

Percent of value of shipments accounted for by largest 4 companies, selected industries, 1958

	Percent
Passenger cars.....	99
Synthetic organic fibers, noncellulostic.....	(¹)
Telephone switching equipment.....	(¹)
Sheet (window) glass.....	95
Locomotives and parts.....	92
Electric lamps (bulbs).....	90
Primary aluminum.....	82
Cigarettes.....	80
Metal cans.....	80
Power and distributing transformers.....	80
Computing machines.....	77
Wheel tractors and parts.....	72
Tires and tubes.....	71
Sheet ingots and semifinished shapes.....	71

^a Withheld by Bureau of the Census to avoid disclosure. Concentration ratio very high.

Source: Report of the Senate Antitrust Subcommittee, "Concentration Ratios in Manufacturing Industry, 1958," 87th Cong., 2d sess. (1962).

What we have here then is an enumeration of our most basic industrial sectors—each dominated by a very few firms (and keep in mind that this listing excludes the regulated utilities).

Within these oligopolistic arenas only a very restricted type of competition prevails. As studies of various sorts have well demonstrated, price competition is uncommon, becoming more rare as the degree of concentration increases. What rivalry that does exist is confined to nonprice matters, like advertising, product design, the creation of a favorable corporate image, and so forth. Prices remain largely uniform among the rival sellers, with changes being effected from time to time in a coordinated fashion. For example, in 1956 the Ford Motor Co. initially announced an average price increase on its 1957 models of 2.9 percent. Two weeks later General Motors increased its 1957 model prices by an average of 6.1 percent. A week later Ford revised its prices upward to match almost dollar for dollar General Motor prices.

To the outside observer this sort of arm-in-arm conduct suggests that it must be the product of actual collusion between the managers of the respective organizations. Actually, as economic theory has indicated, this need not necessarily be the case. Where a small number of firms function in the same market, each accounting for a significant share of sales, a kind of "spontaneous coordination" can occur. Each firm, knowing that its fate is intrinsically intertwined with that of its principal competitors, learns that it cannot operate on its own and thus we come to have something like the circumstances of nuclear stalemate.

The longer that companies coexist under such conditions, the less likely they are to engage in anything approaching the price warfare that we have come to expect as the hallmark of a competitive system. Executives of these corporations are frank to admit that price manipulation is not an appropriate instrument of warfare, and indeed they speak more in the fashion of ministers of foreign powers than of aggressive businessmen. What they are interested in typically is preserving their position in the market and achieving over the long run what they feel is an acceptable rate of profit. Professor Lanzillotti, who along with others has done considerable work in this field, has concluded that a target return on investment is probably the dominant price goal of large corporations (e.g., in the case of General Motors, 20 percent on investment after taxes).

When it is recognized that target-return pricing is a longrun objective, it is easy to see why firms in a position to establish such an objective so rarely reduce prices when recession occurs. Their formula recognizes that there will be periods of inadequate profit, but seeks to compensate for this in periods of expansion. Instead of slashing prices in an aggressive manner to increase sales during periods of curtailed business activity, the dominant firms simply hold on, anticipating better days to come. As demand declines at the prevailing price, output falls and with it employment and corporate profits. The economic contraction hence is accentuated and prolonged and an undue share of the burden for accomplishing an upswing is shifted to governmental fiscal and tax