Principal interest does not center on these as individual equations, of course, but as a complete wage-price system. Assuming that the endogenous variables (that is, those variables that are internally determined in the system) are average hourly earnings, the consumer price index, unit labor cost, and the wholesale price index, adding a subsidiary relationship for changes in the CPI as a function of changes in the WPI, and solving for the system response to the guideposts results in the following conclusions for the 1962–66 period.[3]

1. The "guideposts" reduced the annual rate of increase of average hourly earnings by about 1¼ percent;
2. They reduced the rate of increase of unit labor costs by about 2 percent;
3. They reduced the rate of increase of the wholesale price index in total manufacturing by about 1.4 percent.

This shows that the wage-price pressures, or guideposts, had a substantial effect. The conclusions—it must emphatically be stated—are quite tentative. The submodel should be subjected to a battery of tests and reestimated by alternative statistical methods.[4]

Upon the basis of the above tentative results, it must be concluded that the benefit of the guideposts accrued to business more than labor. This could have been anticipated because the assumptions underlying the original formulation of the guideposts can seriously be questioned.

It would seem that they neither duplicate competitive conditions nor do they preserve the current structure of the distribution of real output, resource inputs, or factor income shares. The guideposts implicitly assume that the elasticity of substitution of labor for capital is equal in all industries and, moreover, that it is equal to unity. If it is less than unity—and although most studies have found the evidence is conflicting—then the capital share of industry income or product is favored by the guideposts. If the elasticity of substitution differs between industries, then the resource mix and cost implications also differ.

What this implies for the rate of growth of aggregate output is unclear when the possibility of using stimulative monetary and fiscal policies is admitted. Perhaps the economy could have the same output, only with a different mix. What is clear is that if a competitive norm is the desideratum, a single guidepost figure to be applied to all industries is inappropriate.

My own preference is to use different standards for each industry. Moreover, while guideposts can and should be applied under all cyclical demand conditions—this is required because industries also differ in their demand elasticities with respect to national income—the longrun aim should be to reduce reliance on the guideposts in Government intervention in the wage-price area. This can be done by structural and cyclical mechanisms to eliminate bottlenecks and

[3] $\partial [\triangle CPI/CPI_{-1}]/\partial [\triangle WPI/WPI_{-1}] = 0.45$. The latter weight is taken from the relative importance of goods in the consumer price index in 1961.

[4] The equations were estimated by ordinary least squares (OLS) and, therefore, may be subject to bias. On the other hand, Perry's two-stage least squares (TSLS) are nearly identical to his OLS estimates and to the above coefficients, *op. cit.*, p. 97.

Subsequent to presentation of the above results, TSLS estimates of the equations were obtained. Virtually all the coefficients were identical to the OLS estimates; the conclusions were unaffected.

After the hearings, too, an unpublished paper by N. J. Simler and Alfred Tella, "Labor Reserves and the Phillips Curve," came to my attention. Mr. Tella kindly provided data on total U.S. labor force participation adjusted for cyclical variations in employment. Using this series to derive an adjusted unemployment rate, RU*, and substituting it for RU in the wage equation, resulted in a decline of the estimated guidepost impact by approximately 40 percent. That is, if Tella's concept and series is accepted, the above figures should be multiplied by about 0.6.