

a period of instability in prices and costs, the exceptions and qualifications become more difficult to deal with and condoning the general rule condones a rate of inflation that is not desired.

As part of a package for slowing the rate of price increase that included fiscal and monetary restraint, some new guidepost formula might rest on a set of compromises—between wages and prices and between past and prospective living costs. As an example, with 2 percent faster price increases, full adjustment of the wage guideline brings it to 5.2 percent. But if labor will now take only two-thirds of the adjustment, it becomes 4.5 percent. On the price side, full guidepost adjustment—for the average firm with an average productivity trend—would now be 1.3 percent—the difference between 3.2 and the 4.5 percent wage increase. If management will now take only say two-thirds of the adjustment, it becomes 0.9 percent. This “two-thirds rule” has reduced the prospective price increases from 2 percent to under 1 percent. As to compromises with respect to past prices, wages have fallen behind the noninflationary guidepost. With respect to prospective prices, they have gotten ahead—if aggregate demand policies see that the great majority of prices beyond the reach of guideposts slow down that notch as well. A cost-of-living clause could serve as protection for the more skeptical unions on this score. One should note that in subsequent rounds, repeated application of such a rule will get guidepost adjustments to converge to whatever inflation rate monetary and fiscal policy permit in the rest of the economy.

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

Mr. Sheahan?

Senator JAVITS. Mr. Chairman, I have to appear with Senator Smathers before the Small Business Committee at 11 o'clock and I wondered whether I could ask one question? I promise to confine it to one.

Chairman PROXMIRE. Yes.

Senator JAVITS. I notice, with the greatest interest, Professor Kendrick, the references to the subject which is too little discussed, and that is farm productivity, in which you make the very provocative statement in your written document: “The sharp increases in farm productivity, which are a part of the 3.2 percent, have not been fully passed on to consumers in relative price declines due to governmental farm price support programs. Hence, a wage guidepost based on productivity in the private economy, including agriculture, tends to have an inflationary bias for this reason.”

Is it your opinion that right now the governmental farm price support programs are not adapted to the economic situation in which the country finds itself?

Mr. KENDRICK. Well, I am not a farm economist, nor an expert on legislation in this area. But, my feeling is that the whole concept of the parity ratio and the fact that prices that farmers receive should raise by as much as prices that farmers pay, in fact more so, if we are to return to some sort of parity, does not make allowance for the fact that in the last 30 years we have had much higher rates of increase in farm than in nonfarm productivity. There is a difference between the prices farmers pay for their inputs and the costs per unit of output of these inputs, like fertilizers and so forth. With the above-average increases in productivity, actually, the increases in unit costs to farmers have