

In this connection it is worth noting that many major corporations, such as General Motors, which have and use discretionary pricing power, set themselves and regularly achieve profit targets well in excess of 17.4 percent on investment.

Incidentally, another of Professor Perry's findings is of significance to anti-inflation policy. He finds that the elasticity of wages to living costs, and the elasticity of living costs to wages, are both less than unity. That is to say, a given percentage rise in living costs will generate a smaller percentage rise in wages, which in turn will generate a still smaller percentage rise again in living costs. As a result, the price-wage spiral is not endless, but tends rather to damp itself out. As Professor Perry puts it:

The circular process whereby prices affect wages which in turn affect prices and profits (negatively) gives some appearance of a wage-price spiral, but one that disappears rather than becoming explosive or indefinitely self-perpetuating.

This is important because it effectively answers the often-heard argument that even though wages may not have been responsible for initiating an inflationary spiral, wage restraint—whereby workers accept increases in real wages substantially below the rate of productivity advance—is essential to bring the spiral to an end.

THE SOURCE OF PROFIT PUSH

What is the source of the profit push which was certainly responsible for the current round of inflation, and according to the *Wall Street Journal* has been responsible for the last three such rounds? It is the lack of effective competition in too large a sector of the economy. This results in some corporations, which hold controlling positions in particular industries—frequently in more than one industry—being able to exercise a discretionary pricing power. That is, within certain limits, they are freed from the normal restraints of the competitive marketplace, and within those limits are able to set the prices of their products at their own discretion.

The existence of such discretionary power is now taken for granted by nearly all economists—though too few of them have taken this factor sufficiently into account in formulating their theories as to how the economy operates—and by at least those businessmen who exercise it. Executives of General Motors Corp. have more than once admitted to congressional committees that their corporation does determine prices on the basis of a profit target. Many other large corporations are well known to follow the same practice. This would be impossible to them if they did not have at least limited freedom to determine a selling price for their products and to make that price stick.

A very illuminating analysis of the role of discretionary power in promoting inflation is to be found in the recently released studies by the staff of President Johnson's Cabinet Committee on Price Stability.

The major source of such discretionary pricing power lies in the domination of particular industries by a relatively small number of companies. When there are many sellers, no one of which enjoys a very large percentage of total market sales, the activities of all of them are constrained by market forces. If such a force—an increase in costs, say, or a sharp increase in demand—comes into play, it affects all