Chairman PROXMIRE. The guidelines as defined by the Council in, I believe, 1964 or 1965 took that into account. As I recall, they recognized you are going to have to have increases for nurses and people who are in short supply and generally underpaid; that you are going to—in addition to the fact that in some industries you are going to have to—permit a substantial price increase, perhaps; and in other industries you permit a wage increase where you have labor in short supply.

Didn't they take that into account in defining the guidelines and indicating their flexibility?

Mr. FROMM. I wasn't talking about the exceptions. They did take the exceptions into account.

I am talking about an industry whose rate of productivity advance is equal to whatever figure is selected for guideposts. In that case, as well, you get distortions if the elasticity of substitution between labor and capital is different from unity. That is, if it is less than unity, you would then favor the capital share of product or income in that industry, and you would be paying too much to capital and not enough to labor.

Chairman PROXMIRE. All right.

In 1968, would you, if you had the authority of President Johnson, say that we should have a specific figure for wage-price guideposts, or not?

Mr. FROMM. I would say that. I would recommend a specific figure, also recommend the exceptions and as well say that I am willing to consider—even for specific industries—a range, a very narrow range, about this figure which may be more reasonable. That is, for some industries I would insist, whatever number you take—say 5 percent—that is too high and ought to be on the order of 3 percent. For other industries, and for exceptions, perhaps the figure ought to be 6 percent.

Chairman PROXMIRE. Thank you.

Mr. Perry?

Mr. PERRY. I would propose a specific formula, say on the lines I have outlined, if I got in exchange for it the policy that my Council of Economic Advisers thinks is necessary to keep me from being a liar at this point.

Chairman PROXMIRE. What do you mean by that?

Mr. PERRY. If I were going to propose a compromise formula which says this is going to work out and mesh in with prices in the economy in general in such a way that the wage increase you are accepting is consistent with the trend of prices in general that we are going to get, then I would propose the formula if I could get the policy that I think I need to bring this about.

Chairman PROXMIRE. In other words, it would depend on the advice the Council gave you as to what is going to happen to CPI?

Mr. PERRY. If the Council said we need to start slowing prices down in the nonguidepost sections, using a 10-percent surtax to be specific, then I would say I oppose the specific guidepost formula unless I got the policy I need to make good on my end.

I think you have to talk about a formula at this stage that is conditional, that says if the guidepost industries do this and the rest of the economy does this, the result is fair.