

(e) As a result of spotty application and compliance there were some distortions in relative prices, wages, and resource allocations. In some instances, also cited by Mr. Sheahan in his book (which I read last night after having written this testimony), I noted that he cites a number of commodities whose prices were held down through Council persuasion even though they were in short supply. Now, that sort of action does tend to distort resource allocation.

5. In our type of predominantly free enterprise, market directed economy, I believe the chief reliance for moderating inflationary price pressures must be placed on traditional tools of aggregate demand policy, plus the basic policies designed to promote competition and efficiency in the economy.

(a) Fiscal and monetary policy must be designed and executed to increase money demand in line with growth of capacity plus desired changes in rates of utilization of capacity with allowance for a minimum rise in general prices which seems inevitable in the process of disinflation as in the current situation.

Now, I think this is an absolutely basic point, and fiscal and monetary tools should be applied even at the cost of occasional deceleration in growth of economic activity at the times when wage and price increases are accelerated.

(b) Policies to promote competition, including antitrust, broadening of union membership and apprenticeship rules, continued liberalization of international trade, and specific policies to break supply bottlenecks as they develop or are seen should be pursued vigorously.

(c) Policies to promote the productivity of labor and capital are essential through continued increases in support for research and development, education, manpower development and training, health, mobility of labor, and a diffusion of technological advance.

In other words, I think we have to give as much thought to increasing productivity and real income as we do to restraining the increases in money income, because if we can bring the increase in real income up closer to what the increases in money income have been this also helps to combat the inflationary advances.

I might mention that from time to time there have been proposals for a national productivity center or office of productivity coordination which would try better to coordinate activities of Federal agencies in these areas. Practically all countries of the world have productivity centers except the United States, I might mention.

(d) Consistency with the guideposts should obtain also in Federal agency procurement, wage-salary administration, minimum wage, and other legislation affecting nongovernmental wages and prices, also influence with State and major local government should be exerted to promote policies at these levels also in general consonance with guidepost criteria.

For example, it seems somewhat inconsistent that tomorrow we have a 15-percent increase in the minimum wage. This certainly isn't in accord with the basic guideposts principle. I would think instead of these occasional big jumps in minimum wages that a productivity increase, a gradual increase applied to the minimum wage would be more in accord with the guideposts.

6. Continued enunciation of the guidepost principles by the President and his Council of Economic Advisers seems desirable as an educational device designed to induce more responsible behavior of company and union leaders possessing market power.