

In other words, as you press further on capacity, there is the tendency for unit costs to rise faster, both unit labor costs as you reach into hard-core unemployment and spend more on training workers, and also as you increasingly push production in more and more industries up beyond the optimum rate of utilization capacity which, say, in manufactures is around 92 percent. It is true we are now 86 percent, but there are some industries up close to capacity, so that further increasing the rate of utilization of capacity will bring in more and more cases of increasing unit costs.

Therefore, I think that a more expansionary fiscal policy will inevitably mean price rises. Whether the guideposts can mitigate this depends, I think, on whether you get agreement from the parties involved that they will try to restrain the wage increases.

Chairman PROXMIRE. You see, the point that I would argue, we would all agree that the more expansionary monetary and fiscal policy is going to result in a great increase in prices.

Mr. KENDRICK. Yes.

Chairman PROXMIRE. But, at the same time, under conditions in which I view it, as to some extent, and a very substantial extent, a cost-push inflation, a wage-price guideline policy that helps to keep costs down should, in my view—and I wanted to know whether or not it is your view and the extent to which it is your view—enable us to grow at a reasonable pace without as much inflation.

Mr. KENDRICK. Well, that is the ideal, and I think if the wage-price guideposts were formulated more realistically and if a consensus were obtained from labor union leaders and industry representatives that restraint should be practiced and they would attempt to practice it, then it would have this effect—somewhat less inflation with your expansionary policy.

Chairman PROXMIRE. What you are advocating, Professor Kendrick, is that there should be consultation with labor, with management, with other people involved in this thing, top economists and so forth, and that the President of the United States should do as President Kennedy and President Johnson did in the past and say, "We hope that wages will rise at no more than, say, 4½ percent or 5 percent in the coming year."

This would tend to restrain the kind of increases that we have had in the past, the 6 to 7 percent increase to which Mrs. Griffiths referred in the Ford case.

Mr. KENDRICK. Yes; I think it would have that tendency. However, I don't think labor or company representatives would buy the setting up of this extensive office to attempt to apply greater pressures or to apply selective mandatory controls. I know, we all know, this is extremely unpopular.

Chairman PROXMIRE. You see, I don't want to labor this point too much, but my own feeling and the feeling of other members of this committee is that the administration just walked away from the wage-price guideposts in 1967. They won't give a figure and maybe it was impossible to give one and maybe it was a wise decision on their part, but there wasn't any wage-price policy guidepost last year even though they said there was and there isn't going to be one this year.

If the President says exercise restraint, it doesn't mean anything. If he says 5 percent, it means something; it is a target they can shoot at. This is all important.