Senator PROXMIRE. Along this same line, Dr. Perry, as I understand it, you advance the thesis that profits are one of the variables in prices, in the price-unemployment setoff, I should say. In other words, if I understand it correctly, we can have lower unemployment and a lower rate of inflation if profits aren't as high. We have had a tremendous increase in profits between 1960 and 1968. One of the most dramatic changes, I suppose, of all of the economic indicators has been the very sharp increase in profits, both corrected for inflation and after taxes and so forth. How about that?

Mr. PERRY. As to the effect of profits on this whole situation, I think that it probably in relevant only in the highly concentrated, highly unionized industries, where very high profits rates can serve as a target for large wage demands. I don't know that, economywide, it has a great deal of relevance.

Today, profit rates are probably at not unexpected levels. But if we measure them from 1961, we are measuring from a recession period when, of course, you expect profits to be low.

Senator PROXMIRE. That is a big part of the explanation, I would agree.

Mr. PERRY. Today, if one looks at rate of return on equity, I think it is probably about where you expect it to be, not extraordinarily high by historical standards for a period of high economic activity. Profits are, of course, highly volatile, and as you move to low unemployment rates, rates of return typically rise and if you have a slowdown profits will suffer disproportionately.

May I just make one last statement on your earlier question? Whether the administration, the President, is prepared to make a public statement, it seems to me, must depend on whether that statement is very well founded. Even today, a year when in manufacturing there were many large settlements, you couldn't single out manufacturing as being ahead of the rest of the parade.

If you have a situation such as a very large wage increase when wages elsewhere are not increasing rapidly, or a price increase warranted by shortages or by a former wage increase, then it is easier to advocate guidepost actions and Executive pressures may be justified.

If you couldn't on the basis of recent facts, single out prominent manufacturing industries and say that they are leading the parade, that they are causing the inflation. And this is what makes guideposts quite a different matter today and this is why the guideposts were abandoned in the first place.

Senator PROXMIRE. You said, Mr. Perry, that the surtax was effective and the best evidence of it is what has happened to retail sales.

Mr. PERRY. Yes.

Senator PROXMIRE. But you know we adopted the surtax for several purposes, No. 1, to hold down the increase in the cost of living, No. 2, to try to do something about the high interest rates and, No. 3, to help us on imports so that our balance of payments would be corrected. We failed dismally in every single one of them. As you know, since the surtax went into effect the rise in the cost of living has been sharper than before; the rise in interest rates has been much sharper than before; and, also, since it went into effect, we have converted a trade surplus into a trade deficit, a big trade deficit in the last quarter. How long do we have to wait on this? After all, part of economic policy is the timing effect.