

increases to the maximum extent feasible, and take advantage of every opportunity to lower prices." [Emphasis added.]

Among the cost increases that corporations obviously should absorb, although the Council refrains from saying so explicitly, are the cost of wage increases required to restore equity for workers in the face of rising prices and inflated profits. As the Council says, profits of manufacturing corporations:

"* * * were higher for the entire year [1966]—at least as a percentage of equity—than in any prior year since the highly inflationary year of 1950."

These profits, result, to the extent that they are not the consequence of other forms of abuse of administered pricing power, from the refusal of the corporations to share the gains from rising productivity with consumers and workers. The Council, in this connection, repeats from its 1964 Report a point that is highly pertinent to negotiations this year in the automobile and many other industries:

"* * * there is no justification, on either economic or equity grounds, for distributing above-average gains in productivity exclusively through the profits channel."

If the corporations refuse to share their productivity gains with consumers in reduced prices, and the Council is unable to persuade them to do so, there is no basis in justice or morality to stand in the way of workers who seek to share in them.

The Council laments that extra gains in wage increases and fringe benefits, although legitimate under such circumstances, "might tend to spread to other industries." That is most unlikely if the other industries' profits do not permit absorption of the costs involved. *But one way out of the "unattractive dilemma" which the Council poses—since the other, price reduction, has not materialized—is to encourage profit sharing in such situations.*

The auto industry example

The automobile industry is the most persistent and flagrant violator of the principle that there is no justification for "distributing above-average gains in productivity exclusively through the profits channel."

Table B-68 on page 292 of the Council's Report shows ratios of profits after taxes to stockholders' equity for 22 manufacturing industries for the 19 year period 1947 through 1965, inclusive, plus quarterly data for part of 1966. In 13 of those 19 years, the "motor vehicles and equipment" industry, as it is called in the table, showed a higher profit rate than any other industry—often by a substantial margin over the next highest. (The relatively low rate shown for the third quarter of 1966 reflects the prolonged model change shutdowns in that quarter. The industry's third-quarter profits normally dip because of model changes.)

The automobile industry's Big Three—General Motors, Ford and Chrysler—account for 87.6 percent, \$3,064 million out of the \$3,496 million, of the total profits, including those of the auto parts corporations, reported for the industry in 1965 by the Federal Trade and Securities and Exchange Commissions which compile the data on which the Council's table is based. *The Big Three's combined after-tax rate of return in 1965 on their aggregate net worth as of the beginning of the year was 24.1 percent—not far from twice the 12.9 percent average of all U.S. manufacturing corporations other than those in the auto industry.* General Motors' rate was 28.0 percent; Ford's 17.5 percent; and Chrysler's, 20.8 percent.

Time and time again, in meetings and in correspondence, the UAW has urgently pressed the Council to use its influence to persuade the auto industry to reduce car prices, which were and are clearly in violation of the guideposts. All such efforts have been unavailing.

In fact, the Council's Chairman has come close to publicly defending the industry's profits. On a "Face the Nation" program broadcast September 26, 1966, he was asked about the price increases which the auto corporations had just announced. He said, "We are disappointed." But then he went on to add:

"I would point out that the '67 models are different cars from the '66 ones, and that one can't compare the prices directly. In particular there are a lot of new safety items on the new models."

Asked about the possibility that the industry might be able to cut prices and still maintain "a pretty good profit level", Mr. Ackley confined his reply to the following:

"Well, the automobile industry is a highly profitable industry, *although its profits in 1966 are running below those of 1965.*" [emphasis added]