price stability—with the total impact of all the prices of all the commodities sold by the meatpackers on their profits and, consequently, on the wage demands which will be presented to them.

Senator PERCY. You have said that management in high-profit industries is unwilling to reduce prices.

Mr. AUERBACH. Yes, sir.

Senator PERCY. The point is often made that the Consumer Price Index really overstates the increase in prices, simply because quality changes that have been introduced have not been fully taken into account. Isn't your point considerably weakened when quality changes are taken into account?

Mr. AUERBACH. I think the criticism of the Consumer Price Index which you mention may well be justified. I don't know to what extent it is justified. But even if it were, I don't think it would affect the point that managements in high-profit industries are unwilling to reduce prices.

This is a serious point because the possibility of success of the guideposts, the arithmetic of the guideposts to which the Council refers, depends upon price reductions in those industries in which productivity-rate increases exceed the trend productivity-rate increase. These reductions have not occurred and it is precisely this fact that will give great impetus this spring to demands for higher wages.

Senator PERCY. Mr. Chairman, Paul McCracken, of the University of Michigan has written a paper which tests the market power theory and concludes that the problem is not, I think, nearly as serious as many people have pointed out. I would like unanimous consent to insert this statement in the record.

Chairman PROXMIRE. Without objection that will be done.

(The statement referred to follows:)

STATEMENT OF DR. PAUL W. MCCRACKEN, EDMUND EZRA DAY UNIVERSITY PROFESSOR OF BUSINESS ADMINISTRATION, GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, THE UNIVERSITY OF MICHIGAN *

PRICE-COST BEHAVIOR AND EMPLOYMENT ACT OBJECTIVES

Dr. MCCRACKEN. Mr. Chairman, the stern strictures of the chairman here in regard to the time allotted to us has imposed on me, as is true for most of the other participants, the painful task of excising a good many pages of priceless prose. I dare say that when this venture is concluded, Grover, we ought to cite you to the Anti-Vivisection Society.

What is the relevance of the Nation's price-cost performance to the objectives of the Employment Act? This question may not be the most fundamental issue of economic policy before us to day, but it is probably a leading candidate for the most vexatious piece of unfinished business. The price-cost question naturally divides itself into about three questions. How important is a reasonably stable price-cost level to the more fundamental objectives of full employment and rising levels of living widely shared? Is there a market-power dimension to the price-level problem? Third, what are the policy implications of these matters for the objectives of the Employment Act?

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Certainly the case for attaching high priority to a reasonably stable price level seems to be a persuasive one for reasons concerned with both our external and our domestic economic performance. Given the large noncurrent burdens on our

*Excerpted from "Twentieth Anniversary of the Employment Act of 1946—An Economic Symposium," hearings before the Joint Economic Committee, Feb. 23, 1966, 89th Cong., 2d sess.