

Would you gentlemen put your agile minds on how we might, consistent with our free market system, take advantage of this example of good behavior and bad behavior?

Mr. LEKACHMAN. I am afraid that the only thought that comes to my mind is a skeptical one. American Motor's sales have been in an unhappy condition for some time, and although I think they have taken a very realistic step in reducing the prices of the American line by either of the two numbers referred to here, I would feel a wave of admiration still greater if General Motors had reduced its prices, or Ford. I think they can be congratulated on reacting to the realities of their market position.

Representative REUSS. Let us hope it will shame the "Big Three" into similar action. I note that automobiles is one of the industries listed by the Council of Economic Advisers last year, when I asked them about it, as eminently eligible for price decreases, because their productivity trend has been exceeding the national average. Incidentally, the same is true of gasoline.

Mr. LEKACHMAN. Yes.

Representative REUSS. They both should be reducing. Standard of Indiana has the gall to increase its price, and I notice the Council of Economic Advisers is not doing anything about this. It has shoved it off on the Department of Interior.

Would anybody else like to comment? Mr. Wallich?

Mr. WALLICH. I think the guidepost rules are very clear here. A company is entitled to raise prices when its profits are inadequate or when it needs capital. I don't think either case applies here. Unless we get to a behavior pattern of corporations that disregard an immediate market situation that allows them to take advantage of a temporary scarcity to raise prices, we will never have stable prices. We have to get a behavior pattern in which companies observe voluntary restraint in time of strong demand, because they also exert market power in order to prevent reductions in prices when inadequate demand ought to produce a reduction.

The way to get this behavior, if we cannot get it by suasion, is to encourage excess capacity. What I said about labor applies here, too. It applies equally to industrial excess capacity if we can get companies to operate below what they call the preferred operating rate, which seems to be the rate at which they can raise prices, we will have a better chance at stable prices.

Representative REUSS. Well said. I would hope that the authorities in Washington could make a dramatic case history out of the oil and American automobile examples, and thus perhaps, having educated the public, a stream of consumers would be honoring American by buying their less-expensive motorcar, and equally beat a path across the street to the gasoline station which, contrary to Standard of Indiana, was not raising its prices.

Let me turn to another subject. This is a problem which I think all of you have touched on, of how we get an adequate money supply and at as reasonable an interest rate as possible, in order to avoid the terrible slowdown in housing, and at the same time don't embarrass our international balance of payments and even domestically create easier money than the rest of the economy, other than housing, needs.