

posts would be efficient is another question, and must be answered within the context of resource allocation for the economy as a whole. But, certainly, guideposts cannot directly be applied, unless one is thinking in terms of a massive administrative apparatus, to small, local trade and service establishments.

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ANSWERS BY JOHN W. KENDRICK:

1. The Council's wage-price guideposts related to the total private economy, non-manufacturing as well as manufacturing. While applicable to the former, in my prepared statement I indicate why I believe trend-rates of growth in private *nonfarm* productivity would be a more efficient guide to non-inflationary wage increases.

2. Chairman Ackley was right, so long as the guideposts remain truly voluntary. I would agree that they should be preserved as an educational device, unless cost-push inflation accelerates significantly over the 1967 rate.

3. Professor Dunlop's proposed supply "bottleneck-breaking" program is desirable as a long-run attack on inflation, but it is only a partial remedy and is unlikely to have a noticeable impact over the short-run.

4. I agree that spotty application of the guideposts would reduce economic efficiency for reasons adduced in my prepared statement. Only if inflationary pressures are severe do I believe that strong application of guideposts, merging into partial controls, would be worth the cost in reduced economic efficiency.

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ANSWERS BY GEORGE L. PERRY:

1. "Applied" is a difficult concept to deal with. In terms of whatever educational value guideposts may have, their influence is not restricted. And to the extent that moderation in some areas spreads to others, the effect of guideposts may be broadened. But if by applied we mean that industries are susceptible to individual, direct attention by authorities, then a guidepost policy would be hard to apply widely. To try to do so would not only be difficult but inappropriate since they have no place in affecting wage-price outcomes in basically competitive industries.

The airline strike of 1966 comes most quickly to mind as a bargain outside manufacturing in which the Government had an active concern. There have certainly been others.

2. Increased formalization of the guideposts runs the distinct risk of reducing the flexibility of our markets and hence, their ability to allocate resources efficiently. Chairman Ackley's statement seems consistent with this view.

3. Without specifics, it is hard to make a firm comment. I believe that where the Government can anticipate bottlenecks, it should take steps to minimize them. So I agree with the intent of Professor Dunlop's proposal.

4. I referred to the efficiency issue at some length in my written testimony. Guideposts, certainly as originally conceived, can be regarded as a program for increasing efficiency. In application, one might even be willing to take some small risk on efficiency in exchange for more price stability. But if, in the name of guideposts, we found ourselves moving toward a rather rigid program of controls, I would be opposed.

While we are being concerned with efficiency, it would be useful to worry about improving efficiency in ways that would also improve our price performance, such as through freer rather than more restrictive trade policies and practices, both in international trade and in domestic commerce.