

Chairman PROXMIRE. You see, that is why this wage-price guideline, and we all know it is not enough, but it seems the only one, one of the few things that we can put our finger on, one of the few specific actions we can take that will enable us to have at least a little more employment, a little less unemployment, with the same degree of price stability.

Mr. PERRY. I agree with you. But I think there is a somewhat separate question of what has to happen today. If you ask what do you have to do to get back to some given rate of price increase, and we have today a background of faster price increases, that is a somewhat different problem from the continuing one of improving our terms of choice between inflation and unemployment. This the guideposts help us to do. I endorse them and I am even willing to risk a little free market efficiency, if you like, to improve that trade-off between employment and inflation.

But if you ask what do you do today, you have to take into account the history of rising prices. The formula has to take them into account, and I think to be acceptable, it has to be able to deliver where it applies. A formula that says add in all the past price increase doesn't slow you down. That is not the formula you want. You might as well forget it. And a formula that says take less has to go along with a policy that is prepared to slow prices elsewhere.

Chairman PROXMIRE. Mr. Sheahan?

Mr. SHEAHAN. I think that Mr. Perry's proviso about what you expect to happen—

Chairman PROXMIRE. Would you speak a little more loudly?

Mr. SHEAHAN (continuing). Mr. Perry's proviso about avoiding enunciation of a guidepost that cannot be sustained, that will be overrun in free competitive markets, is terribly important. Taken as given that any figure decided on would be sustainable in competitive markets, I would be in agreement with your thought that a guidepost figure could have considerable effect not just on 1968, but on at least the next 2 years following. Whatever happens in 1968, to wages, is going to affect prices some way in 1968, and strongly in 1969, and that, in turn, will affect wage claims in 1969.

As Mr. Kendrick suggested earlier, the best hope might be to begin to step down the process toward a slower rate, toward a slower rate of wage increase, not telling workers to accept all the cost of past mistakes but trying to get them to agree to share the consequences in the past.

I have always been very much impressed by the conventional element of the Phillips curve. I lived for 2 years in a country in which wages went up normally from 10 to 15 percent a year. It had very little to do with how much unemployment there was; it was just normal, since you expected prices up 10 to 15 percent you had to get wages up 10 to 15 percent. That was in South America.

I also lived several years in a country in Europe, in which the wage norms were about 7 or 8 percent increases. These things become embedded in habit. It is perfectly easy to get stuck with what we seem to be in now, a 5- to 6-percent norm, and just live with it.

No union can voluntarily look around to settle for something less than has become customary around it. I talked to an official of General Electric, in 1966, at the point when they were preparing their wage