Chairman PROXMIRE. At any rate it is a significant reduction in prices over all in the economy. Whether it is one-fourth reduction which would be true if you had 0.4, or one-third reduction which would be true if you had 0.7, 0.8, it is a very substantial contribution. Isn't that correct?

Mr. FROMM. It is something the consumer would notice.

Chairman PROXMIRE. What is that?

Mr. FROMM. The reduction is something the consumer would notice when he went to buy.

Chairman PROXMIRE. Would you like to take a minute to answer the arguments of Mr. Sheahan and some of the others, I think Mr. Perry, that this after all was confined to only 10 percent of industry, 20 percent at most that was visible, Mr. Perry's definition. How can it have such a profound effect on the economy over all if this is the case?

Mr. FROMM. Well, I think both Mr. Sheahan and Mr. Perry in their books say that it could have a profound effect elsewhere due to demonstration effects, on the one hand, and also by reducing wage differentials, therefore, not creating very large gaps that people are trying to catch up to. So that, for example, if wages in the steel industry were to rise by 10 percent, and this is a highly visible industry, then workers in many other industries, even in competitive industry, will say "why don't we get a 10-percent increase."

Chairman PROXMIRE. You can certainly see that now, what happened in Ford has been communicated to me by people in all other kinds of industries, including some defined by Mr. Perry as invisible. I would like to ask you if it isn't true if you have a 3.2-guideline system, if you have some degree of success with it as we had in 1962, 1963, with the steelworkers and the autoworkers accepting the guidelines, isn't it possible for an employer in these invisible industries, and isn't it likely he is going to say, "After all, this is a proposal by the President of the United States, this is what other unions have done. On this basis, we feel that we, if we are going to have a noninflationary settlement, this is what we have to do." I am not saying this is always going to be effective, but I should think this would be a significant talking point that would help in keeping wages even in invisible industry down; isn't that true?

Mr. PERRY. Yes; but let me reply with a slightly different comment. I think I would try to give some credit for such spillover to guideposts in a noninflationary period. But today it is a different matter. If you already have inflation, then in the industries where market power is the main issue, you can't turn around and ask the guidepost industries to confine themselves. Taking the other case, of you have a situation where you do not have a lot of inherent inflation in the system, then the guideposts, by acting on the visibile industries, can, in effect, keep them from leading inflation that would not otherwise occur. So the difference, I think, in the question of whether the guideposts, which directly cover a small segment, can have a larger impact rests on whether the tendency elsewhere is for more inflation or less than the guidepost industries would have. I am not sure if my point is altogether clear. During the noninflationary period, by keeping the guideposts from leading to an inflation that otherwise wouldn't have happened their effect is broadened. During an inflationary period, because you can't impose the noninflationary rules on them, the effect is very limited.