

spending already planned in order to avoid reducing total demand and employment. On that basis, loophole-closing could speed our progress toward the Great Society.

MEETING THE REAL PRICE PROBLEM

Much of the inflationary threat to the economy, however, does not come from overheating at all, but from the unilateral actions of a comparative handful of giant corporations which have achieved so much economic power that they are able to dominate the industries to which they belong and virtually to insulate themselves from the effects of competitive market forces, especially in the area of price decisions. Such corporations are able to abuse their economic power by setting prices at levels higher than a free market would permit. Typically, they establish prices at levels which will protect them against loss even if the economy should dip into a recession. As a result, in periods of expansion their profits skyrocket to fantastic levels, helping to create some of the imbalances in the economy previously described. Year after year, in its discussion of price problems, the Council of Economic Advisers has had to lament the fact that such corporations, which frequently also enjoy above-average rates of productivity advance, have not made their proper contribution to overall price stability by reducing prices—thus offsetting the unavoidable price increases in industries with less-than-average rates of productivity advance—but instead have maintained prices at inordinately high levels, or even raised them.

Regrettably, one of the major offenders in this regard has been the auto industry. Not only has the industry failed to cut prices over a period of years when, as its fantastic profits show, it could well have afforded to do so, but it has twice announced price increases in the past 6 months. In addition, there has been a series of unannounced, stealthy price increases which the industry apparently hoped to put over without public knowledge of what was happening. Prices of replacement parts have been increased, formerly standard equipment has been made optional with no corresponding price adjustment, and buyer warranties have been diluted. On January 30 the Wall Street Journal reported:

Since September, the auto makers have increased car prices twice, the first two-step increase in a model year since 1956. The first price boost averaged more than \$100 a car and was the largest of three in the past three years. On Jan. 1 prices went up another \$23 to \$32 when the shoulder belts were installed to meet Federal safety regulations.

In recent weeks Ford Motor Co. also dropped as standard equipment some devices on many of its cars without lowering the prices, making the devices extra-cost options. It also raised the prices of some models after making larger engines or other optional equipment standard. And all four auto makers have quietly raised parts prices from 4% to 7% since mid-November.

These price increases cannot be justified by financial necessity. FTC-SEC financial reports show that, in spite of a decline from the preceding year, auto industry profits in the first three quarters of 1967 were still running well ahead of the average rate of return on investment for all manufacturing. And the Wall Street Journal on February 13, 1968, under the heading, "Corporate Profits Again Appear To Be Heading From Record to Record," reported: