policy should take the form of a *hedging strategy*. In the present situation, it seems to me that such a hedging strategy is not too hard to design.

COST-PRICE PROBLEMS

Like the Joint Economic Committee—and like many other economists concerned with "macro-economic" issues—I have been watching over the years the working of the mechanisms that set prices and wage rates, and asking whether those mechanisms could be altered to strengthen the inherent resistance of the economy to inflation and make it safe to push harder toward high employment and toward such objectives as easing urban problems and mitigating air pollution. Recent advances in the price-level confirm the impression that these mechanisms leave room for improvement. Yet on the whole, it seems to me that the postwar record is reassuring: we *almost* have enough inflation-resistance to give employment policy and development policy a free hand within the range of actual availability of real resources.

There is undoubtedly a tendency for wage rate to outpace productivity at times when employment and profits are high. The fact that prices of industrial products ran level from 1959 through 1964 is not quite evidence of a satisfactory working of the wage-price mechanism because the unemployment rate throughout these years ranged from 5% upwards—appreciably worse than acceptable levels. Yet the mechanism *almost* works. Even the 2%-per-annum rise in industrial prices we have experienced since late 1964 might be livable as a long-term rate if we could be confident it would not accelerate: even retired people can face such a rate of secular price-increase if along with it they benefit from an interest rate a couple of percentage points higher than they would otherwise get. It would seem to follow that far short of a revolution in wage-price-setting, moderate improvements might bring us from almost-satisfactory to satisfactory performance.

There is a good deal of interest lately in proposals to do better than previously with the policy-instrument of "wage-price guideposts", setting up a special agency (distinct from the Council of Economic Advisers) to formulate and apply the guideposts. If we could be sure that the inflation-threat was about to dissipate, we could afford to set this question over for consideration another year. But as part of a hedging-strategy for 1968, the step of setting up such an agency seems to me appropriate. It may well be urgently needed later in the year; if not, it could well use a breathing-spell to clarify the problems, taking the chance to consult a number of those who will be affected. We may take it as virtually certain that the United States will experience a few months at least of inflation-threat every few years, and few years pass without a few moves on the wage-price front that seems to increase our inflation-vulnerability, so that we are not likley to see such an agency sitting idle or drifting off into unintended or inappropriate lines of activity for lack of business in its own jurisdiction.

It seems to me that policy in recent years has wasted a good many opportunities for constructive intervention in wage-price processes. In particular:

(1) In applying "moral suasion" to big companies to avert price increases, it seems to me that attention should focus on *situations where a margin of capacity exists*, and where therefore there is a real option to take the benefits of a stronger market in increased sales-volume rather than in higher price. To put more output on the market at a constant price is directly anti-inflationary. In contrast (think of the copper market in the last few years) to hold down price when suppliers have no capacity and cannot satisfy the demand produces a disorderly market; and to a considerable degree the price increase is simply generated in the industries that use the product in question. Release of surplus goods or relaxation of import restraints should be used as a *reinforcement of physical volume* in such cases. Certainly it is inappropriate to bargain with suppliers, as the government recently did in the case of aluminum, and *withhold* surplus that could be placed on the market in consideration of holding down price under conditions where output cannot rise.

(2) Where supply cannot or should not be expanded and demand cannot be satisfied at a low price, there is much to be said for an excise tax, to give "rationing by price" at the consumption level without creating a windfall profit which in turn may stimulate inappropriate wage increases. The automobile excise seems to me a case in point. Given congestion, air pollution,