

General Motors, of course, possesses conglomerate power. Until recently part of the giant Du Pont empire, this corporation is not only the largest automobile company in the world, but also a significant factor in diesel locomotives, buses, trucks, refrigerators, electric ranges, auto financing, batteries, earth-moving machinery, etc. This corporation could decide to enter the ice cream industry—intent on capturing 20 or 40 or 100 percent of the sales—and succeed in this endeavor. It would matter little whether GM was indeed an efficient ice cream manufacturer or whether its ice cream was indeed tastier than more established brands. By discreet price concessions, saturation advertising and attractive promotional deals, it could commit its gargantuan financial power to the battle until only so much competition as GM was prepared to tolerate would be left in the industry. Remember that, in good years, the annual profits of General Motors are roughly as big as the combined assets of Borden and National Dairy.

Put differently, in a poker game with unlimited stakes, the player who commands disproportionately large funds is likely to emerge victorious—regardless of ability, virtue, or luck. He has the one asset the others lack, viz., the power to bankrupt his rivals. Given the laws of probability, his power alone tends to be decisive.

(2) Vertical power: This means that a firm engaged in successive stages of production and distribution can squeeze its suppliers by denial of access, or its distributors by denial of supplies, or both by manipulation of price. In the case of General Motors, congressional committees have received ample evidence of the corporation's power over automobile parts manufacturers and automobile dealers. The record on this score requires no elaboration here.

(3) Horizontal power: This is market control in its pristine, classical form. It consists of dominance over an industry (in relative, percentage terms), and is manifested in entry controls, price leadership and followership, and other assorted forms of oligopolistic cooperation.

General Motors, with its more than 50 percent control over the automobile industry, is a prize example of horizontal power. Its decisions what to produce, where to produce, how to produce—what price to charge, what target profit to aim at, what means of raising capital to employ—these and similar decisions have a profound impact not only on its fellow oligopolists, but the whole automobile industry, the American businessman, the American consumer, the American worker, and the American economy. These are decisions which affect the general public, but they are made by a private government—subject to only the loosest public control and involving only the remotest participation of our democratic citizenry.

(a) *Pricing*.—General Motors sets its prices so that—over the long run and assuming “standard volume” (operations at roughly 80 percent of capacity)—they will yield an average profit (after Reuther and after taxes) of 15 to 20 percent on invested capital. This is called target-rate-of-return pricing. It is the same cost-plus system of pricing used in the regulated industries—with this difference: the rate of return allowed a public utility is determined by a government regulatory commission, whereas the General Motors rate is determined by the company itself. It is not imposed by the autonomous forces of the market place as in a competitive industry; it is not imposed by a public regulatory commission; it is the private exercise of discretionary power by a corporation with dominant control of the market. Not only does General Motors possess this market control, but as the Kefauver committee hearings showed, it has been amazingly successful since World War II in exercising such control and achieving its self-determined and predetermined target rate of profit.

That it was able to do so is partly due to the slavish pliability of its major rivals. The latter have simply not chosen to challenge General Motors' price leadership and contented themselves to follow, within rather narrow limits, the lead of the industry's giant. One dramatic illustration revealed by the Kefauver hearings involved the pricing of the 1957 models: Ford had announced an average 2.9 percent price increase—“no more than our actual costs for materials and labor have gone up;” General Motors 2 weeks later announced an average 6.1 percent increase on comparable models; whereupon Ford quickly revised its price list upward—no doubt to meet the higher price of a competitor. When Chrysler later fell in line, the traditional pattern in the low price field was maintained. The deleterious effects of such conduct, I trust, will become apparent later in my presentation.