

of the game by pulling the monetary system's reserves out of the bank and hoarding them. But it seems clear now that we are no longer playing this game but are in a phase of transition to a new game, the nature of which is not as yet determined. I suggest that it is important to define as quickly as possible the system towards which we are heading. Discussions with the IMF to develop and put into operation a new mechanism for creating international monetary reserves should be pressed forward urgently. Development of this new system must go forward even if France is not presently willing to join in the common effort.

A constructive action that can be taken in this connection is for this country as soon as possible to eliminate entirely the gold reserve requirement behind Federal Reserve obligations. The common belief that gold will hold a superior position in relation to any new international reserve unit is a major impediment to agreement on and secure operation of a new system. This belief rests largely upon the conviction that the United States lacks the wit to let off hoarding the bulk of the world's gold stock. If it could be made clear—which we may hope is true—that the United States is going to view gold pragmatically rather than in terms of ancient superstitions, this would be a substantial step towards a more secure international monetary system.

The general position taken in the Council Report on the United States balance of payments seems to me a reasonable one. The situation does not seem to call for drastic action. I do not think that causing a recession in this country in deference to our balance of payments position is called for, and doubt that on balance it would be helpful. There is force, I think, in the Council's argument that tendencies towards wage-price push may be better controlled with a steadily growing than a fluctuating total demand. Fluctuations in profits and in rates of price increase make it difficult to formulate or enforce standards of restraint on business markups and wage demands and limit the effectiveness of competitive forces against inflation. The forced abandonment of the wage-price guideposts because of accelerated growth of total demand in 1965-66 and the resulting price increases is only a case in point. But while causing a recession does not seem constructive, limiting increase in total demand to moderate proportions does seem to be required both by domestic considerations and to demonstrate to the world that the United States has its economy under responsible control.

It is important also to make progress towards an effective program to limit wage-price push and the otherwise unnecessary unemployment that it entails. In this area, as elsewhere, we should try to solve immediate problems in ways that lead toward an improved and viable system, rather than into a blind alley. On this basis, I am not enthusiastic over reactivating the wage-price guideposts and making them a permanent feature of our economic and political system. In an effectively operating market economy the constraint upon unwarranted wage and price increases is not that one may receive a call from Washington and have the heat put on him in various ways. The constraint upon unwarranted wage and price increases is the fear that one will not be able to make them stick, will be undersold by others. Uneconomic wage and price increases always involve some exercise of market power, some means of keeping competing sellers out of the market. A sounder long-run direction in which to move in attacking wage-price push, then, is to revise our laws and institutions in such a way as to limit such destructive exercise of market power. Curbing artificial barriers to competition of professional associations and labor unions also seems to be the key to improving the relative position of the disadvantaged groups upon which the burden of such restrictions mainly falls.

To interpret the present position of the United States economy and appraise the policies proposed in the President's Economic Message requires some view of the process by which the economy arrived where it now is, including the role of past policies. The Annual Reports of the Council of Economic Advisers over the past several years have consistently developed an interpretation of the use of monetary and fiscal policies and the course of economic developments that seems to support great optimism. Thus, it is to the achievements of fiscal policy, assisted by monetary policy, that the accelerated growth of recent years and reduction in unemployment are credited. Despite a temporarily excessive rate of growth in 1965 and early 1966, the combination of tools is represented as having brought the growth of GNP since to just about the right rate. For the coming year, a complex and seemingly finely calculated set of policy actions is proposed to keep it that way. Monetary policy, in this interpretation, already