ANSWERS BY JOHN SHEAHAN:

These questions raise issues that are absolutely fundamental. All four of them are treated explicitly in the book that I just wrote on this subject. The answers there are surely incomplete and subject to improvement, but they come closer than any brief summary I could make in the present context. I would especially recommend consideration of Chapter X in connection with question 4, and Chapter XII in connection with questions 2 and 3. The following comments should be understood as supplementary to those discussions, not as complete in themselves.

Question 1.—For purposes of simplification, one could consider employment in the private non-manufacturing sector as consisting of two types of groups: those who are well organized and negotiate somewhat arbitrarily determined wages (for example, railroad workers), and those who are not at all well organized. Clearly there are shades in between, but many wages in these areas can be considered to be almost purely determined by market opportunities, while others are set by a conflict of negotiation forces only loosely constrained by the market. There is no reason that the guideposts should be applied to the wages in the first group (those determined by the market). There is no reason why wages of the second group should not be subject to the same type of guidepost restraints as wages in manufacturing. Indeed, within manufacturing the same two extremes appear, as well as all the variants in between. It is difficult to see why there should be any fundamental distinction in guidepost policy between manufacturing and non-manufacturing. Or, for that matter, between private and Government employment.

Question 2.—Chairman Ackley's position is easily defensible and may well be the most useful way to look at the matter. I discussed the same quotation in the section from pages 184 to 187 in my book, and did not try to say that it was wrong. I did suggest that there are advantages—of clear definition and more consistent application, as well as possibly greater force—in explicit legal constraints as opposed to informal persuasion.

Question 3.—Professor Dunlop's proposal points toward a direction of public policy that should become extremely important and could be very helpful. If one had to choose between an active program of correcting supply bottlenecks, or the guideposts, it is quite possible that the type of program suggested by Dunlop could accomplish more. But there is no reason whatsoever that the two approaches need conflict with each other. They should not be regarded as exclusive alternatives.

Question 4.—It is conceivable that the guideposts might be used to block the flexible evolution of prices and wages, just as it is conceivable that the policies of major companies and unions might be used in ways that block the free evolution of prices and wages.

If the guideposts are administered systematically along the lines originally specified, they should not preclude flexible price and wage movements: they would simply prevent increases that have no economic function, by preventing their occurrence in conditions under which market competition would have prevented them. If they were applied as specified, they would improve efficiency by limiting those private choices that sometimes work against it.

(Additional material referred to by Chairman Proxmire at close of hearing, follows:)