

crucial role at that point by providing evidence that the administration was sufficiently concerned about price stability to be willing to try new methods to achieve it. The evidence of willingness to act—as shown so dramatically by President Kennedy in the steel price conflict of 1962—is at least as important as the guidepost principle itself.

### *Guideposts: Pro and Con*

One of the main fears of those who concede some relevance to the guideposts, but still wish they would go away, is the possibility that they might hamper the flexibility of prices and wages and reduce their effectiveness as guides to efficient decision-making. If guideposts did have this effect, they would not be worth the cost. The productive capacity, potential for growth, and power to hold down costs of the U.S. economy could be seriously undermined by any extensive system of wage and price controls.

The guideposts are sometimes defended as if they did not constitute controls, but this is dubious argument. They set up principles and call for actions that reduce the scope for discretion in the private sector. They are relatively mild, informal, and infrequently applied with serious pressures, but they do aim to bring governmental pressure to bear on private decisions.

If the economy were highly competitive in all markets, such intervention would certainly distort incentives and reduce efficiency. But the American economy, even though it may be more competitive than that of any other country, has many imperfections. For example, there are limitations on competition by some firms through both implicit and explicit understandings, entry restrictions, control of supply by some unions, various forms of market control and organized pressure by some professional groups, and government restraints. If administrative restraints were prescribed for *all* departures from competition, the result would be a nightmare. But if attention is limited to the significant cases, the number is not overwhelming. Either the guideposts or more formal restrictions might be thought of as highly useful for a small number of cases; doubtful if extended widely; and dangerous if allowed to intrude on the great majority of reasonably competitive market solutions.

Where significant market power exists, there is a basis for the belief that placing limits on private discretion will improve efficiency. If restric-