. Conservation alone would not necessarily help unemployed workers find jobs during stagflation. The administration should treat it as one tool, not a complete answer to rising prices and high unemployment.

Accept other accurate causal chains grounded in the passage. For the memo, look for a recommendation, evidence from at least two paragraphs, and a plausible limit or cost.