

If the best advice I can get from my Council of Economic Advisers is that prices in the rest of the economy are going to rise much faster than in the guidepost industries, this would not be a compromise formula that you could hope to impose on unions or management and expect them to accept.

Chairman PROXMIRE. If you could get from Congress the kind of fiscal restraints, and from the Federal Reserve Board the kind of monetary policy that would help to stabilize prices, then under those conditions you would also favor wage-price guideposts? If you are unsuccessful in getting either the tax increase of any particular agreement from monetary authorities, then you would say that the effect would be adverse and inequitable and, therefore, you wouldn't ask for those wage-price guideposts, is that it?

Mr. PERRY. Yes, otherwise, with this formula I am not going to be able to deliver.

Chairman PROXMIRE. When I talk about fiscal restraint in fiscal policy you might have a cut of \$10 billion in spending and an increase of \$10 billion in taxes.

Mr. PERRY. Yes, you can get restraint a number of different ways.

Chairman PROXMIRE. The same thing.

Mr. PERRY. In what form you get it will determine who pays for stopping the inflation. I can imagine a system of restraints that makes various people pay.

Chairman PROXMIRE. So the net effect on fiscal policy rather than whether you get a surtax is not—

Mr. PERRY. Yes; that is true. As far as the slowdown in the second half which was mentioned earlier, I think that is in the cards, but you can't have it both ways. In part, the fact that the first half is fast for temporary reasons is just a mirror of the fact that the second half is slow for the same reasons. And whatever fiscal-monetary policy you go to, there really isn't any way in which policy will pass through to prices without affecting the real sector of the economy. If you are serious, you are talking about slowing down the real sector for a while; not too much, but slowing it down. I can't imagine a policy which somehow gets to prices but keeps us advancing in real GNP at a very swift rate.

Chairman PROXMIRE. That certainly raises fascinating and deep and difficult policies for the Congress. The President has proposed a program to put 500,000 hard core unemployed to work. At the same time, we have to slow down the economy in order to arrest the inflation. You are not going to put anything like 500,000 hard core to work, in fact you are going to increase the number of people who are going to be unemployed if you slow the economy. That is what slowing down the economy means.

Mr. PERRY. Yes; more unemployment than there would be without the restraint.

Chairman PROXMIRE. If you do that in an atmosphere in which we had riots last year, in which unemployment is one of the serious factors promoting it, an atmosphere in a situation in which we had inadequate growth last year, real growth, 2½ percent, a situation in which we have an unsatisfactory proportion of our plants now utilized—

Mr. PERRY. It is a matter of degree, but I think what you are saying is in principle correct. I don't think you do have—