

that these techniques could, if aggressively used in ill-chosen directions, cause serious trouble. But if aimed selectively at significant departures from competition, and implemented for the constructive goal of increasing efficiency rather than the negative one of blocking price and wage increases in general, they could help to make higher levels of employment feasible, and to reduce the degree of advantage that stronger economic groups sometimes take of their positions at considerable cost to others. Any program could go wrong if badly aimed and run, but the possibilities of making mistakes should not rule out a new effort to do better than we have so far.

Chairman PROXMIRE. Thank you very much, Professor Sheahan.

Mr. FROMM, on the basis of your study and your very fascinating model, do you make any particular assumptions as to monetary and fiscal policy or do you simply assume that monetary and fiscal policy as given and the model will work about the same whether your policies are restrictive or expansionary?

Mr. FROMM. Well, the way I have set up this little submodel, I implicitly assumed that I can take the partial effect of the guideposts independent of fiscal and monetary policy and approximate the impact of the policies that were pursued. If there are strong interactive forces between the guideposts and monetary and fiscal policy, and the imposition of the guideposts caused different monetary and fiscal policies than actually might have taken place without the guideposts, then my estimates are not correct.

Chairman PROXMIRE. I would like you and Mr. Kendrick to comment on what kind of fiscal and monetary policies are necessary or desirable in order to make the guideposts work most effectively or to work at all.

Mr. Kendrick?

Mr. KENDRICK. Well, I think I spelled that out in my written comments, that the combination of fiscal and monetary policy or aggregative demand policy, if you want to call it that, should be such that the total current demand, as measured by total current dollar GNP, should rise in line with the expected increase of capacity, which averages 4 to 4½ percent in recent years, plus any movement from a lower rate of utilization to a higher rate of utilization, say another 1 percent fuller utilization of capacity, which would bring it up to about 5 percent.

Chairman PROXMIRE. So, are you saying if you have a situation in which you have relatively high employment, say 3½ percent, and in which you have relatively good utilization, say 90 percent, then your money supply should increase at about a 4-percent rate.

On the other hand, if you have a lower level of utilization and a lower level of employment then the wage-price guideposts can operate with a higher increase in the money supply.

Mr. KENDRICK. If there is excessive unemployment and unutilized capacity, then I would expect the aggregate money demand would be encouraged to rise by more than the expansion of capacity, although not at too rapid a pace, since the rate of expansion has an influence on price movements. But, I did leave out one final factor, and that is an additional allowance for the minimum increase in prices which would seem inevitable in a disinflationary process. In other words, say we had something over a 3-percent increase in the general price level during the past year, but we feel that we can bring this down to no