(*e*) Since under conditions of relatively full employment a wage guidepost of around 3 percent has a restraining influence, however, and since it is not possible to formulate completely precisely a wholly noninflationary guide, I do not necessarily advocate changing the standard, particularly under present circumstances. But, it must be recognized that even a 3.2-percent guide is mildly inflationary unless the trend rate of productivity advance accelerates, which seems unlikely in the intermediate term future.

With the large increases in labor force we are getting, particularly in the young age groups, with the efforts to train more and more of the hard core unemployed, I think it is quite unlikely that productivity will rise faster than the trend rate over the next 5 years, at least.

What I said on these points leads me to believe that the trend rate in private nonfarm economy productivity would be closer to a noninflationary standard than the one which is used, and it is under 3 percent in the postwar period.

3. Next, it seems probable that the guideposts had some effect in restraining wage and price increases during the period 1962 to mid-1966.

(*a*) Statistical studies by Perry, Fromm, and others, cited by Professor Sheahan in his new volume, indicate a significant effect, although I would place more stress on the possibility of an influence of other parameters that are not included by these investigators, such as increasing import competition, the Manpower Development and Training Act and subsequent measures beginning in 1962 designed to increase labor mobility, the rather steady rate of economic expansion which we had since 1962, and so on.

(*b*) But, quite apart from these statistical studies we know that interventions by the Council of Economic Advisers were frequently effective in moderating or delaying planned price or wage increases in a substantial number of significant cases, although these were a tiny fraction of total wage and price actions during the period. It seems self-evident that application of the guideposts did have some effect.

4. The guideposts in operation, however, had a number of important limitations or defects.

(*a*) The guideposts obviously cannot replace noninflationary monetary and fiscal policy. They faced an impossible task when, during 1965 and 1966, inflationary aggregate demand pressures were allowed to develop.

(*b*) It is difficult to apply an "average" in specific cases and to judge when exceptions are warranted, even with extensive investigation.

(*c*) The guideposts have been voluntary, but they were formulated without participation of representatives of labor unions, management, and other interested groups. More political groundwork and broader educational effort would have been helpful.

(*d*) When the guideposts were transformed from an educational device to an operational tool, the Council of Economic Advisers was not equipped to do an adequate factfinding and advisory job. Partly as a consequence of this, applications of persuasion were spotty, and largely confined to the larger, "visible" situations. Thus, application of the guideposts involved discrimination and inequities, but with no right of appeal when pressures were felt to be unjust.