

ANSWERS BY GARY FROMM:

(I shall comment on these questions in reverse order.)

4. It is possible that use of the guideposts could inhibit the flexible change of wages and prices and the efficient allocation of resources in the economy. On the other hand, the guideposts, in part, are specifically directed at cases where the excessive concentration of monopoly and oligopoly power (on a national, regional or product market basis) in the hands of unions and management result in wage-price settlements and decisions that are departures from a purely competitive norm and contrary to the public interest. In those instances, and they need not be restricted to the manufacturing sector, some intervention may well be justified. If this intervention takes the form of guideposts, then it is necessary that they be formulated in a manner that will not distort factor returns and relative inputs in production decisions. Unfortunately, as I have indicated in my testimony above, because the present guideposts do not take account that the elasticity of substitution between factors may not be unity and not be identical for different industries, their application may result in inequities and inefficiency.

3. Professor Dunlop's proposal for a "bottleneck-oriented program" certainly can be helpful in reducing the number of instances in which direct government intervention in wage and price decisions might be contemplated. But, more must be done than simply adding to supply. The aim also should be to reduce costs and increase economic efficiency by stimulating the rate of technological advance and the speed of its application. Moreover, attention should be given not only to bottleneck sectors, but other major areas of the economy. In part, so as to limit the sphere of direct government action, this might be accomplished by further liberalization of tax credits and accelerated amortization for research and development outlays.

Other legislation and measures might well be considered by the Congress. In particular, the current wave of mergers and acquisitions could be viewed as a precursor to the exertion of undue market power in the future. Similarly, conglomerate union organizations might be used to disrupt production of goods and services and distort wage bargains on a much broader scale than justified by a single contract dispute. A Congressional study of the need and desirability of strengthening various acts that seek to bar restraints of trade and effective competition in labor and product markets would be in order if the alternative action of formalized guideposts were seriously to be contemplated.

Legislation to provide for the use of government stockpiles of basic commodities for economic stabilization purposes might be considered, too. The Government would purchase such goods, but only if currently produced, in recession periods and sell them when capacity restrictions and high demand during booms created strong wage-price pressures. A revolving trust fund would seem the logical device to administer such a program.

2. Gardner Ackley's use of the word "impunity" can be taken as a strong argument against formalization of the present guideposts. On the other hand, it would be a mistake to use his statement as a justification to limit Government intervention in cases where the wage-price-output behavior of a major industry flagrantly violated the public interest.

Utilities are regulated to prevent just such behavior.

1. Guideposts can be applied effectively in the nonmanufacturing area when an industry has many of the same characteristics of the manufacturing sector, i.e., a relatively high degree of concentration of power over a major segment of labor and product markets. Transportation might be such a sector. Whether guide-