

flected fully or immediately in prices is an important feature of the process by which costs and prices are levered up under conditions of cost inflation.' *As a result of the work of the Experts, the Working Party feels that it should have been rather more positive about the role of profits.* In this connection, the evidence presented in Chapter VI of the Report suggesting a quite strong relationship between profits and changes in profits, and wage movements, is both interesting and significant. While this evidence is open to alternative interpretations, it seems to provide further support for the view that a successful incomes policy must cover prices, profits, and other non-wage incomes as well as incomes from employment." [Emphasis added.]

When workers see profits soar while they are asked to limit their wage gains, it is inevitable that they will raise questions of equity. The equity problem is aggravated by the heavy reliance of corporations on self-financing of their expansion through retained profits. If there were effective price competition, prices would be held close to costs, profits would be small, and funds for expansion would have to be raised in the capital market. The successful firm would be one whose rate of return on investment was high enough to attract new capital supplied voluntarily by savers, but not so high as to attract new competitors.

In practice, oligopoly and price leadership have replaced price competition, and the entry of new competitors is a virtual impossibility in many modern industries. Thus it becomes possible for corporations to set prices at levels that yield profits so high that resort to the capital market for financing is the exception rather than the rule. The real sources of capital become the consumer who is compelled involuntarily to supply investment capital by paying excessive prices and the worker whose wages are a smaller share of the firm's total revenues than he would have had if prices were competitively determined.

The automobile corporations provide glaring illustrations of this type of involuntary investment. The book value of stockholder equity in the General Motors Corporation, for example, increased by \$7.2 billion from the beginning of 1947 to September 30, 1966. Of this enormous increase, only 10.6 percent was financed through the sale of stock. The remaining 89.4 percent or \$6.4 billion represents profits retained in the business, the involuntary contribution made by consumers and workers. The Ford Motor Company's net worth increased by more than \$3.9 billion in the same period. Only 2.2 percent—less than \$100 million—was financed by the sale of stock. Workers and consumers contributed 97.8 percent of the new investment.

In such circumstances, neither the worker nor the consumer is given any recognition for his investment in the form of an equity in the firm or an income on the funds he has involuntarily provided. The stockholders obtain capital gains based upon the added net worth per share contributed by workers and consumers, and profits from the increased output made possible by that augmented net worth increase their dividend income. This is what makes "growth stocks" so attractive; they grow in value and in the size of dividends they pay based upon monies provided by persons other than their owners. They grow far faster than the wages of the workers employed by the "growth corporations."

Here again the auto industry offers illuminating examples which can be followed by comparing the incomes over a period of years of a stockholder and a worker who start out with equal incomes from the same corporation, the one from dividends and the other from wages. In 1947, at the wages then paid, the average General Motors worker would have received \$3,009 in wages if he were fully employed 52 weeks in the year. A stockholder who held 1,003 shares of GM stock at the beginning of 1947 would have received an identical \$3,009 in dividends that year.

By the end of 1966, the GM worker would have received a total of \$110,000 in wages, assuming that he was fully employed—never laid off—throughout the 20-year period. The investor, on the other hand, would have received \$278,000 in cash dividends, an amount more than two and one-half times as great as the worker's earnings. In addition, the investor would have had a \$345,000 gain in the market value of his investment as of the end of 1966. His total gain would have amounted to \$623,000, nearly six times the amount of the GM worker's earnings.

At Ford, a similar comparison can be made for the period from 1949 through 1966. An investor who at the beginning of 1949 held sufficient shares of Ford stock to yield a dividend income of \$3,536, an amount equal to the earnings of a fully-employed Ford worker in that year, would by the end of 1966 have re-