

economy would tend to prolong the lives of decaying industries, and it would slow responses to areas of increasing demand.

The problem here is fairly clear. It is the danger of attempting to apply an aggregative macroeconomics rule relevant to the general price level to the ever-changing relationships among specific prices in microeconomics. The pricing system that we would get if this cost-plus pricing were fully implemented would, to an observer from the University of Mars, look like a highly primitive and crude version of what we now have.

Problems of equity will also inevitably become more difficult if attempts to apply the guidelines to specific situations become more extensive. Even though the guidelines recognize exceptions, most situations will actually be measured against the average. The steel wage settlement is an example. If it was on the 3.2-percent average, it really exceeded the guidelines because it has been an industry with more than its share of unemployment, wage rates were relatively high already, and profits have been relatively low. These are conditions that, according to the Council's articulation of the guidelines, call for a below-average wage settlement. Yet the settlement was pronounced to be right on target—because it came out on the average.

The procedures for singling out price and wage candidates for attention will inevitably be uneven and capricious. Steel would be apt to get the works even though prices of some other products in the aggregate might be just as important. The price which, according to the guidelines, ought to go down and does not would probably be safer from official wrath than the price that ought to stay put but goes up. And there is the question of equity as among wage settlements. The USW or UAW member is apt to find his income more affected by guidelines than a member of the construction union. And it is almost inevitable that a larger proportion of the wage area will be under surveillance than of prices. An industry that has one major labor contract may have hundreds of prices. This is bound to create political strains that either weaken the guidelines or force the Government in the direction of price control.

Another important dilemma of the guidelines approach (or any variant that is some *de facto* form of direct price or wage control) is that it introduces some upward biases of its own. Because price increases when needed may involve some abrasive moments, there would be considerable incentive to resist any price declines. And there would be strong incentives to take the maximum price rises that could plausibly be attributed to such exogenous factors as wage settlements or higher material costs.

There is also an issue of government here. We have probably gone about as far down the guideline road as is appropriate in the absence of legislative action. A form of price-wage control could ultimately come to have the force of law because of the formidable power that the Federal Government can assemble against any miscreant in pricing or wagemaking. If these programs are to become significant instruments of economic policy, the Congress should debate the issue and, if persuaded of their wisdom, take the necessary legislative steps to authorize administration action. The come-let-us-get-together approach can be a device that builds up a power structure in Government which circumvents the legislative process, and in the private sector which circumvents the normal market disciplines of competition. This is not desirable in our political system or in our economy.

The basic reservation about the guideline approach, however, is the evidence that it is of quite limited practical effectiveness. There has not been much displacement in the relationship between our price-level performance and the pace of the economy. In their paper before the American Economic Association 5 years ago Professors Samuelson and Solow suggested that to achieve a stable level of labor costs per unit of output unemployment might have to be 5 to 6 percent, and to achieve "the nonperfectionist's goal" of 3 percent unemployment the price index might have to rise 4 to 5 percent per year.⁸ If we make a simple linear interpolation between these two points of their modified Phillips curve, the 4.6 unemployment rate for 1965 would imply about a 1.7-percent rise in the price index. The Consumer Price Index actually rose 1.7 percent from 1964 to 1965, and the rise would have been somewhat higher except for the effect on the index of reduced excise taxes. The guidelines do not seem to have been holding the rise in the price level to anything markedly different from what would have been expected, given our volume of unemployment. Moreover, international experience also suggests cautious expectations about what guidelines can accom-

⁸ Paul A. Samuelson and Robert M. Solow, "Analytical Aspects of Anti-Inflation Policy," *American Economic Review*, Proceedings, May 1960, p. 192.