more than 2 percent this year, then the 4-percent increase in money demand I think would have an allowance for an additional 2 percent of price increase, making a total of a 6-percent increase of money GNP.

Chairman PROXMIRE. Are you saying that you cannot divorce wage-price guideposts from monetary and fiscal policy? If you establish a firm and clear wage-price guidepost policy, say you have a $4\frac{1}{2}$-percent or a 5-percent guidepost for this year.

Mr. KENDRICK. Absolutely.

Chairman PROXMIRE. And, say, at the same time, however, you have a very expansionary monetary policy and fiscal policy, then would you say that that guidepost simply would be fractured and won't operate?

Mr. KENDRICK. I am sure it will be. When the guideposts were first formulated it was assumed there would be a noninflationary monetary and fiscal policy.

Chairman PROXMIRE. In general during this period of 1962 to 1966 when we had wage-price guideposts with specific figures, and we did have a minimal degree of inflation, averaging one to one and a half percent, would you regard that under those circumstances that the monetary and fiscal policies were within your definition?

Mr. KENDRICK. Up until 1965, I think monetary policy was handled very well, and we had a good rate of expansion which was gradually reducing unemployment, eliminating excess capacity. However, once the decision was made to try to stem communist expansion, aggression, and subversion in Southeast Asia, and our defense spending began to rise rapidly, fiscal policy became inflationary, and this was the basic cause for the breaching of the guideposts, I think, and it would happen again.

Chairman PROXMIRE. Let me get back to you, Mr. Fromm. You indicate several conclusions of the effect of the guideposts during this period. You don't tell us, however, what I think we would like to know and maybe you can't tell us, that is the effect of the guideposts on the Consumer Price Index, the usual guide to an inflationary economy. You tell us to reduce the rate of the price of the Wholesale Price Index by 1.4 percent. What effect would that have on any Consumer Price Index, any conclusion?

Mr. FROMM. Yes; at least according to this little submodel it would be about 0.6 or 0.7 percent.

Chairman PROXMIRE. 0.6 or 0.7 percent per year?

Mr. FROMM. That is correct.

Chairman PROXMIRE. That is most encouraging. That would mean in view of the fact we had about a 1.2-percent increase in the absence of guideposts it would have meant about a 2-percent increase; it means it would have been cut by a third on the basis of your model by the guideposts; is that a correct conclusion?

Mr. FROMM. Yes. But, I would add that one wants to place a confidence band around all these estimates. As George Perry said, you want to talk about a range of estimates. That range might be rather broad. If you were to *a priori* select a figure, I would say the impact on the CPI could be as low as perhaps 0.3 or 0.4 percent.

Chairman PROXMIRE. And that is the highest, and the high.

Mr. FROMM. It could even be greater than 0.6 or 0.7 percent, but I would say that——