

*The Future of the Guideposts*

It has been suggested frequently that the guideposts have no real function in conditions of either large-scale unemployment or full employment, that their possible usefulness is confined to an intermediate band in between. This does not seem to be a good way to put the matter. Prices rose rapidly between 1933 and 1937, and fast enough to be disturbing during the period of slow growth in the late 1950's. These increases did not have any positive function, and they served to help frighten the government into excessively deflationary aggregative policies. Something like the guideposts might have helped forestall the costly deflation of 1937, and eased or even avoided that of 1959-60.

If the guideposts were to be ruled out for any particular phase of the business cycle, it would be best to deemphasize them in conditions of prosperity when there is greater danger they might be used to block price or wage increases related to genuine shortages. However, the economy is almost never likely to be in a condition of excess demand in all markets, except in wartime. There will probably be a few valid cases for the exercise of pressure even in strong prosperity and in serious depression. Another way to put it is that aggregative monetary-fiscal management can be used to keep the economy above total disaster and below all-out inflation. The guideposts then become a part of the second line of economic policy, gaining in relative importance because of the very success of improved aggregative techniques.

The guideposts, in sum, represent an intelligent gamble to achieve an important national objective. They have served at the very least to direct attention toward the issues involved in trying to link problems in individual markets to those of economic growth, to the efficiency of the productive system as a whole, and to the distribution of income. It is no accident that they came in on the heels of a major improvement in the ability to use monetary and fiscal policy to prevent major depressions—an improvement which, in turn, makes price stability harder to achieve.

The guideposts were not a sufficient solution to this new problem; they are not satisfactory as they stand. They are a promising move in a direction which yielded some gain and created some new problems. Those problems must now be faced more explicitly, with clearer criteria, a recognition of past mistakes, respect for the healthy foundations of a flexible economic system, and a continuing sense that further improvement is not only desirable, but also possible.