flationary bounds, guideposts will not be needed. If aggregate demand is permitted to get out of hand, the guideposts will be ineffective. The European experience with "income policies" offers persuasive evidence of the futility of trying to restrain inflation through such devices in an overheated economy.

Administration officials who castigate private decisions as "not in the public interest" or "unpatriotic" assume a depth of understanding of what constitutes the public interest that is almost mystical. Would the increase in aluminum prices which the administration rolled back have been in the public interest? If prices had been allowed to rise, resources would have been drawn into the aluminum industry, raising investment and ultimately output. Higher output would have meant lower prices sometime in the future. Higher prices now might also have shifted demand to substitute domestic products, where demand pressures may be less.

The administration's extensive arguments about the effectiveness of the wage-price guideposts in restraining price increases in the private sector have obscured the vital role that prices have to play in a predominantly free market economy. Prices are sensitive and reliable indicators of the relationship of supply to demand, and price changes serve to direct creative effort and materials to their most productive uses. A price rise indicates that more resources should be devoted to a particular productive activity, while a price decline indicates that resources can be profitably withdrawn and utilized elsewhere. In other words, prices serve as traffic signals directing resource flows to the most efficient activities in terms of satisfying demand. When the traffic signals are replaced with essentially static guideposts, there is little assurance that resources are being directed to their most productive uses. There can be no assurance when the guideposts are fixed in an arbitrary manner. A product's price rise persuades consumers to shift their demands to substitute products, thus lessening demand pressures on the more expensive items. A price rise also induces producers to increase supply by opening up opportunities for greater profit. This increased supply further lessens upward price pressures. When this adjustment mechanism is perverted, both high demand and low supply continue with no alleviation of inflationary pressures.

ANTITRUST POLICIES

Where private market power does exist to thwart the working of the price system, it can be dealt with most effectively by diligent and determined pursuit of policies to make competition more effective, including both antitrust action and lowering the barriers to imports from abroad.

If the guideposts divert attention from fundamental fiscal and monetary policies, they will have an upward bias of their own to changes in demand and weakening the capability of the economy to adjust to changes in demand and technology. Prof. Paul W. McCracken, of the University of Michigan, has said:

> An economy whose pricing system operates according to the guidelines as enunciated would certainly find its capability for progress severely weakened.

As Professor McCracken points out, there are serious dangers in attempting to apply aggregative rules relevant to the general price level to the ever-changing relationships among individual prices.

Budget Director Charles L. Schultze, in a paper written for the Joint Economic Committee in 1959 while professor of economics at Indiana University, maintained that it was essential to economic stability for wages and prices to be responsive to changes in demand. Commenting on guidepost policy, he said:

> Public policy statements in recent years have emphasized that wage-rate gains must stay within the bounds of productivity advances if inflation is to be avoided. This study on the other hand stresses the importance for price stability of the responsiveness of wages and prices to changes in demand. There is no single formula which can specify the appropriate relationship between changes in productivity, prices, and costs in particular industries. In a flexible economy individual wage-price-productivity relationships should reflect the strength of demands in each industry. If businessmen and labor leaders would become more demand conscious and less cost conscious, the overall wage-productivity relationship would take care of itself, so long as intelligent monetary and fiscal policies were pursued. Hence, if one must preach to business and labor about their obligations to the "public interest," the