

4. Continue to deemphasize wage-price guidelines and permit the machinery of private collective bargaining to work. Income policies have been attempted in all major European countries, with notable failure, as is occurring in the United States at the present time.

Wage-price guidelines are no substitute, nor are they a useful supplement to stabilizing monetary fiscal policies. The arithmetic of the guidelines is impeccable, but the economics is fallacious. Not only do wage-price guidelines or income policies fail to achieve stated objectives, since they attack symptoms rather than causes, but they do positive harm by disrupting markets and misallocating resources.

An activist economic policy incorporating wage-price guidelines appears politically attractive, since it apparently places the administration on the side of prudence and points the finger of irresponsibility at private parties. But wide-ranging evidence indicates the policy is destined to failure, and will remain disruptive if continued. The recent move by the Council of Economic Advisers to disclaim a specific figure for wage increases was in the right direction, but not far enough, in my opinion.

Looking at the somewhat longer run, how can policymakers use their limited tested knowledge and demonstrated technical abilities to insure better economic performance? It is my view that policies should not be frequently adjusted for fine economic tuning.

Despite laudable objectives, the results of such actions are likely to be destabilizing. Continued empirical research may eventually expand our knowledge to the point where fine tuning of the economy, with flexible monetary fiscal policies, will be possible.

In the meantime let us play the more cautious and prudent role of avoiding destabilizing action by providing moderate increases in total spending, in line with the growth and the capacity of the economy to produce. A stable growth in the money supply of about 3 percent a year similar to the 1960–April 1965 period, accompanied by a Federal budget designed to obtain an approximate balance of full employment is probably the best we can do at present.

In conclusion, the gross mistakes in economic policymaking and execution of the recent past have convinced me that until our knowledge is substantially improved, an activist monetary fiscal policy is quite likely to destabilize an inherently stable economy, especially once full employment has been achieved.

In other words, a little knowledge can be a dangerous thing when ambitiously applied to economic affairs.

Chairman PROXMIRE. Thank you very much, Dr. Sprinkel.

(The prepared statement submitted by Dr. Sprinkel follows:)

PREPARED STATEMENT OF DR. BERYL W. SPRINKEL

DESTABILIZING POLICIES IN A STABLE ECONOMY¹

I. INTRODUCTION

My assignment is to "focus on the monetary situation." I will concentrate on monetary policy developments since 1960 and will differentiate between performance from 1960 to mid-1965 and mid-1965 to the present. This discussion must be within the context of prevailing economic trends and the total mix of economic policy. In my view, policy was unprecedentedly good in the earlier period while consistently destabilizing in the latter.

¹ The views expressed are those of the author and not necessarily those of the Harris Trust and Savings Bank.