I do not take it as axiomatic that any interference with any real world market necessarily worsens resource allocation. In place of a purely competitive model, a good working description of any industry's labor market might go as follows: Wage levels are above average, even after adjusting for skill and hardship differences. Because of this, there is always a pool of labor from lower paying jobs waiting to work in these industries as new openings occur. Wage levels in the industries are changed through the bargaining process. Applying a description such as this to the industries I have classified as "visible," my colleague, Norman J. Simler, has offered an explanation of the wage and employment changes described above. In his explanation, guideposts improve the allocation of labor. Since the motive for moving from low- to high-wage industries depends on the existence of a substantial difference in wages, not on whether this difference is growing a little larger or a little smaller at any time, restraint on wage increases in visible industries will not noticeably affect the size of the labor pool waiting to work there. On the other hand, the amount of labor demanded in visible industries will be somewhat greater at the lower wage level that results from guidepost restraint. Thus more workers will find jobs in the high-wage industry as a result of guideposts and the allocation of labor will be improved.

Incidentally, to the extent workers leave low-paying jobs the effect is to cause faster wage increases there. If this effect is important, and I have no evidence on whether it is, it is a curious effect of guideposts policy that it does speed up the rate of wage increases in the other sectors.

While guidepost supporters can take some comfort in such arguments, it would be incorrect to assume that guideposts always work in a nondistortive direction. In practice, some industries that are highly vulnerable to guidepost pressures may be kept from making price and wage adjustments that are needed if markets are to allocate resources properly. Not many economists would favor interference with markets that are highly competitive. In such markets, price and wage changes serve to direct production into the most useful channels and to shift resources into and out of the industry as needed. Yet it is often hard to determine when a particular industry's actions differ noticeably from what would be happening within the competitive model. Therefore it is hard to know, in practice, when guideposts should interfere.

Since industry productivity experience does vary considerably, a good rule of thumb is easier to imagine for wages than for prices. And for wages, in general, the tighter the labor market gets, the harder it is to identify legitimate exceptions to the rule that everyone should get the central guidepost figure. From our experience, I would feel safer in saying that guideposts did not concern me much more on resource allocation grounds from 1962 to 1965 than in 1966. I am reminded that someone has said the moon is more valuable than the sun because it comes out at night when we need it the most. By contrast, I am afraid that the guideposts are least reliable when we need them the most.

What Can We Expect From Guideposts?

It is easier to be specific about what we cannot expect from guideposts than what we can expect from them, at least with guideposts in