increase the efficiency of the economy. Such measures might include greater tax incentives and Government expenditures for research and development, a strengthened antitrust policy, countercyclical variations in basic commodity stockpiles, countercyclical Government wage policy, on incomes instead of a price-support agricultural policy, and so forth. Greater consultation between Government agencies to insure that they pursue coordinated noninflationary policies would also be helpful.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you very much, Mr. Fromm.

Mr. Kendrick, may we hear from you now?

STATEMENT OF JOHN W. KENDRICK, PROFESSOR OF ECONOMICS, THE GEORGE WASHINGTON UNIVERSITY

Mr. KENDRICK. Thank you, Mr. Chairman; my prepared statement is very compact and probably will take less than 15 minutes.

Chairman PROXMIRE. Thank you very much, we appreciate that.

Mr. KENDRICK. I may elaborate on it as I read it, and I will be glad to to do so in the discussion and under questioning as appropriate.

1. The objective of the wage-price guideposts to mitigate, if not eliminate, the price inflation usually associated with a high-level economy, is a most attractive goal. In fact, sometimes I think that our evaluation of the guideposts may be mixed with a certain amount of wishful thinking, realizing how desirable it would be if we were able to achieve their objectives.

(*a*) The case against significant price inflation, which the guideposts are designed to combat, is well known, involving strong inequities and inefficiencies which stem from the upward price movement. I won't elaborate on that case.

(*b*) Less well known is the role of accelerating wage increases toward the peak of expansion, decelerating productivity advances, and the resulting cost-price squeeze, in bringing booms to an end and initiating recessions. This sequence appeared during 1966 as the guideposts were breached, and resulted in the economic slowdown of 1967 which probably would have developed into a recession had it not been for continued substantial increases in Government expenditures.

I might mention that this sequence that we get toward the end of an economic expansion; that is, a slowdown in productivity and an increase in the rate of advance of wage rates and thus an acceleration in unit labor costs which press against the price level, is an explanation of the business cycle which was first advanced by Wesley Mitchell back around 1913, and recent statistical studies indicate that this sequence is a very important cause of the termination of economic expansions.

I think this is one of the most productive aspects of wage-price restraints if they can be successful; that is, preventing acceleration of unit labor cost which, I think, is a very important explanation of the upper turning point.

(*c*) There is no doubt that labor, management, and the community at large would benefit from avoiding accelerating wages and prices in a high-level economy. The real question is whether voluntary guideposts can be effective.