You have the productivity increase of 3.2 percent and then you would have whatever cost of living you have this year. Therefore, labor wouldn't get anything except compensation for its real productivity increase. In other words, that it would be paid in real wages, not money wages.

And you are dead right when you pointed out the impossibility, the perniciousness really, as far as labor is concerned in having a wage guideline this year that doesn't have any recognition at all of the cost of living in it, or having it last year where you had a 3.3 percent rise in the cost of living, a 3.2 percent guideline, so that labor's real income went down, if they abided by the guideline, at a time when their productivity was increasing.

Mr. WALLICH. I suspect if we did what Hansen proposes, that is put in a 5.7-percent guidepost, and it were abided by, it wouldn't change anything. Prices would rise sufficiently to reduce the real increase to what productivity permits.

That is indeed the meaning of this action. And so labor is likely to end up no better than it would otherwise be. But what it would do is to make sure we would get a substantial price increase which then the following year would again justify a further above productivity increase in wages, and so on.

Chairman PROXMIRE. The estimates are that now this year you are going to have settlements in the area of 5 or 6 percent. Many people think it is going to be higher. Income guidelines would provide for, say, a 5.5 or a 5.7-percent increase, which would mean perhaps that the wages wouldn't be higher, and also you would have a more equitable principle involved.

You would have more effective public pressure on those who happen to have strong unions or weak employers or a situation in the industry that would permit wages to go up excessively, and you would have greater equity throughout the economy.

Mr. WALLICH. How would we ever end the inflation then? It seems to me at this rate the inflation will continue at 3 percent or thereabouts.

Chairman PROXMIRE. I can't get it through my thick head why the wage increase is inflationary as long as it is keyed to real productivity increases. That is what it would be keyed to. Otherwise, it isn't related to it.

Mr. WALLICH. It is keyed to that, but it also assumes that prices will rise by the difference between the guidepost and productivity gains. In other words, if the guidepost is 5.7, and productivity were 3.2, which I think is too high, prices will rise 2.5. So we have a 2.5 percent price increase, and we continue next year with wages on the same basis, and we have another price increase. By what process is inflation ever going to come down?

Chairman PROXMIRE. What we have had in the last 4 or 5 years is a steady increase in prices, low but modest up until last year, around 1½ percent or 2 percent. You had a guideline principle that was enforced by some unions.

The result was that you had wages that conformed increasing far less than profits. And you had an inequity developing in the economic system because of it. I am not sure that you would necessarily