business or labor that flout the public interest in noninflationary price and wage standards"; [12] or his 1966 declaration that "it is vitally important" that labor and industry follow the guideposts.[13] Instead, we have the presidential "appeal to business and labor—in their own interest and that of the Nation—for the utmost restraint and responsibility in wage and price decision." [14]

The Council, which has been the President's executive arm for administering and enforcing the guideposts, has stated that it will continue to meet privately with "leaders of business and labor" in order "to underscore the public interest factor in wage and price decisions and to solicit the cooperation of union and corporate leadership in specific situations." [15] But it does not state that it will henceforth, as it has on occasion in the past, issue "formal statements to the public commenting on particular wage or price decisions." [16]

While there is no firm basis for reading into the President's Economic Report an espousal of a policy of non-intervention in private wage- and price-decision-making, it is fair to interpret it as adopting a policy of limiting the Government's weapons of intervention to information and persuasion and renouncing future efforts to apply "sanctions" to "violators" of the guideposts.

If this is a correct interpretation of administration policy, the change is to be welcomed—not deplored—and particularly if Congress now meets its obligations and acts to accomplish the objectives which Congressman Reuss has urged upon it in recent years.

DIFFICULTIES WITH GUIDEPOST POLICY AND SUGGESTIONS FOR OVERCOMING THEM

Very serious—and legitimate—criticism may be directed at the way the guidepost policy has been formulated and administered to date. It has tended, in my view, to jeopardize the values which we associate with the rule of law in our democracy.

Need for a wage-price policy

To be clear about the problem we face, we must begin with the fact—which Presidents Truman, Eisenhower, Kennedy and Johnson, their Councils of Economic Advisers and, I think, this Committee, have accepted—that structural characteristics of the American economy are responsible for the tendency of wages and prices to rise even before full employment is achieved. Historical experience has convinced us of this fact. Prices increased rapidly in 1937 despite massive unemployment and under-utilization of resources. The defense program of 1940 and 1941 produced inflation even though the economy was then operating far below capacity. Events from 1956 to 1958 again showed that we could have inflation in the absence of excess demand, and indeed, even in the face of declining demand. The experience of the last year only adds to the proof. "The critical economic problem to be solved in the year ahead", the Council tells us, "is that of maintaining income growth and full utilization of resources without becoming trapped in an inflationary price-wage spiral." [17]

Experience has also demonstrated that monetary and fiscal policies alone cannot prevent an inflationary price-wage spiral without sacrificing the twin objectives of income growth and full utilization of resources. In order words, we constantly hesitate to use monetary and fiscal policies to the extent necessary to attain these objectives for fear of inflation. To remove this hesitation, it is commonly accepted, price and wage restraint will have to be practiced in certain sectors of the otherwise unregulated private economy. Differences quickly arise when the discussion shifts to the means of assuring that such private restraint, in fact, will be practiced.

Stabilization without representation

The guidepost policy is defended as a means of assuring such private restraint principally on the ground that it is not a policy of compulsion but one that calls for "voluntary" compliance with its requirements. As Chairman Ackley succinctly put it, having "been exposed to persuasion and willing to risk

[12] 1964 Economic Report of the President, at 11; 1965 Economic Report of the President, at 13.
[13] 1966 Economic Report of the President, at 12.
[14] 1967 Economic Report of the President, at 13.
[15] 1967 Annual Report of Council of Economic Advisers, at 126–127.
[16] Id. at 127.
[17] Id. at 72.