food, that particular aspect of the expenditure would not necessarily be inflationary, because at least our assumptions have been that food prices are not very responsive to increases or decreases in demand. They are more responsive to production factors, Government policy factors, and so forth.

Mr. WALLICH. It seems clear to me that economic analysis increasingly will move into this direction of dividing up problems, looking at specifics, particular sectors, particularly commodities. I haven't heard the suggestion made, but it seems to me an eminently sensible one.

Chairman PROXMIRE. Thank you very much. I would like to pursue another question that has been raised with you two or three times today. I would like to pursue it in a different way.

As I listened to your testimony this morning, I got the impression, which surprised me a little, that you were siding with Walter Reuther and with Alvin Hansen in accepting incomes policy at least to some extent, because you—and I think very wisely and properly—talked about real wages. Not money wages, which is something that most economists haven't paid as much attention to as they should, in talking about wage-price guideposts.

Now, as Hansen argued it, if we had a real wage guideline, we would, for example, in this year, forgetting about any catching up, and took, say, the 3.2-percent productivity factor, and then took the assumption of the Council of Economic Advisers on a 2½-percent increase in the cost of living, we might have a guideline this year of 5.7 percent.

What this would do would be to keep labor's real income in line with its productivity increase, and the argument by Dr. Hansen was that this would not be inflationary in his view.

At the same time, this is tying wages to a cost-of-living escalator in a real sense, or at least you might say this, and you would argue that to do so is inflationary.

Mr. WALLICH. Well, you are quite right, Mr. Chairman. I lean toward an incomes policy, and I do think that the guideposts are incomes policy. It happens to be one that keeps income shares constant.

I think the proper way to read these income shares in history is to look at periods of high employment rather than low employment, because shares fluctuate over time. The labor share rises with unemployment and falls as unemployment declines—that is in booms it is lowest. Like the full employment budget, I would like to look at full employment income shares as the norm.

Now to do as my distinguished teacher, Alvin Hansen, proposes, and I realize that I disagree with him at my peril, would single out for protection a single sector. Something happened last year that somehow raised food prices and service prices. These are calamities that befall everybody. Why escalate one particular sector? Why not also——

Chairman PROXMIRE. No, no, I don't want to be rude, but I think you are shifting the scenery on me a little bit. What he talked about was not past. He wouldn't take the 3.3 percent increase in the cost of living we had last year. He would do one of two things. He would either take the estimate of what we are going to have this year, or what he might do consistent with what he said is simply have an escalator so you would have a reflection of what actually happens this year.