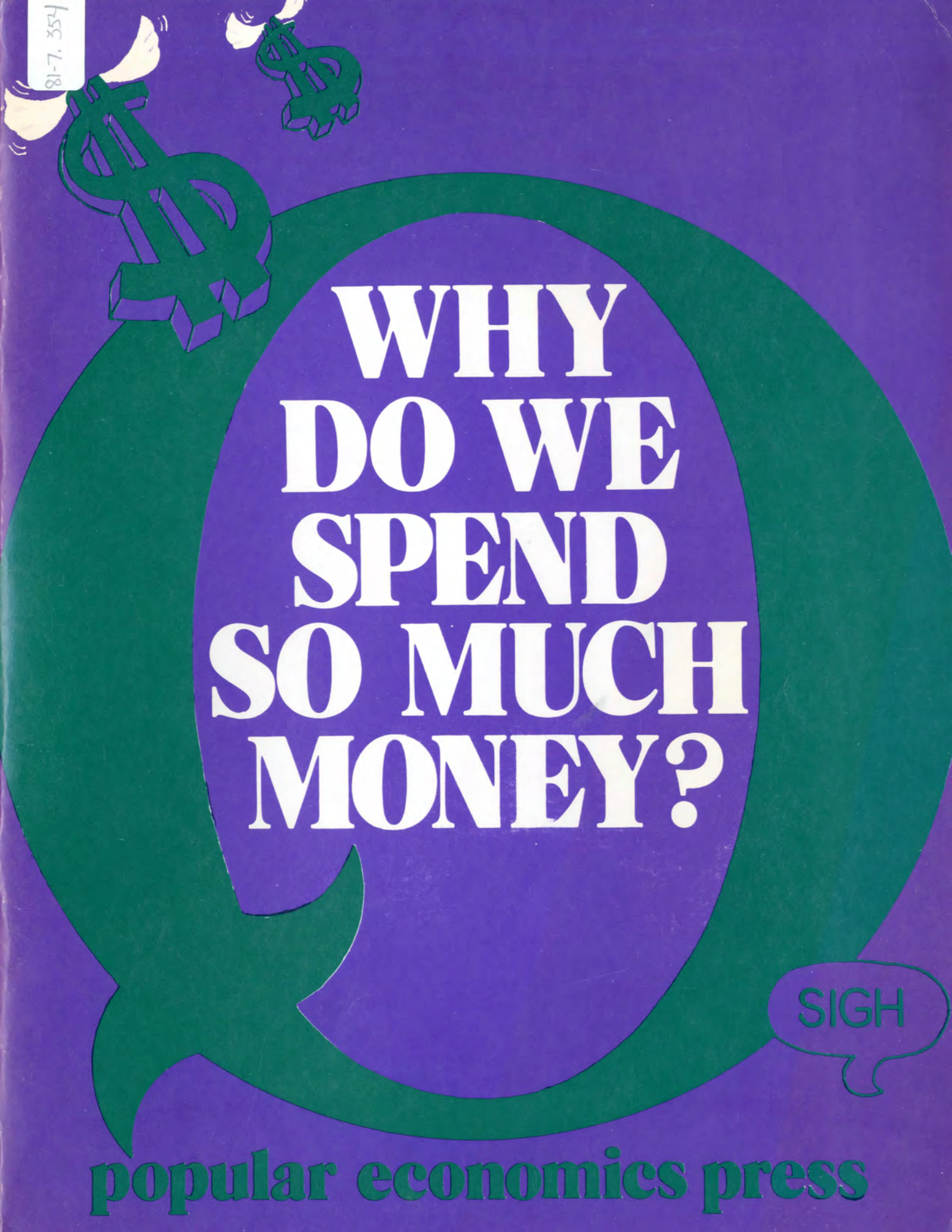


81-7. 354



WHY DO WE SPEND SO MUCH MONEY?

SIGH

popular economics press



**Union for
Radical
Political Economics**

OFFICE OF ORGANIZATIONAL SERVICES
MICHIGAN UNION
ANN ARBOR, MICHIGAN 48104

Dear URPEr,

Enclosed you will find a copy of the pamphlet, WHY DO WE SPEND SO MUCH MONEY, which was written by two URPE members, Nancy Brigham and Steve Babson.

The participants of this year's URPE summer conference considered this pamphlet to be exemplary and authorized its purchase and distribution to the URPE membership. It is hoped that this readable and sound treatment of an issue of popular concern will stimulate other such efforts by URPE members.

On the other side, are some comments by Steve and Nancy concerning their goals and methods. Feedback can be directed to them at POPULAR ECONOMICS PRESS, 5A Putnam St., Somerville, Mass. 02143.

Instructions for ordering the pamphlet in bulk appear on the inside front cover.

In solidarity,

Sandy Orlow
URPE National Secretary

Dear URPE,

We've listed below some of the guiding principles behind our book's content and layout.

* We wanted to deal with questions that intelligent, but untrained, people would raise about inflation based on their everyday experience. The questions trained economists raise, and the language used in their answers, generally aren't appropriate to a mass distribution pamphlet. The problem is to find a popular, but non-patronizing, language that is also precise and factual.

* We decided questions/answers would be short, with the answer completed on the same page as the question. Long answers can usually be broken up into a number of short ones. This makes it possible for people to thumb through the book in any direction and read each page as a self-contained unit.

* At the same time, however, we wanted some sort of linear organization to the booklet for those who wanted to plow through cover to cover. We decided the organization shouldn't begin with a general theory and then progress to specific examples. An inductive approach- giving specific examples first and then drawing general conclusions- is probably more interesting to the reader.

* We wanted answers documented but not extensively footnoted.

* We tried to attack not only the existing institutions, but the pending reform measures as well. We also decided to stress the historical/ structural aspects of a problem rather than the short term effect of market fluctuations. As a result, the book will, we hope, remain relevant for a longer period of time.

* We designed the book to be as uncluttered and as open as possible to make it easier to read.

* We didn't want illustrations to rely on heavy stereotyping. Capitalists, for example, don't generally wear stove-pipe hats, spats and three piece suits. Neither are they five times taller than workers, an impression that many turn-of-the-century cartoonists perpetuated. Still another legacy of political cartooning from yesteryear is the idea that workers are all barrel-chested men. The problem, as we saw it, was to draw people who clearly represent their class but were also specific people: someone you might meet on the street,

* We avoided using the word "socialism". We won't avoid using it in subsequent stuff we do. We thought tacking it on the end of "Why do we Spend so much Money" would be OK for some people, but would confuse or turn off those larger numbers of people who associate it with the U.S.S.R., Stalin, or Utopian speculations. We'll use it when we can explain in depth what we mean.

In the mean time we remain closet socialists.

Nancy Brigham and
Steve Babson

To order by mail:

Order copies directly from Popular Economics Press, 90¢ for single copies (plus mailing) and 80¢ per copy for orders of 10 or more (plus mailing). Add mailing charges as follows:

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**popular
economics:**

WHY DO WE SPEND SO MUCH MONEY?

Dedicated to the memory of Harry Winner.

Popular Economics Press
Uncredited illustrations by Nancy Brigham



popular economics:

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**WHY DO
WE SPEND
SO MUCH
MONEY?**

A Mostly because
we have to!

**Where
our money
goes:**

housing
30%

(shelter alone 15%)
(phone, cleaning, repairs 5%)
(fuel, electric, water 5%)
(furnishings, appliances 5%)

food
23%

transportation
14%

clothing
10%

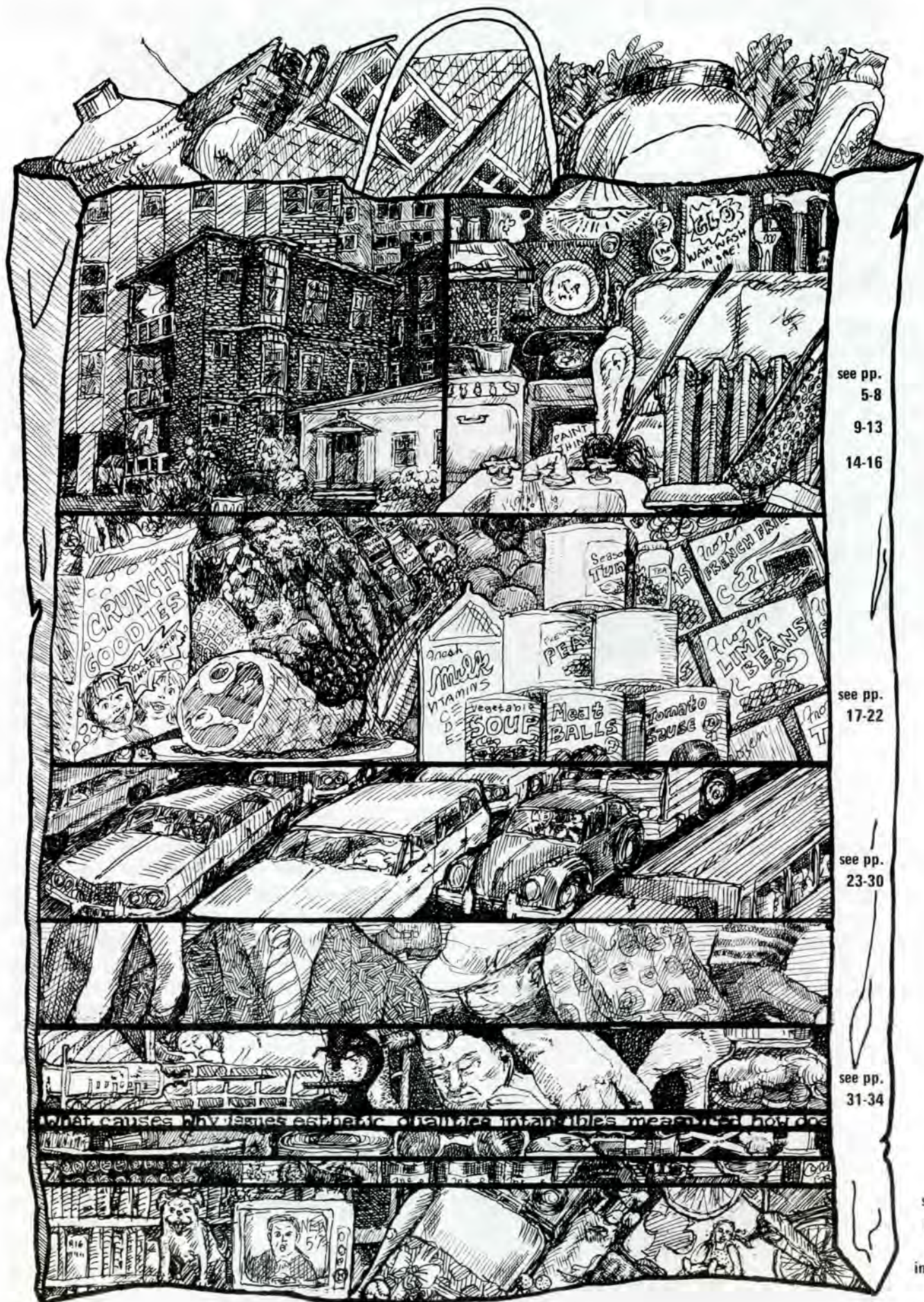
medical care
8%

education - 1%

personal care - 3%

tobacco & alcohol - 2%

gifts, recreation,
reading & other
9%



see pp.

5-8

9-13

14-16

see pp.

17-22

see pp.

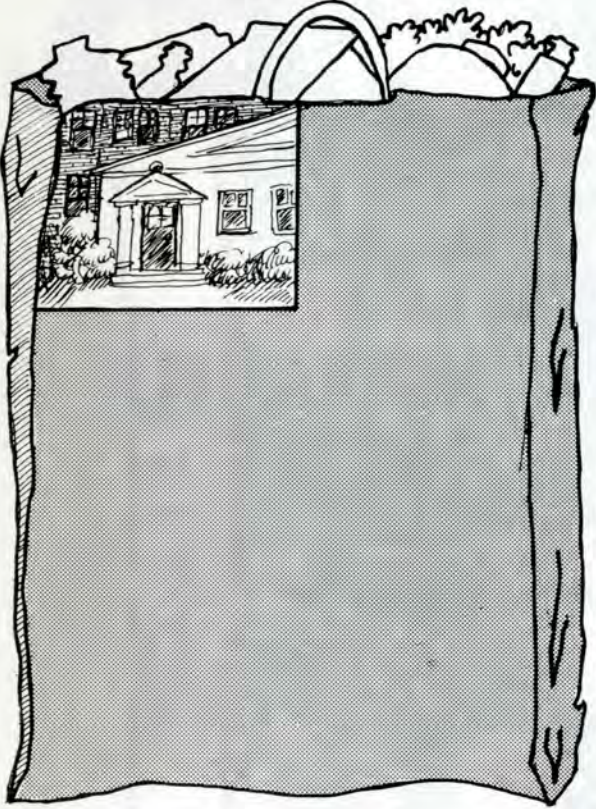
23-30

see pp.

31-34

see also
pp. 35-
47 on
inflation

Q. What does the roof over our heads cost?



A. According to the Report of the President's Commission on Urban Housing (the Kaiser Report) published in 1968, the average American family spends 15% of its income on shelter alone. The percentage is even higher for renters — about 20%. Not surprisingly, the bigger the income the smaller the chunk taken out of it by housing. A family, then, that makes \$10,000 a year pays out 12%, or around \$1,200 a year, in rent, while a family making only \$4,000 a year pays as much as 30%.

In addition, much of the country's housing is substandard. Estimates vary: the Kaiser Report quotes a figure of 16%; Urban America Inc.'s report in 1969 estimated 19%. In short, between 1/5th and 1/6th of all the housing in the U.S. is substandard — meaning either dilapidated or with inadequate plumbing. Again, the figure is even higher for renter occupied housing, where 23%, or *one out of every four buildings*, is substandard.

Why are rents so high?

The main reason is a shortage of housing. For years now, the vacancy rate has been at 3% or less of the total housing stock, well below the normal rate (as defined by the Kaiser report) of 5%. When vacant housing is that scarce, landlords can raise rents and real estate brokers can raise prices — people have no choice but to pay if they want a roof over their heads.

The housing shortage is caused by a steady increase in population and a not-so-steady increase in the housing supply. Buildings are sometimes lost through natural causes like age and fire. More often, however, the cause is negligence by slumlords, highway construction that disrupts stable neighborhoods and destroys homes, or Urban Renewal. In New York City, for example, the Urban Renewal Agency demolished hundreds of units of old housing in the mid-town Manhattan area in the 1960's — and replaced them with a swank center for the arts. Since 1949, urban renewal has torn down 500,000 homes in the U.S. — mainly homes of poor people — and put up only 100,000.

The private construction industry has meanwhile failed to build new housing fast enough to meet the U.S.'s housing needs. The Kaiser report estimates that 26 million new and rehabilitated housing units will have to be produced between 1968 and 1978 to provide enough standard housing for the entire population. That works out to 2.6 million new units a year. *But the average annual rate of increase for the last 10 years has been only 1.5 million units*, and in only two years did the rate go above 2 million.



Why isn't enough housing being built?

Private developers build housing to make money. When they can't make money (or when they can make more money investing elsewhere) they slow down the pace of construction. In short, the fact that people *need* housing is a secondary issue as far as the private housing economy is concerned. Profits are the primary goal.

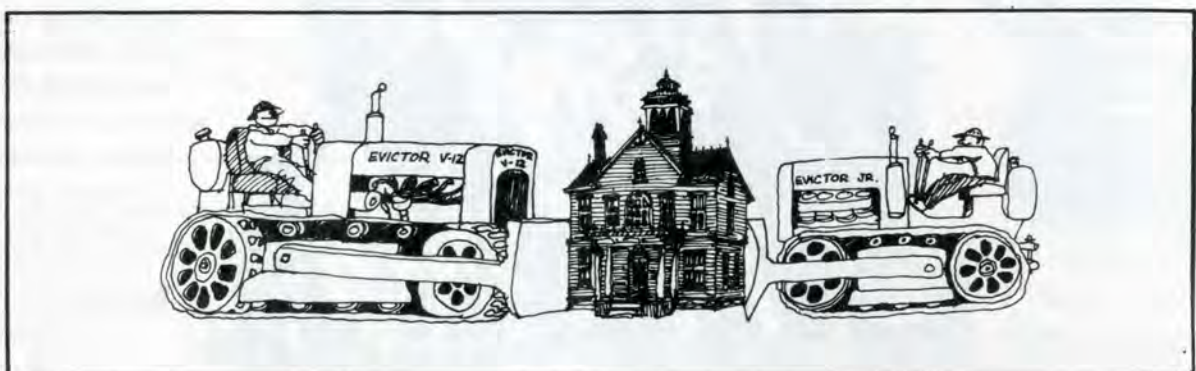
Profits in the housing construction industry have not, in fact, been high enough for some time now as far as private developers are concerned — construction has, therefore, lagged relative to need. The major inhibitor of profits has been the steady increase in construction costs since WWII. According to the Kaiser Report, the cost of developing and building a single apartment unit went from \$11,800 in 1950 to \$20,000 in 1967.

The usual scapegoat for these cost increases are the construction unions. The unions do, in many respects, ask for the abuse heaped on them by all sections of the establishment media. Their conservative leadership and tendency to discriminate against black and chicano workers wins them few friends. But the individual construction worker's high hourly wage is dramatically cut into by long periods of

unemployment in the winter and the high cost of traveling to and from widely separated work sites in the summer. In terms of *annual* income, the construction worker is not the extravagantly-paid labor baron he's often made out to be.

Neither is he the fastest-growing part of housing costs. Land costs, for example, have soared since WWII in response to the rapid buy-sell speculation of real estate operators. In 1950, land costs per apartment unit stood at \$775 — by 1967, the cost had climbed to \$1,800, an increase of over 130%. Construction wages increased at a slower rate of 113% in the same period, and much of their impact on housing costs was reduced by a 50% increase in productivity: i.e., the real increase in labor costs per apartment unit was *only* 42% over 17 years.

Besides land costs, the Kaiser report concluded that the cost of borrowing money to build housing had also gone up faster than wages. The interest on a \$5 million mortgage may be "only" 6-8% — but in the 40-year period that the \$5 million mortgage is paid back, those "small" interest charges slowly divert an *additional* \$4 or \$5 million into the lending bank's vault as pure profit.





Q. Costs may be high, but isn't there a lot of building going on anyway?

Yes, but not of low- or moderate-income housing. The high cost of land and mortgage interest can only be covered (at a profit) by high rents from luxury apartment buildings and office complexes — these, then, are the types of buildings that get built. Low- or moderate-rent housing makes enough money to cover costs, but doesn't leave enough for profits as far as developers and bankers are concerned — so low-rent housing isn't built unless the government subsidizes the project and insures profits. And government housing programs usually end up having more success insuring profits than in building decent, genuinely low-rent housing.

How so—Didn't the FHA program work?

The Federal Housing Authority (FHA) programs were designed to make private investment in housing construction more attractive via subsidies, mortgage insurance, and tax breaks for private investors. With such incentives, the private housing industry would supposedly be coaxed into building good, low-cost apartment housing.

In fact, the housing has turned out to be of generally poor quality, and rents have soared by as much as 15% a year in many FHA projects. After years of such rent increases, FHA housing has become so expensive that few low-income families can afford it. But builders of FHA housing have in the meantime made a bundle in development profits and tax shelters.

The FHA program is no exception to the government's overall role in the housing market — in almost all cases, the government shows much more concern for lining the pockets of the rich than in helping people find housing. According to

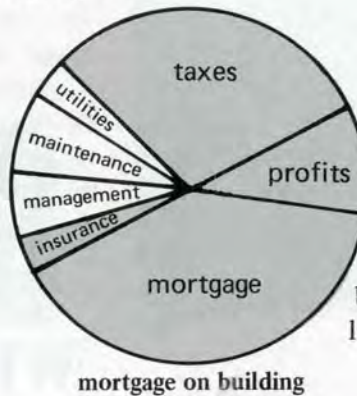
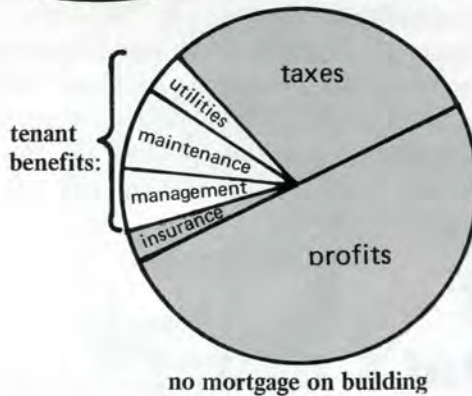
Urban America's report on housing, the federal government spent only \$820 million in 1962 to subsidize housing for the poorer 20% of the population (the sum includes public housing, public assistance, and savings because of tax deductions) — in the same year it spent \$1.7 billion, *over twice as much*, in housing subsidies for the *richest* 20% of the population, all of it in the form of tax write-off's.



My landlord isn't subsidized and I live in an old building;

Does that mean he isn't making money?

Where your rent goes:



Part of the mortgage payment is interest profit for the bank; the remainder, called 'principal', increases the share of the building owned by the landlord, and is therefore part of his profits.

A. No — just the reverse, as the above chart shows. The same conditions that make *new* low-rent housing unprofitable to *build* (unless subsidized) make *existing* housing very profitable to own. The reason, as pointed out earlier, is fairly simple: with housing scarce, tenants can't easily find a better deal than the one they've got — which leaves the landlord free to jack up rents. In addition, landlords can also make money off of tax shelters, speculative buying and selling of old houses, and all sorts of re-financing arrangements. All these things add up to substantial profits, particularly for big landlords with lots of buildings. In fact, about 50% of rent goes to profits for the housing industry.

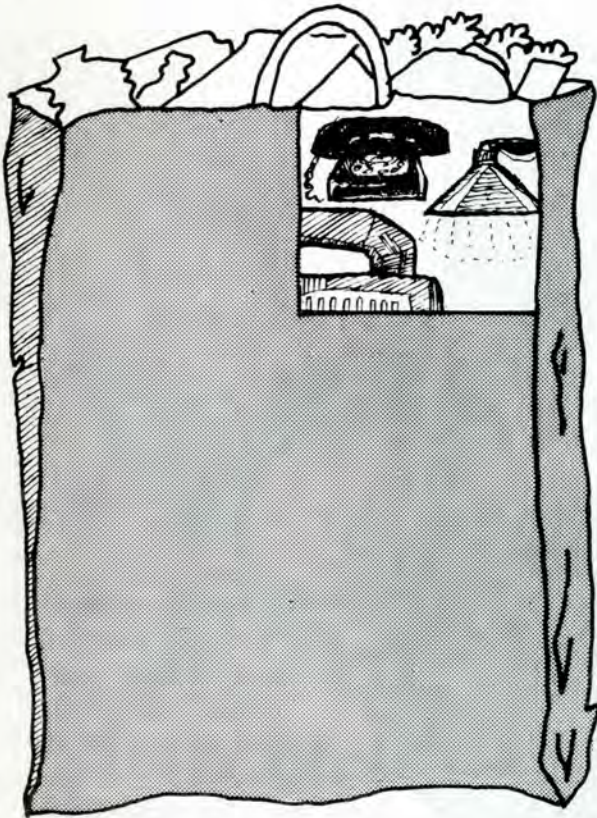
The government claims it doesn't have enough money to finance more housing construction. Yet for the price of one Huey helicopter for Vietnam (\$1 million) the government could have built 45 low-cost two-bedroom homes.



LNS

According to the *Ill Housed* by Urban America, Inc., 1 in every 8 families cannot afford standard housing.

Q. Are phone, gas, and electric services as cheap as possible?



A. All three of these utilities are necessities, things we have to buy to avoid serious inconvenience. All three are controlled by private monopolies. And prices for all three have gone up in recent years.

The problem isn't simply that one or a few companies monopolize the different industries. The problem is that these monopolies are privately-owned, and run for private profit — not for public need.

The point is underlined by comparing the rates of privately-owned electrical utilities with the rates charged by municipally-owned electric systems: according to the Federal Power Commission (FPC), as of 1970 the private companies charged 2.22¢ per kilowatt-hour for residential users, while city-owned systems charged only 1.47¢ per kilowatt-hour, a huge saving to customers of municipally-owned utilities. Unfortunately, the cheaper municipal electric companies serve only 13% of the U.S.'s electricity demand: the powerful and politically influential private utilities make further expansion of public power systems difficult. (*Public Power*, July-August, 1972)

What's more:

Electrical service costs \$12.5 million a year less from Seattle's municipally-owned utility than it would if the rates charged by the nearby privately-owned system, Puget Sound Power & Light, applied. Even taking into account the fact that Puget Sound pays \$4 million more in federal taxes than the Seattle municipal plant does, Seattle's electricity users still reap a net benefit of \$8.5 million from their city-owned plant.

And the profits generated by municipal utilities, instead of being turned over to private investors, go to financing city improvements, thus permitting decreases in local property taxes. Income from Jacksonville, Florida's municipally-owned electric utility, for example, covers 50% of the city's expenses — and Jacksonville's utility rates are still below those of privately-owned utilities in Tampa and Miami. Public swimming pools, ball parks, schools, hospitals, street lighting — the full range of community services — are financed by utility revenues rather than taxes in many cities and towns that own and operate their own power systems. (Lee Metcalf, Vic Reinemer, *Overcharge*.)

Why the difference in rates?

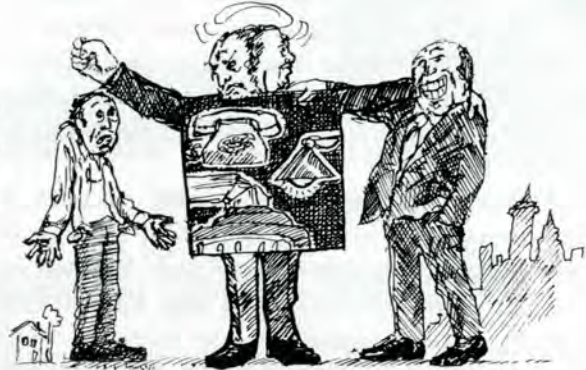
Municipally-owned utilities are run to distribute gas or electricity at the lowest possible cost. Privately-owned utilities are run to make a profit off the sale of gas or electricity — as big a profit as they can get away with. The problem, then, isn't the monopoly (competing utility systems would duplicate the enormous cost of building phone lines or power stations),

the problem is private control — putting a community's need for phones, light and gas at the feet of private investors. With private investors, profits — not service — is the number one priority.

The consequences of private ownership of utilities are numerous:

1

Big Business pays considerably less for the phone service, gas and electricity it uses than residential users — even though much of the cost of expensive new equipment goes to meet business' needs.



2

Since utility rates are supposed to be regulated according to the amount of equipment a company uses (called the "rate base"), private companies overstate the cost of their equipment in an effort to get higher rates — and with them, higher profits.

3

Private utilities make numerous political and charitable contributions in the company's name — and then charge them to the consumer in the form of higher utility bills. Numerous other "extracurricular activities" are paid for out of the consumer's pocket, most of them in the form of padded expense accounts for executives.



4

By means of well-financed lobbying efforts, campaign contributions, and "personal favors" for politicians, private utilities often succeed in turning regulatory boards into pro-industry, anti-consumer agencies.

Q How about some examples: phones for instance?

The U.S.'s communication system is dominated by one privately owned company, American Telephone and Telegraph (AT&T). For decades now, over 80% of the phones installed and operated in the U.S. have been a part of AT&T's "Bell" system. Customers get milked for the benefit of AT&T's stockholders in a number of ways:

Though AT&T has a secure monopoly on residential phone service in the U.S., it faces a number of challenges to its control over the other half of the communications market: voice and data transmission for business. New technology has allowed small companies to compete with Bell for the inter-city business of many corporations, while some large companies are installing their own communications systems instead of leasing AT&T lines.

To undercut this budding competition, AT&T has *lowered* its rates for big business — "TELPAX", "Private Line", "WATS", and "WADS" are cut rate services available to large-volume corporate customers only. In some cases, the Federal Communications Commission has found these rates to be so low that they don't even cover costs. (FCC

Decisions, Vols. 34, 35, 37.)

AT&T more than makes up the losses on these special discounts for business by increasing rates for residential users. Residential customers are obviously a captive market — unlike large corporations who can get around AT&T's monopoly, we can't afford to build our own communications systems. So we're sitting ducks for AT&T's numerous rate hikes and special charges. and AT&T pumps as much out of us as they can get away with.

But phone rate increases have to be approved by government right?

In theory, public regulatory agencies are supposed to limit rate increases, but in most cases they turn out to be most responsive to AT&T's requests for more money. Between 1966 and 1971, intrastate phone rates went up \$624 million, while in 1972 alone, the company got over \$1 billion in rate increases.

AT&T claims this extra money is needed to improve service for an ever-increasing number of phone customers. But

as the company states in its own annual report, the single fastest growing class of customers is large companies who want to transmit computer data over phone lines — the *same* users AT&T gives discounts to in an effort to undersell competition. Since big business benefits the most from the costly new investments in phone equipment, they should pay *more* than residential users, not less. (*Business Week*, 9/23/72; *AT&T Prospectus*, 6/2/71.)



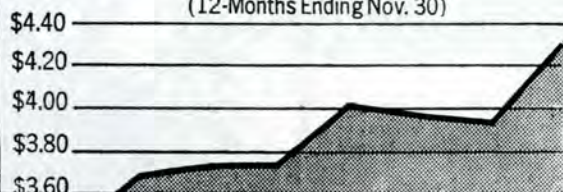
A. T. & T. Posts Record Earnings

*Revenue Is Also Up,
but Company Still
Seeks Rate Rise*

By GENE SMITH

The American Telephone and
Telegraph Company, and sub-

Earnings Per Share
(12-Months Ending Nov. 30)



N.C.R. TO REPORT A LOSS FOR 1972

Writeoff of \$60-Million Is
Planned—Analysts Expect
a Deficit of \$50-Million

Is there a legal limit on A.T.&T. profits?

AT&T's profits are supposed to be no more than a regulated percentage of its "rate base": the company's investment in plant and equipment, plus operating expenses. The percentage is set by state and federal regulatory agencies — the Federal Communications Commission, for example, allows AT&T to earn about 8% on investment for interstate services.

With such a "cost plus" set-up, it's clearly in AT&T's interest to overstate its costs. If, for example, a switchboard costs \$1,000 and AT&T is to get a profit of 8%, then the profit allowed on that particular switchboard would be \$80 (8% of \$1,000 = \$80). If AT&T overstates the switchboard's "cost" at \$1,200, however, profits would be \$96 (8% of \$1,200 = \$96). The more expensive the company's equipment, the more profit it's allowed.

The major tool in AT&T's repertoire of cost-inflating techniques is Western Electric, a manufacturer of phone equipment owned 100% by AT&T. Western Electric sells phone equipment to AT&T at prices 10-20% higher than comparable equipment from independent manufacturers. By jacking up the cost of the equipment it buys from its own subsidiary, AT&T gains in two ways: 1) Western Electric's unregulated profits are consistently above average, and 2) AT&T's "costs" are increased and, therefore, its "cost plus" profits.

The people who lose, of course, are customers. According to lawyers for the federal

General Services Administration, AT&T's New York subsidiary (New York Telephone) has overstated the value of its plant and equipment by some \$800 million — which means New York Telephone makes \$56 million in illegal profits every year. And FCC commissioner Paul Walker once estimated that Western Electric could cut its prices to AT&T by 37% and still earn a profit of 6% on its investment. (Joseph Goulden, *Monopoly*)





Q Couldn't new discoveries cheapen phone service in the future?

They could if AT&T would let them. But AT&T has a vested interest in preventing many new ideas in communications from being put into use.

In the late 1950's, for example, it became clear to everyone that satellites offered all sorts of potential for reducing the costs of long-distance communications. Radio telephone signals could be bounced off orbiting satellites and beamed back to earth stations half-way around the world, making possible a tremendous expansion of international communications for a fraction of the cost of transmitting signals over underwater cables. Equally important, satellites would make much of the expensive equipment and lines presently used for long distance calling *within* the U.S. unnecessary. Long-distance calling could be expanded many times and cost as little as 20¢ a call within the U.S.

Long distance calls within the U.S. still cost more than 20¢ — in fact they usually cost more than \$1.50. Why? Because AT&T managed through its extensive contacts in the FCC, White House and Congress to have the entire satellite communications system (called *Comsat*) put under its control in 1962. This was quite a victory for AT&T, seeing as taxpayers had put up the initial \$20 billion necessary to develop a satellite system. In addition, though many applied, no

other domestic phone companies were given seats on Comsat's board of directors.

With Comsat safely under its thumb, AT&T decided not to extend the benefits of satellite communications to its U.S. customers. The reason is simple: billions of dollars worth of AT&T equipment would have become obsolete overnight if satellites were put into use within the U.S. The dramatic savings for long-distance customers would have meant huge losses for AT&T owners. So to preserve its obsolete — but profitable — investment, AT&T closed the door on satellite communications for the U.S. market.

AT&T has, in effect, claimed outer space as its private domain, and often goes so far as to suggest that the wonders of satellite communications are entirely the fruits of AT&T's efforts. All of which neatly side-steps the huge cost of developing and launching satellites paid for by taxpayers — as much as \$25 billion according to former Senators Wayne Morse and Estes Kefauver. (Joseph Goulden, *Monopoly*)

In short, AT&T is willing to introduce new discoveries *if* they increase profits. If the discovery threatens to decrease profits, AT&T will do its best to kill the project or distort its uses.

And private gas and electric companies do the same sorts of things?

Yes. Private electrical utilities, for example, also discriminate in favor of big business.

The reason for this bias isn't hard to figure out: the boards of directors of most private utilities are dominated by local businessmen, usually representing the largest manufacturers and banks in the area. Manufacturers and banks use a lot of electricity, and the less they have to pay for it, the higher their profits.

Boston Edison's board, for example, is dominated by two local corporations, First National Bank of Boston and John Hancock Life Insurance. Together, they have eight of eleven seats on Boston Ed's board of directors. They also happen to have two of Boston's biggest office buildings — with total annual electrical bills of over \$2 million. That may seem high, but they got a lot more electricity for that money than the average residential user: because of their control of Boston Ed, the local business community pays 2½¢ per kilowatt-hour while residential users pay 3¢. (Boston Edison 1971 Report to Massachusetts Department of Public Utilities)

Boston's situation isn't even typical — on average, business pays much less than residential customers. Nationally, half the electricity generated goes to industrial customers, but they pay only 28% of the nation's light bill. (Metcalf and Reinemer, *Overcharge*.)



If your sport is golf, you may want to join a country club. You don't think you can afford it? You may be paying for it already. Northern States Power Company of Minnesota, for example, spends

over \$24,000 each year to treat their executives to club memberships. Northern States' customers foot the bill. Even golf is penny cheap if you can pay with someone else's money. (Council For Corporate Review, *The Utility Primer*.)

Are there "hidden profits" in our gas and electric bills?

Like AT&T, electric and gas utilities can increase profits by overstating their equipment costs and operating expenses. There are numerous techniques: bid-rigging with contractors, double-counting expenses, and increasing executive salaries.

One of the more dramatic causes of high utility rates was uncovered in the early 1960's by Julian Granger, a reporter for the Knoxville, Tennessee *News-Sentinel*. Granger revealed that three companies — General Electric, Allis-Chalmers, and Pennsylvania Transformer — submitted identical bids of \$112,712 to the Tennessee Valley Authority for electrical transformers. The bidding was supposed to be competitive — how, then, had it happened that all three companies had offered the equipment for the *exact* same price?

After numerous investigations, court cases and a congressional inquiry, the answer became crystal clear: the country's largest manufacturers of electrical equipment had for years been secretly fixing prices. When companies restrict price competition they are said to have formed a "cartel", a monopoly form of organization which (though outlawed) exists in many U.S. industries.

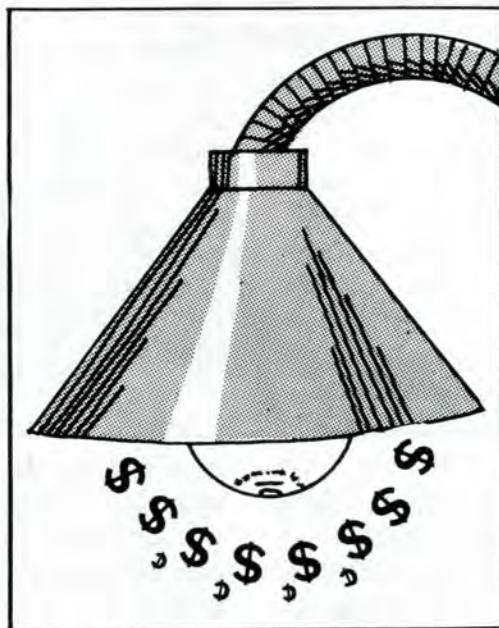
The companies in the electrical machinery cartel avoided price competition and rotated winning bids for contracts among

themselves. As a result of their price-fixing, the price of heavy electrical equipment manufactured in the U.S. soared 50% during the 1950's to levels 20 to 60% above the cost of European-made equipment.

The courts permitted electrical utilities to seek awards of *triple* damages from the equipment suppliers for the overpriced equipment. Yet by 1965, even though the case had involved almost \$7 billion in equipment, only \$400 million in damages had been obtained by utilities.

Why? Because the utilities who successfully sued for damages would then have to reduce their rate base by the amount of the settlement. Remember? Profits are regulated as a percentage of the "rate base" (the cost of plant and equipment), so the bigger the rate base, the higher the profits — and the more consumers pay.

As it turned out, the utilities weren't such dummies about the price-fixing in the first place. One of the important organizers of the cartel had been Fischer Black, editor of the trade journal *Electrical World*, who later became a VP at Tampa Electric Company. As *Electrical World* pointed out in 1963, a "close, family-like relationship" existed between the utilities and the equipment suppliers. (John Fuller, *The Gentlemen Conspirators*.)



Is government regulation effective?

Here's an example of how our "regulatory" system works:

In 1968, the Federal Power Commission (FPC) and the Supreme Court both denied a price increase to companies producing natural gas.

Big business doesn't have to take such occasional regulatory swipes at its power lying down. The gas producers did two things:

- First, they contributed heavily to Richard Nixon's 1968 election campaign. Their ability to fill a party's campaign chest is unquestionable, since many are owned by the big oil companies — giants like Standard Oil, Exxon and Shell. These oil companies, in fact, have a virtual monopoly on the production of fuels since they also control many of the nation's coal mines. Their economic clout is enormous, and they used it to grease the wheels of Richard Nixon's presidential campaign with over \$2 million in contributions.

They collected on their debt by putting pressure on the new administration to put pro-industry people on the FPC. Nixon happily obliged them: his appointee to chairmanship of the FPC, John Nassikas, was a former lawyer for private utilities, secretary or treasurer of 30 corporations, and a stockholder in Standard Oil and Mobile Oil. Nassikas in turn filled his staff with pro-industry men — an electric utility Vice President, a gas utility president, another former lawyer for private utility companies, and so on.

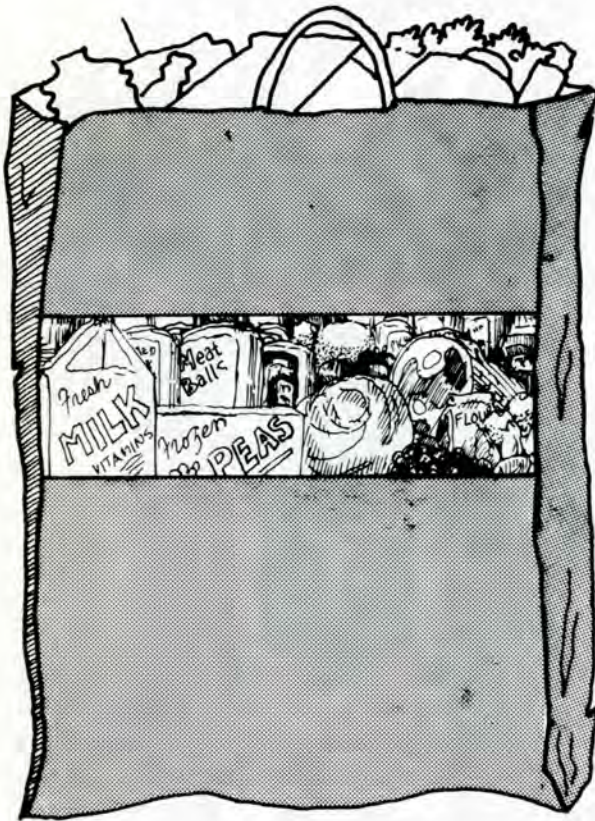
- Second, the gas producers suddenly "discovered" a shortage of gas. No shortage had been substantiated before 1968, a fact which leads many to believe the companies purposefully restricted supply to create a crisis and put pressure on the FPC. The new, Nixon-appointed FPC held no public investigation of the industry's claims, but a member of the FPC staff leaked documents to the press which indicated the companies were understating their gas reserves by as much as 42% in an effort to stampede the public.

- The result? By 1972, the gas producers had gotten almost \$5 billion in price increases ok'd by the FPC — all of which was passed on to the public by gas utilities. (*Fortune Magazine*, 6/11/72, *The Nation*, 1/17/72.)

The need for cheap gas and electricity can't be insured by regulation so long as private companies control production — and with it, the power to control political parties and government regulators.



Q. Are farmers driving up food prices?



A. The “farmer” is often referred to as the cause of rising food prices. But the ordinary small farmer is now disappearing in many areas of agriculture. There are now half as many farms in the U.S. as there were at the end of World War II. Less than 3 million farms are left, and every week more than 2,000 small farms go out of business. (*U.S. Statistical Abstract*)

As the small farmers fail, many of their farms are bought up by large corporations. In the last agricultural census, less than 1% of the farms made 24.3% of the sales. The newest breed of “farmers” these days is big corporations like DuPont, ITT, Mobil Oil, Boeing, and Greyhound.

What does this do to prices? Because they control more and more food production, these large corporations can raise prices with less fear of being drastically undercut. This is particularly true in such areas as turkey and chicken raising, citrus fruits, seed production and crops for canning — in all these areas, corporations are prominent or dominant. (*Business Week*, 4/28/73) Large corporations and smaller farmers can (with the government’s help — see next page) limit the supply of food, which causes prices and profits to rise.

How do supermarkets affect prices?

Supermarkets are also passing into fewer hands as they expand into more areas of the food industry. Jewel Tea Company, for example, owns Jewel Food Stores, Star Markets, 151 drug stores, 23 White Hen Pantries, and 82 Brigham Ice Cream Stores, and has just entered the dry-cleaning business. Jewel also manufactures and processes many of the foods it sells on its own shelves.

Of every food dollar spent by the consumer, 20¢ goes to the supermarket. Part of that 20¢ represents profits, but much of it represents the high cost of maintaining the over-large “super”markets food companies have built in the last 15 years.

These big stores are well-stocked and attract a lot of customers. But most shoppers can only use the stores on weekends and weekday evenings, so the stores are nearly empty much of the week. Their overhead costs, such as the expense of large parking lots and the cost of the slow-moving inventory on their shelves, are high. To make a profit above these “super costs” supermarkets raise their prices. Smaller markets do the same to make up for losing customers to the big chains. (*The Nation*, 4/2/73)

Still, in 1971, the supermarket industry made \$8 billion in profits. In 1972 they made “only” \$4 billion. Why the difference? Because A&P tried to win more customers in

1972 by drastically cutting prices, which in turn forced the other large food chains to do the same. This doesn't happen very often, and for a while the "price war" gave consumers a break.

But in the fall of 1972 A&P decided price competition was hurting profits. When A&P began raising prices again, the price war petered out. Very soon after, food prices were in their steepest climb in 20 years. Consumers aren't getting breaks anymore — but the supermarkets are making more profit. (*Business Week*, 3/17/73)

Do we contribute to high prices?

The government tells us we're buying so much food that prices can't help but go up. But in fact, the government itself is a major cause of high food prices. Every year it pays farmers about \$4 billion *not* to grow food — which makes food scarcer and, therefore, more expensive. (*Business Week*, 4/28/73.)

This farm subsidy program began in the 1930's as a way of helping small farmers. By keeping food supply down and prices up, small farms could remain profitable, and the only way to keep supply down was to pay farmers not to grow.

It was a bad idea from the start — while good farm land went unused, millions of people went hungry. It's even worse now, because most of the subsidy goes to the large corporate farms that have pushed smaller farmers off the land — as of 1970, the largest 5% of farms got more cash subsidies than the smallest 60%.

One of the ten biggest "farmers" receiving this subsidy is Tenneco Corporation — which is also one of the ten biggest defense contractors. Another big beneficiary is Senator James Eastland of Mississippi — third-ranking member of the Senate Agricultural Committee. Still another is W.R. Poage, who owns two farms in Texas and receives thousands of dollars in subsidy to keep his land unplowed — Poage also "happens" to be head of the House Agricultural Committee.

So government restriction of production makes food scarcer; food prices go up; and so do profits for the big farmers — in 1972, farm profits were the highest in U.S. history. (*U.S. News and World Report*, 3/19/73.)

The meat boycott and mounting public outrage have forced the government to say it will end the federal food program. In fact, it won't end it altogether. The government may end subsidies, but it also says it will continue to *regulate* farm production to prevent an "oversupply" of food and a "disastrous" fall in food prices. "Disastrous" for big farmers — but not for consumers.



Q. So the government cuts back the food supply?

That's not all it does. In addition to paying farmers not to produce, the government also buys huge quantities of wholesale food to keep demand high and prices up. The motive? To increase farm income.

With milk, for example, the government first decides on a price that insures profits for the milk industry; then it buys large amounts of wholesale milk at that price. This causes the market price of wholesale milk to rise until it equals the government's "support" price.

In March of 1971, the government raised the support price of milk — as a result, milk prices went up a penny a gallon and \$300 million in added profits went to the milk companies.

The government had initially ruled that there *wouldn't* be an increase in the support price of milk for 1971. What changed their minds? (Watch the dates.)

March 12, 1971 — Former Secretary of Agriculture Clifford Hardin denies the dairy industry's request for an increase in milk support prices.

March 22, 1971 — Dairy industry gives Republican Party \$10,000.

March 23, 1971 — 16 leaders of the dairy industry meet with Nixon and Hardin.

March 24, 1971 — Dairy industry gives \$25,000 to Republican Party.

March 25, 1971 — Secretary Hardin grants requested increase in government milk support price.

Throughout the rest of 1971 and 1972, the dairy industry gave \$400,000 to the Republican Party. (*Media & Consumer* magazine, February, 1973.)

This example shows the corruption of the Republican Party. But the Democrats are little better — they're the ones who set up the price support system in the first place.



Does that mean the government's the only cause of high milk prices?

Not by itself. The second ingredient is the milk companies themselves. Through their control of the milk market they can raise milk prices to artificially high levels.

Some people argue that the milk industry, though controlled by fewer and fewer companies, still isn't concentrated enough to allow for monopoly price-fixing. According to this argument, there is no group of companies with enough control over the national milk market to allow them to collectively set prices at artificially high levels.

But many food markets are regional in nature, and milk is a good example. Regional milk markets are often dominated by a few large firms. On the west coast, for example, four milk companies – Carnation, Arden-Mayfair, Consolidated Dairy Products and Foremost McKesson – conspired to collectively raise the wholesale prices of their dairy products in Alaska and Washington state. A suit brought against them in 1971 also charged that the companies assigned different school districts to each other and refused, even when invited by school boards, to enter into competitive bidding for school lunch contracts. None of the companies contested the charges. (*Wall Street Journal*, 2/7/73.)

**"DRINK 3 GLASSES
OF MILK EVERY DAY"**



Q. What about the Russians: didn't their wheat deal cut the supply of grains?

The government tries to deflect criticism about high food prices by passing the buck to the Russians. By buying so much wheat, the government argues, the Russians drastically reduced the U.S. supply, thus causing a rise in wheat prices. Wheat is used as livestock feed — so the high cost of wheat and other feed grains caused meat prices to soar.

True, the Russians bought 422 million bushels of wheat in 1972. But the U.S. government knew this in mid-August, well before the fall planting of winter wheat. What could the government have done? Under the present system, the government regulates the amount of acreage planted every year; which means the government could have increased wheat acreage to compensate for the Russian grain purchase.

But the government did nothing. "The fact remains," as *Business Week* put it (3/17/73), "that the administration failed to act last summer in the face of a huge surge in international demand for wheat and feed grains."

Why did the government fail to act in the consumer's interest? As *Business Week* put it: "Election-year politics and the farm vote were at least an implicit factor." High wheat prices mean happy farmers.

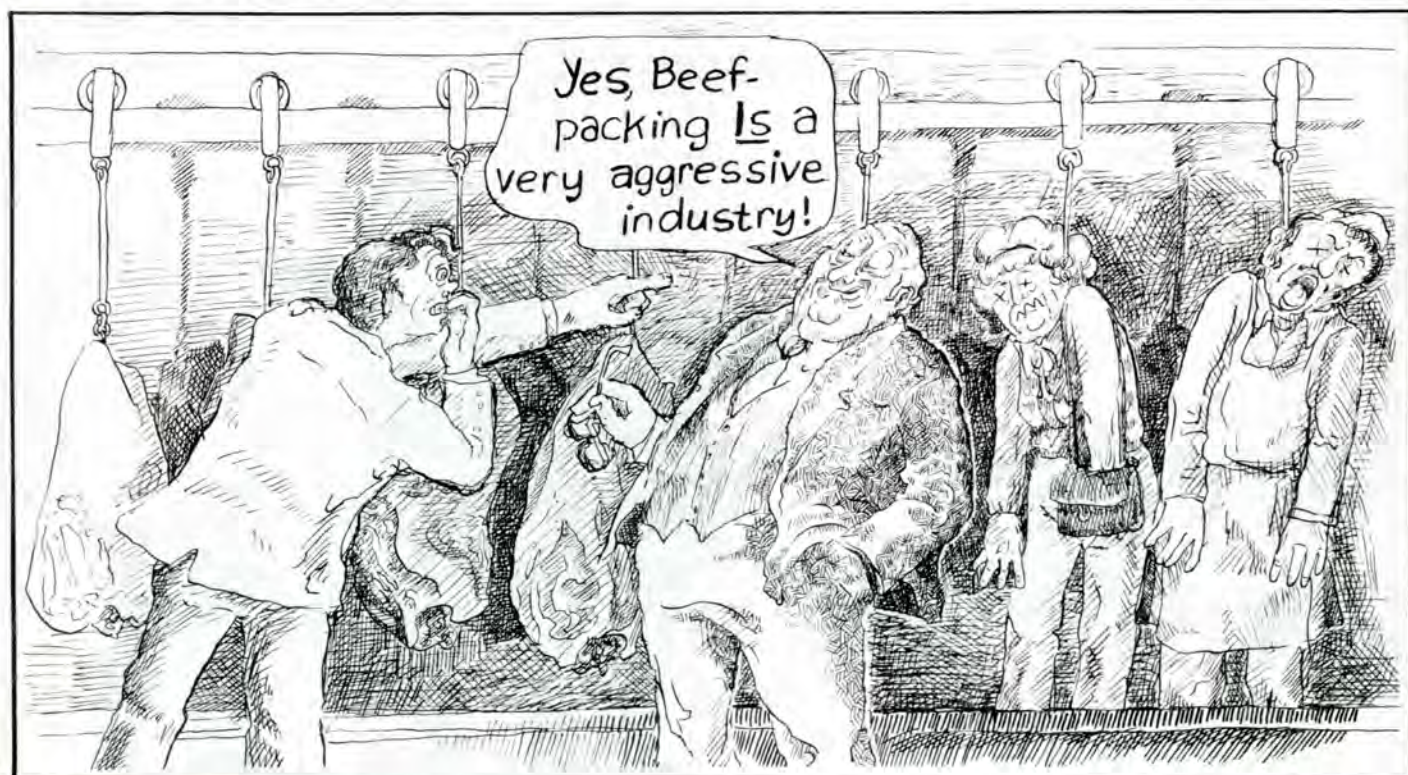
The government could have done a number of other things in the fall and early winter of 1972 to stem the rise in feed-grain prices. It could have

dumped on the market some of the millions of bushels of grains it holds in storage. The government grain would have expanded supply and kept prices down. Here again, the government chose to do nothing. The price of feed grains and meat continued to soar.

Also, the government could have demanded immediate payment of special loans it has made to soybean and feed-grain farmers. This would have forced farmers to pay the loans by selling their crops instead of hoarding them in hopes the prices would go still higher. Once again, the government sat on its hands.

Finally, in January of 1973, as the public became increasingly disgruntled over high prices, the government sold its surplus wheat, called in its loans and increased wheat acreage for the next crop. But, as *Business Week* put it, it was "too little, too late."

And it doesn't mean the government has permanently changed its ways. During the rapid rise in meat prices in 1973, the U.S. Agricultural Department advised turkey and chicken farmers to *reduce* their flocks. Such cutbacks in meat supply force prices up even faster. And it's not as though turkey and chicken farmers were doing badly — between January and April of 1973, wholesale chicken prices, for example, went up 40%. (Statement of U.S. Rep. Joseph Gaydos of Pennsylvania)



Who profits the most from high beef prices?

The beef-packing industry — the companies who slaughter the cattle and cut it down to carcasses for the local butcher. In 1972, as beef prices soared, the biggest beef packers *more than doubled* their profits. Iowa Beef Processors, the industry's biggest company, increased its net profit in the last 3 months of 1972 by 166% compared to a year earlier. Missouri Beef Packers' profit was up 102% for the same period; Swifts' profit was up 111%. (*Business Week*, 3/10/73)

Iowa Beef is one of the fast growing "new breed" of meatpacking companies. Some of the old meat-packers like Armour and Swift were established during the Civil War. Iowa Beef was formed in 1962. It now has sales of more than \$1.3 billion a year, giving it the biggest slice of the beef market (13%). Its eight Midwest factories slaughter 60,000 cattle a week.

The beef market is fast being gobbled up by the big packers — the five biggest now control about 40% of beef sales in the U.S., which puts them in a position to crush smaller competitors and raise beef prices to artificially high levels. A recent study by the Federal Trade Commission concluded that monopolistic pricing in the meat-packing industry costs consumers \$484 million a year. Many critics consider that a low estimate. (*The Nation*, 3/26/73 and 4/2/73)

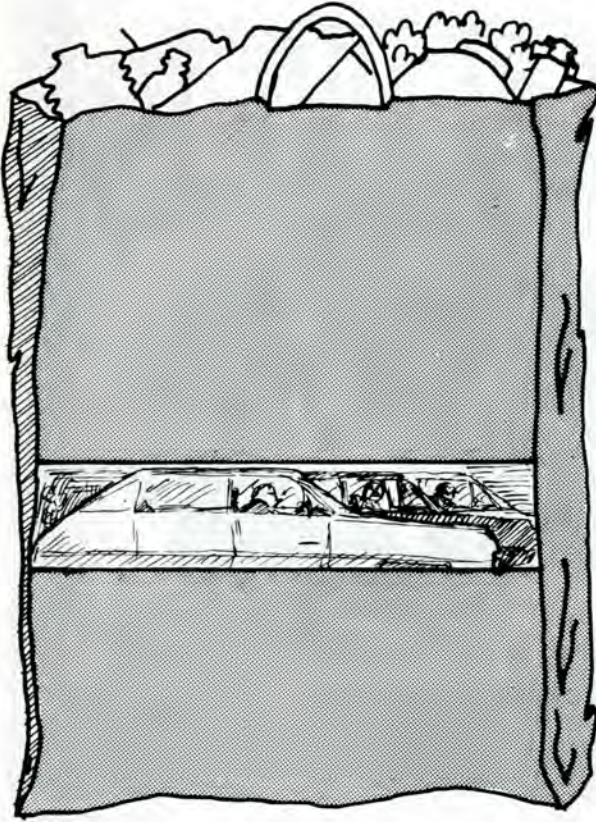
But do workers in the meat-packing industry profit from high meat prices? Not if they work for Iowa Beef Processors. Even though Iowa Beef is the biggest, richest meat packer, the minimum hourly pay is only \$3.15 an hour. The company would pay less if it could get away with it.

In 1969, for example, the hourly minimum at Iowa Beef was a miserable \$2.12 an hour. When the union went on strike for higher wages, the company dug trenches around the plant, surrounded it with armed guards and flew in scabs from Texas and Mexico (the plant was in Nebraska). One worker was shot twice in the stomach while on picket duty. Violent clashes with police and strikebreakers were frequent and many workers were arrested. It took the union 7 months to win the \$3.15 an hour minimum. (*Harvard Business School Case Study*.)



Plain Dealer/LNS

Q. Why does transportation cost so much?



A. The main reason is our near total dependence on cars — of the 14% of the average family's budget taken up by transportation, 13% represents the cost of operating an automobile. If cheap, rapid mass transit were available, transportation costs would go down, and cars could then be used as a convenient *alternative* way of getting around.

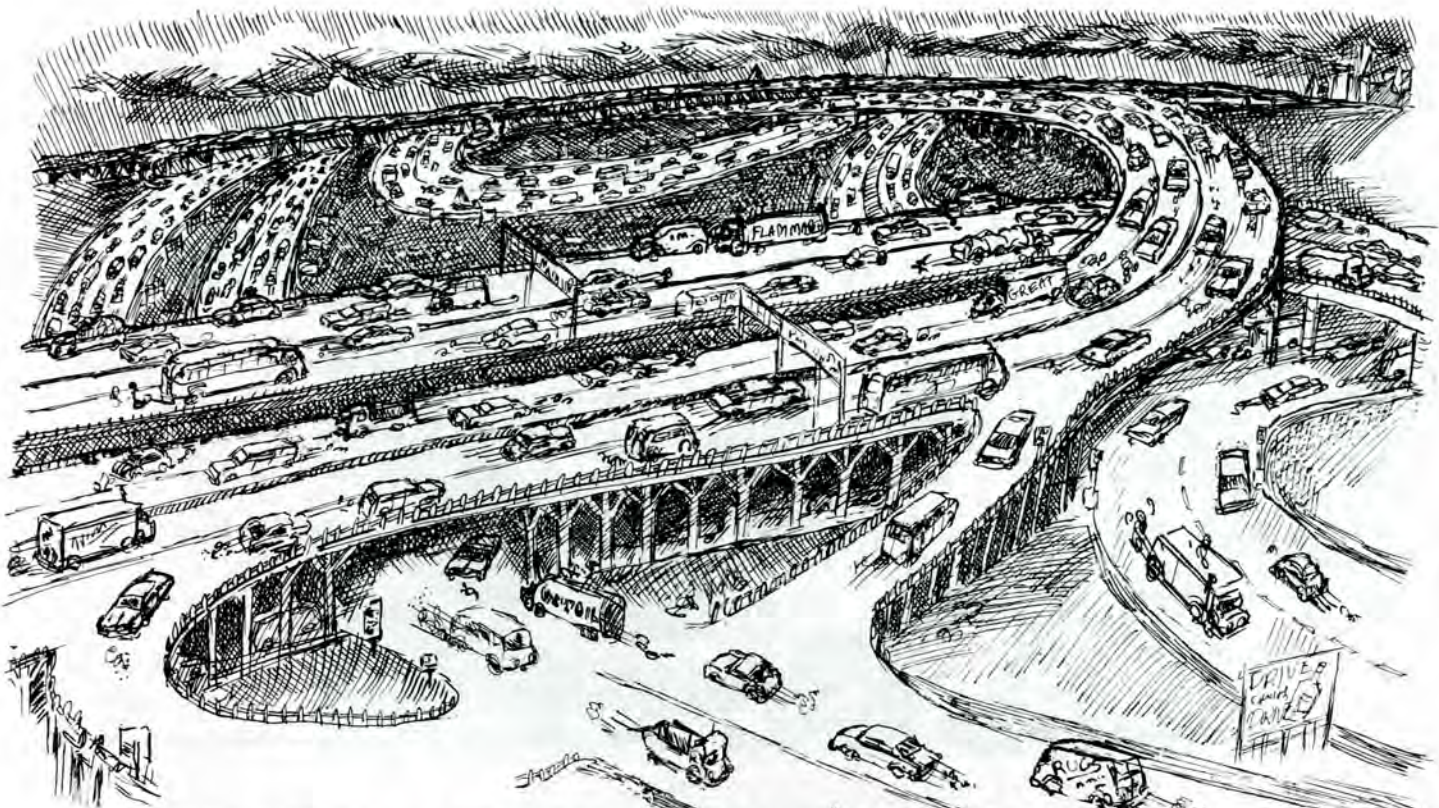
The reason more mass transit hasn't been built is simple: the automobile and oil industries haven't wanted it. Adequate subway systems, *working* commuter trains and expanded bus systems would make people less dependent on automobiles — which in turn would mean fewer new cars sold, fewer new tires, less gas and less oil. All of which would mean reduced profits for GM, Ford, Exxon, Mobil, Firestone . . . what's often called the "highway lobby."

How does the highway lobby get its way?

By buying it. The largest contributions to Richard Nixon's 1972 campaign, for example, came from wealthy individuals associated with the oil industry, and not far behind was the auto industry. (Fitzgerald Sale, *Boston Sunday Globe*, 4/28/73.) The biggest money in *any* election comes from big business, particularly the oil and auto businesses. Two of the most powerful families in the Republican Party, for example, are the Rockefellers and DuPonts, both of them long associated with Standard Oil and General Motors respectively. The Democratic party is also powered by big money: the Chrysler family (old FDR supporters), the Vanderbilts, the Harrimans. Money talks.

The highway lobby is therefore assured of getting people sympathetic to its needs into the right positions in government. Nixon's two appointments to Secretary of Transportation are good examples: the first was a well known highway contractor, the second a director of Humble Oil and Daytona International Speedways.

So we get more and more highways, more cars . . . and more traffic jams. Between 1965 and 1970, less than \$1 billion was spent by the federal government in aid to mass transit, while almost \$30 billion was spent on highways. Without subsidies from the federal government, transit systems have to operate under huge deficits — a total of \$360 million in 1972. As a result, over 100 transit systems have withered and died since 1963. And those still running charge high fares for mediocre service. (1971-1972 issues of Highway Action Coalition's *Concrete Opposition*.)



Is government going to keep on building highways?

That depends. The national interstate system is supposed to be completed by 1980. By that time we'll have built about 42,000 miles of federal highways since 1956 — at a cost of over \$60 billion.

In the meantime, more and more politicians are calling for a change in transportation priorities in favor of mass transit. Many even want to open the highway trust fund (see p. 25) and make it available to municipally-owned subway and bus lines. Even Richard Nixon supports a modest redistribution of funds — with strings attached.

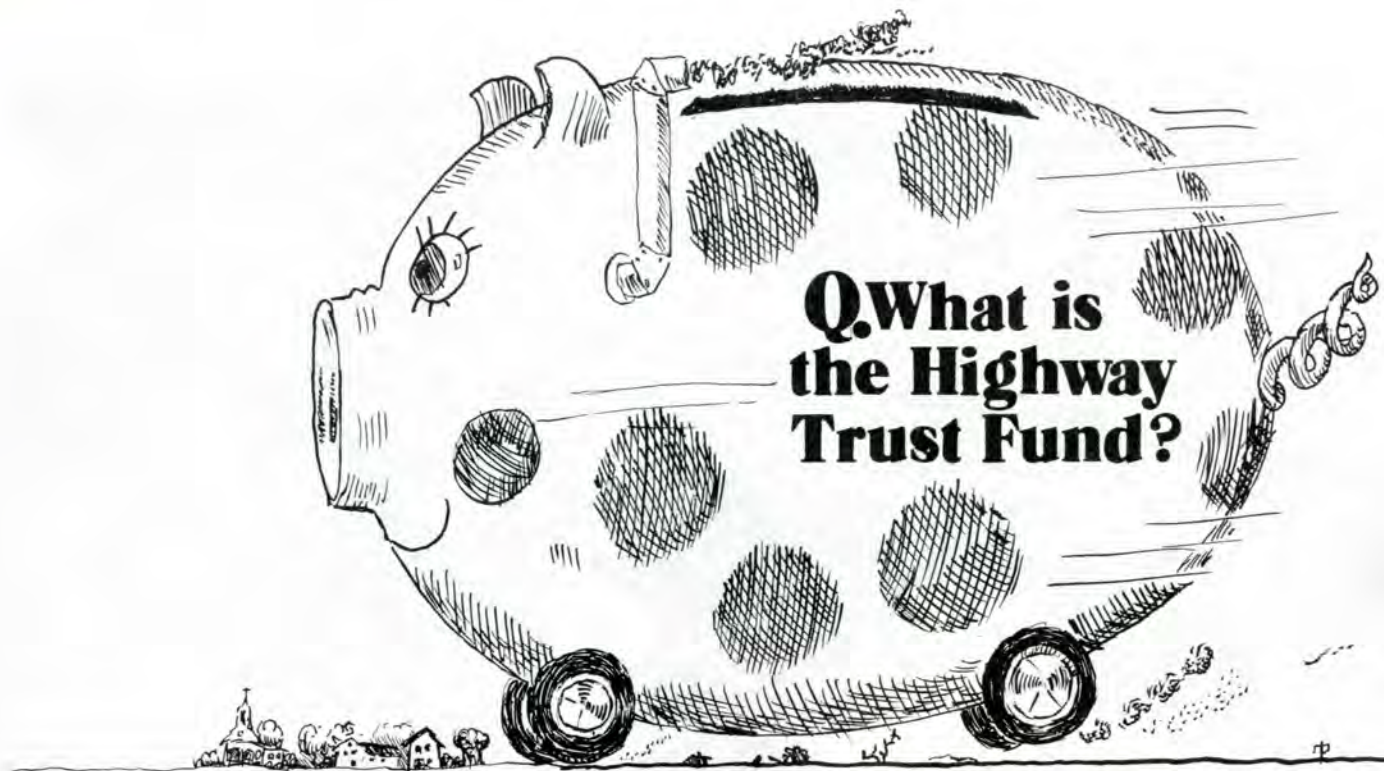
Why this change of heart, you may ask? For one thing, it may be no change of heart at all. The government is simply responding to tremendous pressure from the grass roots anti-highway organizations. According to the Dec. 1971 issue of *Concrete Opposition* 500 local organizations are involved in battles against highway construction, and nearly 200 proposed highway projects have been challenged, delayed, or stopped. Politicians won't openly buck this ground swell, and many can be expected to make publicity-conscious gestures in the direction of mass transit.

Even the highway lobby wants to improve its image: Mobil Oil, for example, surprised everyone by taking an ad in the New York Times of Jan. 2, 1972 in favor of "re-examining" our transportation priorities. An impressive example of corporate responsibility? Or just hot air?

The facts point to the second answer. Mobil, it turns out,

contributed \$45,000 to a pro-highway bond campaign in New York in 1971 and a similar amount to the pro-highway campaign that defeated California's *Proposition 18* in the same year — a proposition that would have diverted more money to mass transit. Actions speak louder than words. (*Concrete Opposition*.)

And whatever actions the government takes in the future will generally take the form of window dressing — lots of fanfare about "changes in priorities", but only just enough dollars to keep mass transit from collapsing completely. Nixon's proposal to divert highway money to mass transit, for example, stipulates that the money only be used to *expand* transit systems — not to *operate* the run-down, debt-ridden transportation systems that already exist. Government is serving big business, and can't be expected to make significant improvements until a transportation crisis and popular pressure force it to. 24

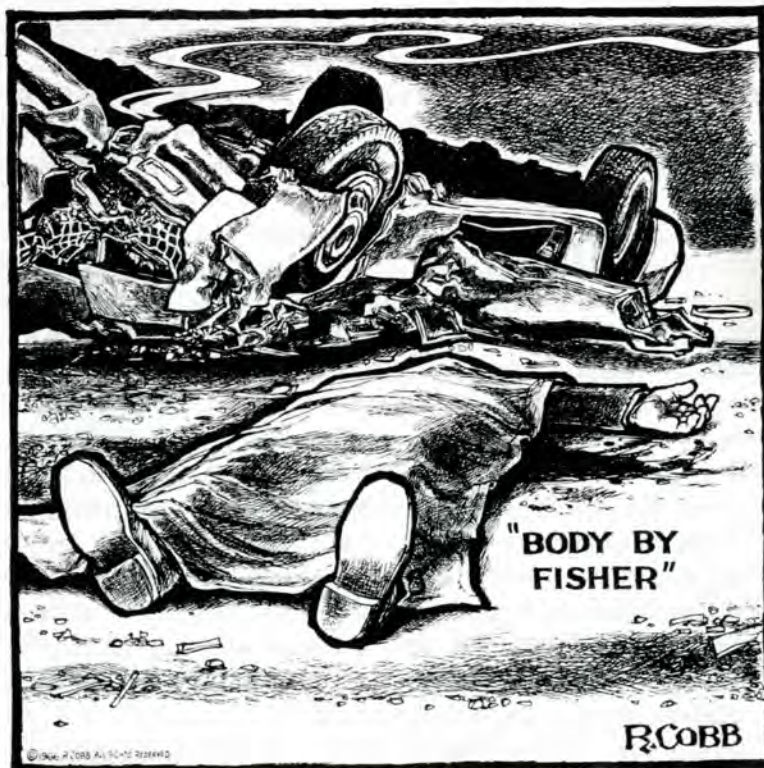


Congress gave birth to the Highway Trust Fund in 1956. The Fund is filled with tax money from the sale of gasoline and other automobile-related products – about \$5 billion a year. The money is earmarked for highway construction.

The Trust Fund makes highway building so easy and cheap for cities and states – they pay only 10¢ and the fund kicks in 90¢ – that mass transit seems impossibly expensive in comparison; they must pay from 33¢ to 50¢ for each dollar of mass transit money.

fact:

Over 50,000 people die every year in auto accidents, while hundreds of thousands are maimed and injured. (see health costs section)



fact:

More than 60% of the total land area of most large American cities is devoted to the movement and storage of automobiles. The millions of acres taken up by cloverleafs, parking lots and garages costs taxpayers \$1.7 billion a year in road maintenance and construction expenses. (*Concrete Opposition.*)

fact:

The highway-automobile system is directly responsible for 39% of the nation's air pollution and up to 80% in cities like Washington D.C. and Atlanta. The cost of auto pollution in terms of damage to health, vegetation, materials and property values for urban populations is estimated by the Environmental Protection Agency at over \$60 a year per person.



opinion:

The highway lobby may already have blocked any possibility of building a public subway system in Los Angeles. According to *Business Week* (2/10/73), the constant building of highways "has pushed the legendary Los Angeles sprawl farther and farther beyond the city's core. This pushes the

cost of a rapid transit system further and further beyond a price people are willing — or able — to pay." Los Angeles is in worse shape than most cities — but it's only a matter of degree. In many cities, only large amounts of federal funds could meet the costs of building good mass transit.

Okay, so we need public transportation; but in the meantime, why are cars so expensive

A. Because the industry can charge what it wants. The top four companies — GM, Ford, Chrysler and American Motors — make 80% of the motor vehicles produced in the U.S. and an even greater percentage of the cars. With that sort of market power it's easy for the four of them to get together and fix prices at artificially high levels.

A 1973 court case revealed the enormous extent of their market power and control. The case went back over ten years: in 1962, Chrysler broke ranks with GM and Ford and started selling "fleet" cars (orders of ten or more cars) at prices substantially below the

prices charged by GM and Ford. Chrysler's share of total fleet sales consequently jumped from 4% to 25%, forcing GM and Ford to make similar price reductions that cut heavily into profits.

GM and Ford eventually decided they'd had enough of Chrysler's price cutting, and in 1969, the two companies conspired together to pull the rug out from under Chrysler — they began selling fleet cars at discounts the smaller Chrysler couldn't afford to match. By 1970, Chrysler was nearly bankrupt.

The experience quickly changed Chrysler's mind about the virtues of price competition — by April of 1970, Chrysler agreed in a series of secret meetings to end the price "war" and, along with GM and Ford, raise its fleet prices to levels that would ensure higher profits for *all three* companies. (*Business Week*, 1/27/73.)

So ended the brief spell of price competition in the U.S. auto industry. In this case, price fixing was achieved through direct conspiracy. More often, monopoly price-fixing is achieved *without* direct conspiracy; instead, "price leading" is used. It works this way: the largest firm or firms in an industry fix prices for the industry as a whole; the rest of the industry follows the "price leaders" because it's always profitable to raise prices and because efforts to undersell the "leaders" would provoke a price war — a war the larger firms will always win. Chrysler found out the hard way by taking on GM and Ford. In the future, Chrysler can be expected to follow the (price) leaders without any *direct* arm twisting.

Other parts of the automotive industry are also concentrated enough for price fixing and price leading to be effective. Three rubber companies — Firestone, Goodyear and Goodrich — make over 60% of the U.S.'s tires. Four companies make 96% of the U.S.'s flat glass. (U.S. Dept. of Commerce, Bureau of the Census.)



Is it true that safer, non-polluting cars would have to cost more?

That's what the auto companies will claim. But in fact, production costs could be *reduced* if auto makers stopped making all those expensive changes in design and style every year.

Why the annual model change? Mainly, to try and make you feel like your two-year-old car is obsolete, that you should trade it in for the latest model. And the more often you buy the "latest" model, the more money the auto companies rake in.

So a big chunk of the price of your new car represents the cost of advertising — not just the cost of TV and magazine ads, but the cost of changing the body design, the shape of the windows, the layout of the dashboard, or the style of seat covers. Few of these changes make the car any better than your two-year-old car. But it makes the latest model different and newer, and the car companies spend millions pounding it into our heads that the "new" is better than the not-so-new.

A study of the cost of annual model changes was done in the 1960's by economists Franklin Fisher, Carl Kayson and Zvi Griliches. Their calculations showed that approximately 30% of the cost of producing a car was caused by the annual model change — the cost of drafting, retooling and re-organizing the assembly line. (Paul Sweezy, *Monopoly Capital*.)

If cars were produced without profit-making in mind, the annual model change wouldn't be necessary — production costs would, consequently, fall dramatically. And the car's price would fall even further if the enormous profits of car dealers were eliminated. Under these circumstances, according to economist Paul Sweezy, new cars would sell for as little as \$1,000.

It should be clear, then, that safer, non-polluting cars don't *have* to cost more. The fact that they undoubtedly will stems from the monopoly control which a few privately-owned companies have over the automobile market — control which enables them to build the kind of cars they want at the price they choose.



Better built by...who?

While testifying before congress, Dr. William Hayden of the *Insurance Institute for Highway Safety* recently pointed out that the technology exists for making cars strong enough to survive a 15 mph collision with a brick wall *at little or no cost* in terms of body damage. Yet the car companies continue to build cars so poorly that tests conducted by the

Institute indicate the average repair cost of the above collision in 1973 was \$1,252. At 2-½ mph — walking speed — the average damage was \$67. Besides being unsafe, such shoddy construction insures that you'll be back that much sooner to buy a new car. And in the meantime, the companies increase their profits by using cheaper materials and obsolete technology.

Q. Gasoline prices are going up faster and faster why?

The oil companies say it's because of the energy crisis. According to industry spokesmen, there is now a critical shortage of fuels in the U.S., a shortage made worse by restrictive ecology laws.

There is, in fact, an energy crisis, but it's not what Exxon, Shell and the rest say it is. The real crisis is that seven giant oil companies control 70% of the world's oil and natural gas production. The oil industry as a whole also controls 30% of U.S. coal production and 45% of the uranium reserves necessary to nuclear energy. Standard Oil of New Jersey, for example, is not only the biggest supplier of oil in the U.S., but also has the largest bloc of coal reserves, has major uranium deposits, and manufactures nuclear

fuel. (James Ridgeway, *The Last Play*.)

So all the potential energy sources are under the oil industry's thumb. Which means the country's energy policy — the *type* and *amount* of energy available — will be determined by these giant, privately-owned corporations. The best energy policy as far as they're concerned is the one which nets them the most money.

And the oil companies make more money if there is a limited amount of oil and gas available to consumers. Limited fuel supplies mean people can be forced to pay higher prices, and higher prices means more profit. So the oil companies have dedicated themselves all through recent history to limiting the supply of fuel and gas.

How can oil companies create shortages?

One technique is to reduce production. The oil companies in recent years stopped looking for new natural gas supplies because they decided gas prices weren't high enough. In 1971, only *half* as many new wells were drilled as in 1956. Consequently, natural gas shortages developed in the winter of 1972-1973 and many gas users switched to oil and other fuels, causing shortages there too. Prices of all these fuels are rising due to the "shortages." Higher prices have increased profits, and with this "incentive" under their belts the oil



companies will resume drilling for new gas supplies. (*Business Week*, 4/21/73.)

Often the oil companies need government help to reduce fuel supplies. In the 1930's the discovery of the East Texas oil fields drove the price of crude oil down to 10¢ a barrel. The big oil companies responded by pressuring both state and federal government to prevent the newer, independent oil producers from pumping "too much" oil. The government dutifully responded by setting up the Interstate Oil Compact

Commission to enforce annual quotas on oil production and thus prevent an "oversupply" of crude oil. Prices went up. As in the food industry, the government serves business by restricting supply. (Community Press Service.)

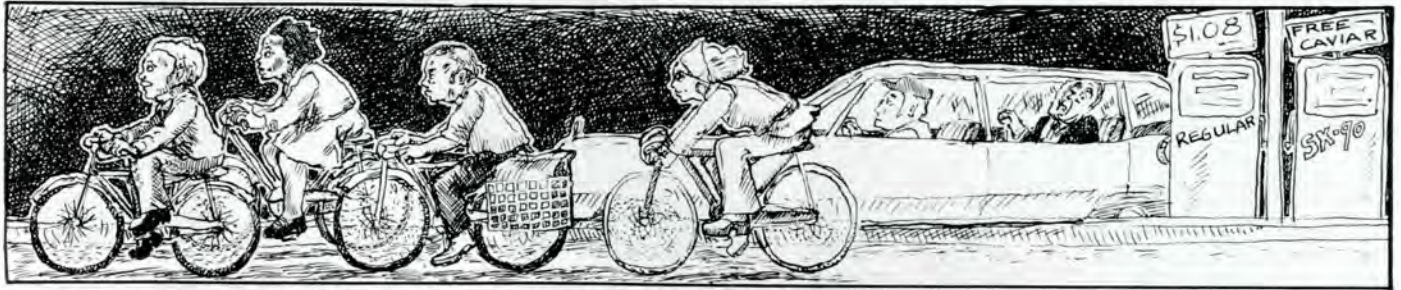
The energy crisis isn't due to *natural* shortages. The U.S. Geological Survey estimates the U.S. has: oil reserves amounting to 80 times our 1971 consumption; gas reserves 100 times our '71 consumption; coal reserves 800 times our '71 consumption; oil shale in almost unlimited quantities.



Clearly we should try to cut back on wasteful consumption. Expanded mass transit, for example, would mean tremendous savings in fuel consumption, but the oil companies don't want to reduce *demand* for oil (see page 24 on the highway lobby). The oil companies want us to consume more and more oil, to the point where we can't do without it. In the meantime, they'll periodically announce critical shortages to justify price hikes and to pressure us into accepting ecological disasters like the Alaskan oil pipeline. The handful of wealthy people who own the nation's energy resources are interested in profit, not a clean, economical and



abundant supply of fuels.



Are some gasolines better than others?

Gasoline companies waste some \$50 million a year to convince us that one brand is better than another. Gulf and Shell spent more money on advertising in 1969 than they paid in Federal income taxes. Despite all the exaggerated claims made for a particular brand, the companies in fact have exchange agreements where one company agrees to

supply its competitors in the area. That means when you fill up at a Mobil or independent station you may be getting Texaco gasoline, or vice versa. The companies swap gas simply to save themselves money and increase profits. (Community Press Service.)

Do oil companies fix prices?

Reprinted below is a story from the May 4, 1973 *New York Daily News*:

10 Oil Firms Settle for \$28.7M

Newark, May 3 (AP) — Ten of the nation's largest oil companies have signed a \$28.7 million settlement of a suit charging them with fixing bulk gasoline prices in New Jersey, Pennsylvania and Delaware, it was learned today.

The agreement, hammered out after nearly 4 years of maneuvering in U.S. District Court here, is believed to involve more money than any civil court case the court has handled in recent history.

According to the settlement, which was tentatively made on Feb. 20, the oil companies will establish

a \$28 million fund to be divided among the three states, their counties and cities, private bulk purchasers of gasoline and operators of taxicab fleets.

10-Year Period Covered

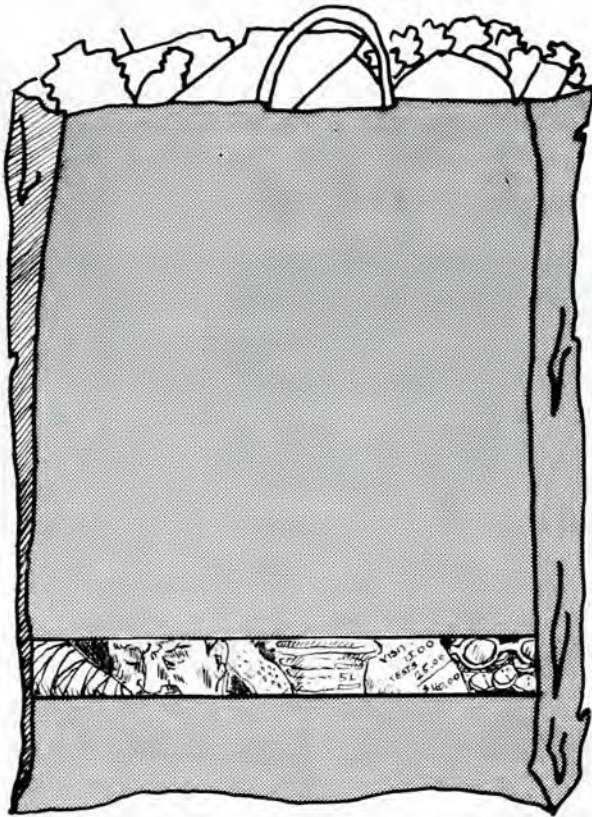
The beneficiaries of the settle-

ment had charged in a 1968 suit that the companies had fixed gasoline prices in the three states between 1955 and 1965.

The firms are American, Atlantic Richfield, Chevron, Cities Service, Getty, Gulf, Exxon, Mobil, Sun and Texaco.

news reporter

Q How expensive is health care?



A. Nowadays, the cost of hospitalization can wipe out a family's entire savings. In New York, it's hard to find a hospital room for less than \$90-\$100 a day. Nationwide, the cost of a day in the hospital has *doubled* since 1962, and Blue Cross "coverage" — which "covers" less and less — now costs over \$400 a year per family in many states. (Blue Cross only covers hospitalization, not treatment.)

With costs so high, you'd think we were getting top notch health care. Guess again. The U.S. is the richest country in the world, but not everyone shares in those riches, or in the health care it *could* buy. 15 other countries, all poorer, have a higher life expectancy; infant mortality is lower in 14 other countries; and a ten-year old boy has a longer life expectancy in 31 other countries.

According to a U.S. Public Health Agency survey of medical laboratories in the U.S., 1/4 of all results reported from lab samples are *wrong*. The same agency surveyed different types of medical treatment and found U.S. hospitals lacking in many other areas. With female pelvic surgery, for example, they concluded that 70% of all operations resulting in sterilization or ovary removal were *unjustified*.

Why are costs so high?

Taking their cue from private industry, the hospitals blame higher costs on the wage demands of unionized hospital workers. Wages *have* gone up dramatically in recent years — from starvation levels to lower-than-average. As recently as 1960, hospital workers in New York's "philanthropic" hospitals were paid \$30 for a 40 to 48 hour week. "In effect," concludes the Health Policy Advisory Center, the hospitals "were supported through the philanthropy not of their rich benefactors but of their poor employees, who donated their labor to keep the hospitals going."

Many hospital workers are still paid as little as \$70 a week. Some unionized workers in New York take home \$100 — \$120: but that's still \$2,500 a year less than the median family income in New York City in 1970 and \$5,000 less than the government-defined "moderate" level of income for a family of four.

The people who are overpaid are the upper level staff and doctors who make up 30% of hospital employees. The average net income of radiologists jumped from \$26,000 a year to \$34,000 between 1966 and 1970. Senior hospital physicians get salaries of \$40,000 and up, with plenty of time for a lucrative private practice on the side. The median income of top hospital executives has been estimated at over \$40,000, and some are paid as much as \$70,000 a year.

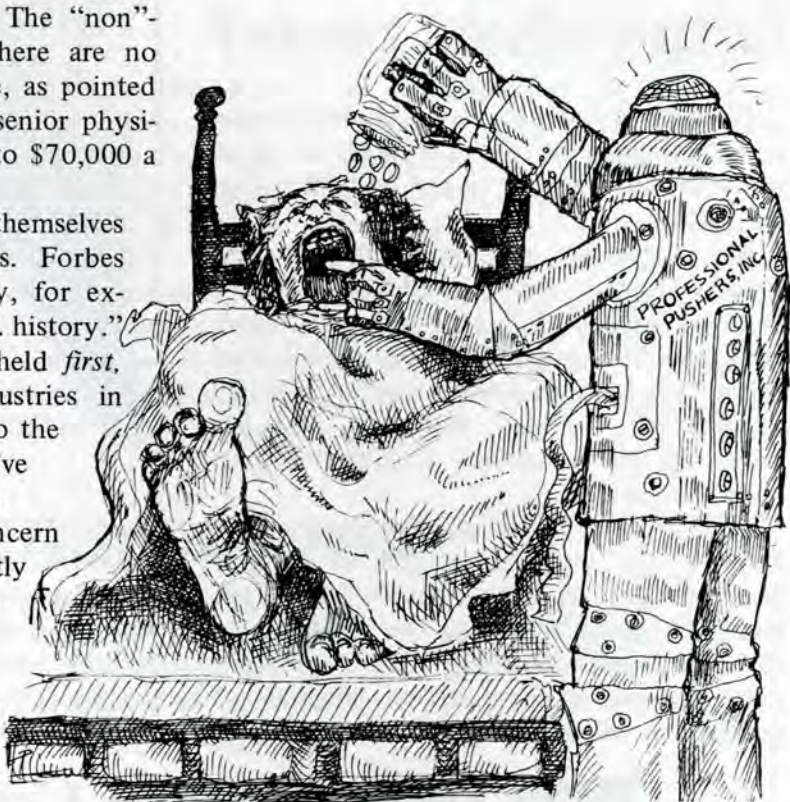
Aren't hospitals non-profit?

Some are, some aren't. The fastest growing sector of the hospital "industry" is the new breed of profit-making hospital and nursing home companies. They build hospitals in well-to-do neighborhoods, turn away all non-paying patients, avoid setting up clinics or emergency services as much as possible, and encourage admission of short-term patients in order to get a high "turnover rate" of customers. Many of the practicing doctors are stockholders. These hospital and nursing home "chains" had revenues of about \$4 billion in 1970. They are all very profitable, as any Wall Street broker would tell you.

Much more common is the privately-owned, *non*-profit hospital and the municipally-owned hospital. The "non"-profit is a little misleading though. True, there are no stockholders receiving dividends. But there are, as pointed out above, very well paid administrators and senior physicians making "profitable" salaries of \$40,000 to \$70,000 a year.

More importantly, even if the hospitals themselves aren't profit-making, the medical industry is. *Forbes* business magazine describes the drug industry, for example, as "one of the biggest crap games in U.S. history." In the last ten years, the drug industry has held *first, second, or third place* among all U.S. industries in terms of profitability. Most of the profits go to the top 15 drug companies (out of 700) who've cornered more than half of the \$15 billion plus drug sales market. Despite their advertised concern for quality drugs, the companies are apparently much more concerned with sales — they spend 3 times more on advertising than on research and development.

Then there's the hospital supply industry, selling billions worth of sheets, computers and expensive diagnostic equipment to the hospitals. Profits have been increasing dramatically, putting hospital supply companies up with the drug companies in terms of profitability.



But doesn't new equipment improve health services?

Not really. What benefits can patients expect when Mount Sinai Hospital, for example, installs a \$750,000 "hyperbaric" chamber? The chamber costs \$600,000 a year to operate and is used an average of only 190 times a year. It's probably saved some patients' lives. But for the same cost, Mount Sinai could treat 20,000 additional patients a year in its outpatient clinics, people with general medical problems like lead poisoning, back strains or ear infections. The expensive "hyperbaric" chamber doesn't help the majority of patients — all it does is increase their bills since the hospital spreads some of the chamber's costs over *all* the patients.

Hospitals invest millions a year in fancy new equipment while basic services for the majority of patients deteriorates. In many cases the hospitals buy equipment regardless of whether patients need it. In New York City, for example, there are 15 open heart surgery units: 7 of those units do 83% of all open heart surgery in New York City; the other 8 units do only 17%. For these eight, the costs to the hospital (and consequently the patients) of the unused units is enormous. 32

Q. So why are the hospitals on a shopping spree for new equipment?

Because even if the patients don't benefit, the medical "profession" will. Fancy operations with complex equipment increases the prestige and salary of the surgeons and doctors involved. Hospitals with open-heart surgery units or hyperbaric chambers can attract doctors and lucrative research grants from universities and the government. And the equipment manufacturers make a bundle off the sale of their expensive machinery. All these interests meet together on the hospital's board of directors, which usually includes doctors, administrators and representatives of big business.

Does Blue Cross help reduce costs?

Blue Cross is a non-profit insurance company that, in return for a monthly fee, pays (some of) the hospital bills of over 70 million subscribers.

Blue Cross was once regarded as a great social reform. As the Health Policy Advisory Center describes it: "For millions of Americans faced with economic catastrophe if they get sick, it has meant their hospital bills will in large part be paid. But Blue Cross has grown up into a monster. It is pricing itself out of peoples' reach. . ."

Blue Cross is now as guilty as the medical industry for the soaring cost of medical insurance. Because it pays almost 70% of the hospitals' costs (counting its handling of Medicare reimbursements), Blue Cross could exert tremendous pressure on hospitals to reduce their prices.



Instead, Blue Cross' contracts with the hospitals encourage waste: *whatever* a hospital says it needs, Blue Cross generally pays. It rarely investigates why some hospitals charge more for the same service than others; it rarely questions the hospital's purchase of expensive equipment; it doesn't care about high salaries.

Why doesn't Blue Cross protect us?



Because Blue Cross *is a creation of the hospitals*. In 1929, Baylor University Hospital in Dallas, Texas noticed the unpaid bills of local school teachers were piling up. The hospital therefore proposed that teachers regularly pay a small monthly fee in advance to the hospital — in return, Baylor guaranteed up to 21 free days use of a hospital room. The idea quickly spread as other hospitals set up pre-paying plans and then a central plan — Blue Cross.

So Blue Cross was set up by the hospitals essentially as a bill-paying agency. Even now, the trademark "Blue Cross" is still owned by the American Hospital Association, and about 2/3 of the trustees of Blue Cross plans are either hospital administrators or doctors. The rest are usually businessmen, with a sprinkling of consumers and union leaders.

The result, as the Health Policy Advisory Center puts it, is that "when hospitals negotiate their reimbursement contracts with Blue Cross, they are essentially negotiating with

themselves." The hospitals aren't pressured to reduce waste, padded expenses or high salaries — they pass those costs on to Blue Cross, which in turn passes them on to us.

A representative of the International Union of Electrical Workers put it another way at recent Blue Cross rate hearings in New York: "Why hasn't A.H.S. (Blue Cross) been the voice of the consumer? The reason is that A.H.S. is dominated by people with an interest in medical income."

Do Medicaid and Medicare help?

Passed in 1965, Medicaid is a federal program that funds states who provide medical services for low-income patients. Medicare covers elderly patients. For the first two years, both programs did make treatment cheaper for millions of Americans. But in 1967, Congress slashed Medicaid funds and made the program unavailable to anyone above a welfare income.

In the meantime, like Blue Cross, little effort is made to regulate or control costs — the government simply forks over whatever the hospitals or doctors want. The inevitable result is waste, inefficiency and soaring costs. In the first year of the Medicaid and Medicare programs, doctors' unregulated fees rose 2 1/2 times as fast as the

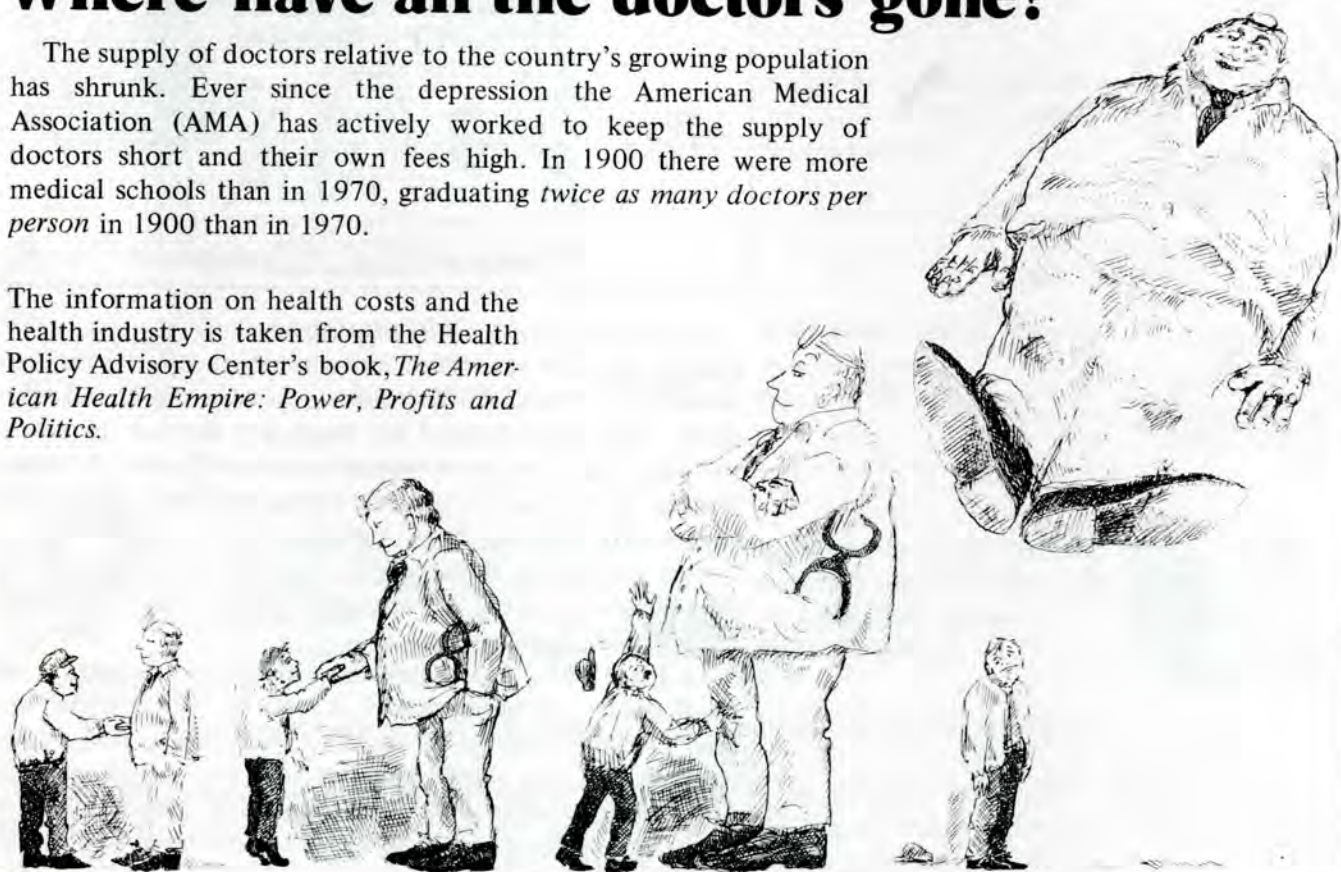
overall cost of living; hospital costs rose four times as fast as the cost of living.

The biggest beneficiary has been the "medical-industrial complex" of hospitals, doctors, drug companies and hospital supply companies. The virtually unregulated flow of federal money has financed more drug sales, more specialized research projects, more purchases of flashy and expensive equipment. Business loves the programs. "Medicare is the computer manufacturer's friend," exclaimed the business journal *Electronic News* in April, 1968.

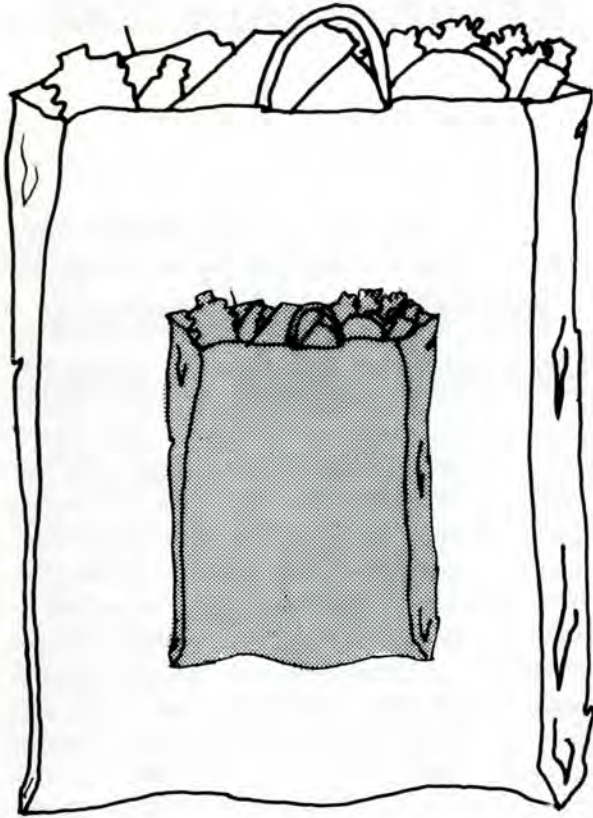
Where have all the doctors gone?

The supply of doctors relative to the country's growing population has shrunk. Ever since the depression the American Medical Association (AMA) has actively worked to keep the supply of doctors short and their own fees high. In 1900 there were more medical schools than in 1970, graduating *twice as many doctors per person* in 1900 than in 1970.

The information on health costs and the health industry is taken from the Health Policy Advisory Center's book, *The American Health Empire: Power, Profits and Politics*.



Q. How bad is inflation?



A. Even the government's statistics paint a gloomy picture: on the average, things which cost \$1.00 in 1967 cost \$1.30 in 1973. In the first three months of 1973, consumer prices rose at an annual rate of over 8%. And the future doesn't look much better: wholesale prices — the price stores pay to stock goods — are rising even faster than consumer prices. In March of 1973, wholesale prices rose at an annual rate of 26%, *the sharpest climb in 22 years*. Wholesale price increases eventually work their way into consumer prices, which means bad news for shoppers in the months ahead.

The government claims most of the price rises are limited to food. Wholesale food prices are in fact wildly out of control — increasing at an annual rate of 53% between December of 1972 and March of 1973. But the wholesale price of manufactured goods jumped 21% in the same period, the steepest rate since 1951. (Bureau of Labor Statistics.)

Has inflation been this bad before?



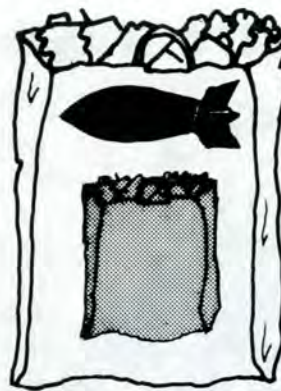
Sometimes, but usually during wars. In the case of the United States, wars have always meant an expansion of production and jobs. With more people working and taking home wages, the demand for goods and services increases — but there usually aren't enough goods and services because civilian production is cut back during wartime. More money tries to buy (relatively) fewer goods.

One problem is that the U.S. has been at war for the last 30 years or so — or if not actually fighting a war, then getting ready for the next one.

In the 1930's, the federal government maintained a very small military establishment — a total of only 200,000 or so men in the armed forces in 1938. With WWII, that number ballooned to over 3,000,000. But with the "post"-war years, the number hardly went down at all. In fact, the military budget grew larger and larger until it now hovers in the area of \$80 billion a year.

What difference does the military budget make?

Military spending leads to increases in demand for consumer goods as workers in the war industries spend their wages — but military spending *doesn't* increase the supply of goods consumers are trying to buy. For example:
(Material prepared by SANE)



What your taxes could buy:



One A-6E "Intruder" plane
for Vietnam.
Price: \$9,000,000

OR:

257 apartments at \$35,000
each. Price: \$9,000,000



One 20 mm canon for Viet-
nam. Price: \$200,000

OR:

Eight single-family houses
at \$25,000 each.
Price: \$200,000



Cost overrun on F-111
plane. Price: \$4 billion

OR:

A visit to the hospital clinic
for 120 million people.
Price \$4 billion



Eventual cost of weapon
systems now being planned.
Price: \$105 billion

OR:

Estimated cost of environ-
mental cleanup.
Price: \$105 billion



Overrun to date on B-1
bomber. (Not one proto-
type has yet been com-
pleted). Price: \$1 billion

OR:

Child care program for child
nutrition, health, day care
— vetoed by Nixon.
Price: \$1 billion



If the billions invested in military production and the war in Vietnam were used instead for housing, medical facilities, food, mass transit, and consumer

goods in general, then prices would go down — because it's the relative shortage of these goods that helps corporations to raise prices.

Q. Don't wage increases cause inflation ?



A. The government and the press try to take the heat off big business by putting the blame on workers — workers are too greedy, they claim, unions have “dictatorial” power over the economy, wage demands are unreasonable and selfish.

But the government's own statistics show that wage increases aren't the cause of inflation — they are a response to inflation. The spendable income of the average worker went from \$78.99 a week in 1965 to \$95.94 a week in 1970, but prices rose so much faster that the higher wages bought *fewer* goods. *Real* income, measured in terms of what dollars can buy, actually fell between 1965 and 1970 by \$1.10. (U.S. Dept. of Commerce, *Statistical Abstract*.)

Workers fought back and won sizeable wage increases in 1971 and 1972. Their wage demands were a *response* to inflation: there's no doubt here about which came first, the chicken or the egg — inflation came first, driving down weekly income, and unionized workers fought back as best they could to regain lost ground.

By 1972, average spendable weekly earnings had risen a meager \$4.25 higher than the 1965 level. The so-called “greed” of workers, therefore, averages out to a 60¢ increase in real weekly income each year over the 1965-1972 period. Most dictionaries would call that a pittance.

The government and big business think workers should make the sacrifices necessary to curb inflation — the sacrifice being a ceiling on real income. They identify big wage increases as unpatriotic and self-serving — all of which obscures the incredible inequality of income in the U.S. Wage demands of *any* size by workers can hardly be called greedy when the richest 1/5 of the population takes home 42% of total income while the poorest 1/5 gets only 5%. (*Business Week*, 8/12/72.) Winning wage increases from the wealthy is for many workers like drawing blood from a stone. Only 25% of the labor force is organized, and more and more workers find themselves bargaining with giant corporations controlling subsidiaries around the world and in dozens of industries.



**So- who's
to
blame?**

The preceding pages have covered five areas of the average American's budget: housing, utilities, food, transportation and health. Prices have risen steeply in all five areas — and in most cases there is a small group of owners at the top who get rich from those price increases. We gave examples of industries where ownership is so concen-

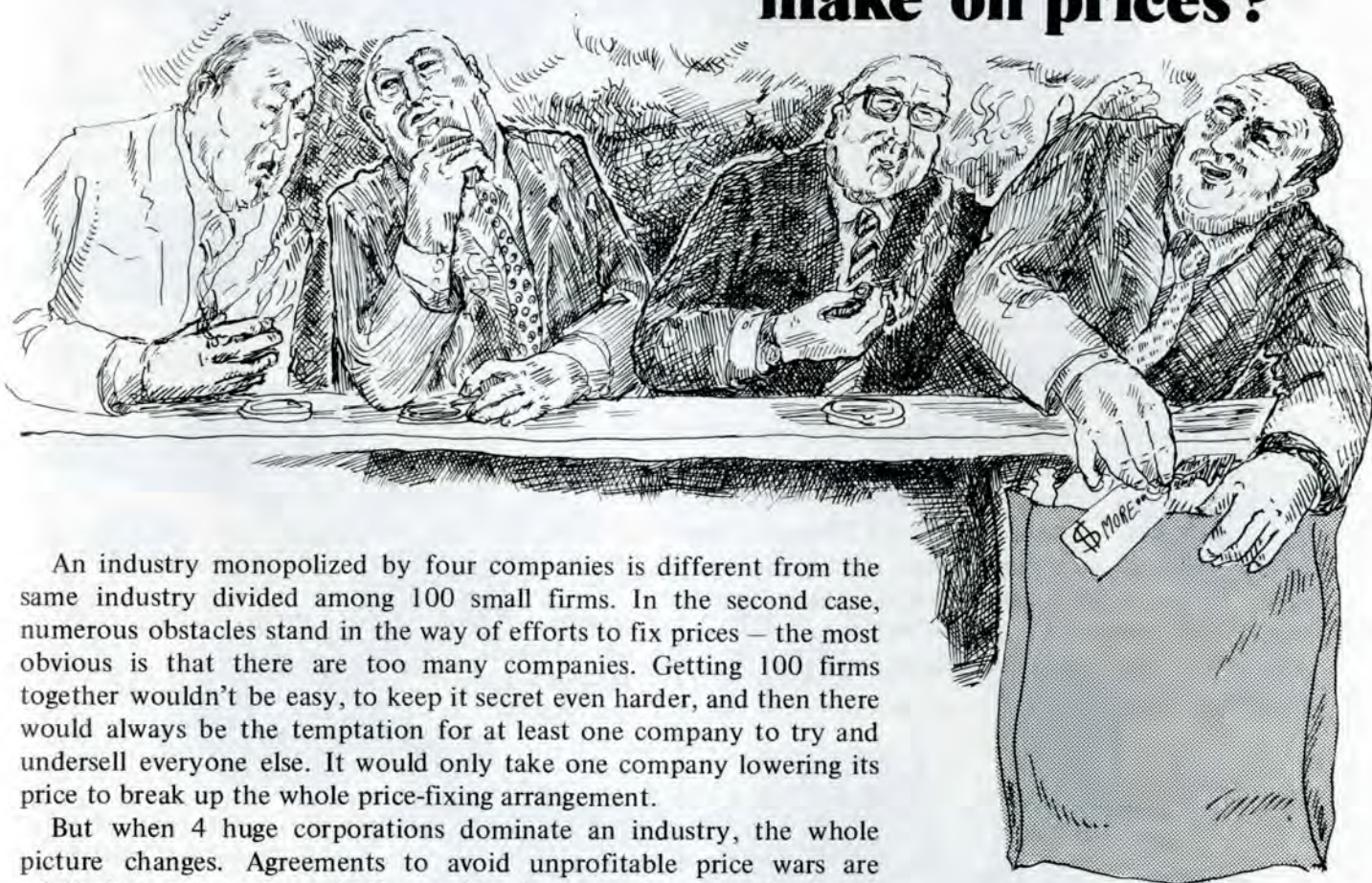
trated in a few hands that prices can be set at artificially high levels – for milk, for meat, for cars, for electrical machinery . . .

With monopoly power over their markets, the large corporations can resist efforts by workers to redistribute income through higher wages. Rather than pay for those wages out of profits, they can pass the cost of the wage increase *back* to workers in the form of higher prices.

So in the struggle between workers and the corporate rich over the distribution of income, the corporate rich wield the biggest club: the monopoly power of their corporations. The club gets bigger and bigger. The country's 200 largest corporations control over 60% of all manufacturing assets – in 1929, they controlled only 47%. By comparison, 440,000 small corporations, partnerships and individually-owned companies control *only* 25% of total manufacturing assets. (House Committee on Judiciary, *Investigation of Conglomerate Corporations*.)



What difference does monopolitization make on prices?



An industry monopolized by four companies is different from the same industry divided among 100 small firms. In the second case, numerous obstacles stand in the way of efforts to fix prices – the most obvious is that there are too many companies. Getting 100 firms together wouldn't be easy, to keep it secret even harder, and then there would always be the temptation for at least one company to try and undersell everyone else. It would only take one company lowering its price to break up the whole price-fixing arrangement.

But when 4 huge corporations dominate an industry, the whole picture changes. Agreements to avoid unprofitable price wars are relatively easy to set up. As few as 4 or 5 companies are involved, and the executives of these large "rival" corporations see quite a bit of each other – through common ties to banks and other financial institutions, common membership in trade associations or country clubs, and at upper class resorts and social functions. They travel in the same high circles and have the same interest in insuring their profits against costly price wars.

So, they agree to compete in the area of advertising and style, but

not in price. The companies may also agree to set up loose production quotas for each company as a way of limiting supply – when the supply of oil or coal or whatever falls below consumer demand, prices and profits generally go up.

Q. Don't large companies still compete for quality?

Sometimes, but only if it's profitable. Car companies put in new safety features and claim to be "concerned" for the consumer — but only after Ralph Nader and a couple of congressional investigations badly embarrassed them. For the most part, corporations are consistently innovative only when it comes to introducing flashy gimmicks to attract consumers, or new machinery to speed up production and reduce labor costs.

In fact, there are numerous examples of companies *suppressing* innovations that threatened their established control over a market. We gave the example of AT&T successfully fighting the introduction of satellite communications in the U.S. There are more:

(Examples from: Stockings and Watkins, *Cartels or Competition*; Arthur Bright, *The Electric Lamp Industry*; *Contemporary Issues*, No. 3, 1949.)

- In 1936, Monsanto Chemical and Standard Oil suppressed a **high-quality lubricant** because it would have reduced the sale of similar products manufactured by the same firms, products which gave more profit than the new oil because they were less effective and sold therefore in greater quantities.



- The **fluorescent light** was invented in 1930. Ten years later, GE and Westinghouse were still ordering their salesmen not to mention the cost-saving features of fluorescent lighting. The companies wanted to be able to sell obsolete bulbs with shorter life spans — shorter life spans meant more replacement sales.

- The **stainless steel blade** was introduced in the U.S. in the mid-1960's. But it had been invented and developed years before. Gillette didn't introduce it because Gillette already dominated the old "blue" blade market — and the stainless steel blade would mean reduced sales because it lasts longer than the blue blade. Gillette was forced to market a stainless steel blade only when an English company started importing them to the U.S.



- Shortly after WWII, the firm of Tucker designed a **rear-engined car** for the American market which provided for the removal of the engine as a unit to facilitate repairs. GM, Ford and Chrysler would have nothing to do with it and actively suppressed the introduction of the design into the American market. Their older, technically obsolete designs were more profitable. Years later, Volkswagen's stiff competition forced the big three to introduce more efficient, low-cost compacts.

How many industries are monopolized by big corporations?

Almost all the major ones. 265 companies used to make cars: now 4 companies control 80% of car sales in the U.S. (House Committee on Judiciary, *Investigation*.) In 1950, there were 440 beer companies in the U.S.: now there are less than 70, and 4 control over half of all U.S. beer sales. (*Business Week*, 3/24/73.) The same process of concentration of wealth under a few corporations has worked its way through many of the U.S.'s major industries.



For the United State's 213 major manufacturing industries, the top 4 companies in each case control an average of 42% — almost half — of the market. (House Committee on Judiciary, *Investigation*.)

Q • Don't anti-trust laws prevent monopolization?

A. The government prosecutes a few big cases and lets most of the rest by. "Mergers" — where two corporations merge together to make one big company — haven't been reduced at all by anti-trust laws. In fact, mergers have reached record heights in the last decade, with up to 1,500 mergers a year. In 1950, by comparison, there were only 219 mergers. (House Committee on Judiciary, *Investigation*.)

What has changed is that over 80% of the recent wave of mergers have been of the "conglomerate" type: that is, between companies in completely different lines of business.

What effect does that have on prices? An example comes from the recent House Judiciary Committee's study on conglomerate corporations. ITT buys raw materials and semi-finished goods from many suppliers in the course of manufacturing bread, books, pumps, street lights, etc., etc.; ITT also owns Avis Rent-A-Car. What ITT does is say to its suppliers, "look, we buy from you, why don't you rent cars from us." Many of ITT's suppliers now rent cars from Avis — *not* because the price is right, but because the supplier doesn't want to antagonize ITT and lose its business.

How much faster do monopoly prices go up?

A Professor Robert Lanzillotti studied price changes in the 1940's and 1950's. He compared prices in industries with little or no concentration with prices in monopolized industries. His findings were pretty dramatic: between 1947 and 1952, for example, prices in the competitive industries rose by 12% while prices in the monopolized industries rose by 23%. Similarly, from 1954 to 1957, prices in the competitive industries rose by only 5%; prices in the monopoly industries went up 16% — *three times as fast*. (Hearings before *Joint Economic Committee*, 86th Congress, 1959.)

A 1972 Federal Trade Commission study showed that consumers were overcharged \$15 billion a year by inefficiency and monopolistic pricing in 100 manufacturing industries.

In 1972 the U.S. Justice Department at first balked at ITT's acquisition of Hartford Fire Insurance Company. Although ITT is one of the world's largest companies the government nevertheless eventually decided not to block its growth. The ensuing scandal revealed that ITT secretly contributed \$400,000 to the Nixon campaign fund during the investigation. The merger still stands.



Research and Development

Peterson School of Business, Allied School of Mechanical Trades, Inc. Speedwriting Inc., Bailey Technical Schools, Inc. ITT Business Institute, Inc. Bramwell Business College, Hamnell Business University, Electronics Institute of Technology, The Office Training School, Applied Institute of Technology, Temple School Inc.

ITT Aerospace/Optical/Electro-Physics Labs, Inc. Farnsworth Research Corp., (satellites, communications) Industrial Laboratories Division, ITT Electron Tube Division, (defense, space, marketing), Sterling Design Co., International Standard Engineering Inc. Co., ITT Management & Research, Inc. ITT Data Service (Navy contracts)

The ITT "Conglomerate"

Henze Valve & Instrument Co., Barton Co., Stover Tanks Co., Thompson Industries Inc., Meats Motor Livery Corp., ITT Semi-Conductors, Brooks General Controls Co., Ltd. ITT Systems Construction, Inc. Heating and Air Conditioning, Hays Furnace Company, Marlow, ITT Pasco Inc., ITT Wakefield, Leiman International Electric Corp., Amplex Corp., Vulcan Electric Co., Art Metal Lighting, ITT Resnor, ITT Nesbitt, Mass. Trades Shops Corp., Barfield Cleaning Co., United Building Services, City Building Maintenance

ITT Federal Support Services, Inc. ITT Technical Services, Inc. Federal Electric Corp. ITT Aero-space (NASA, OEO, Air Force, Navy, space) ITT Health, Life and Accident Insurance, Hartford, ITT Aetna Corp., Fire Insurance Co., ITT Hamilton Life Insurance Co., Lyndon Life Insurance Co. of Canada, Lyndon Life Insurance Co. of New York Ltd. Aetna Electric Co., Consolidated Electric Lamp Co., Amplex Photo Lamp Corp., Got-ham Lighting Corp., ITT Lamp Division, Lustra Corp., Vulcan Electric, ITT Illumination Inc., Champion, Inc., Clamps, bulbs, photo flashes, lighting fixtures), Press Wireless Inc., The Commercial Cable Co., All American Cables and Radio Inc., American Cable and Radio Corp., Radio-y Television Inc.

ITT Jasper Blackburn Co. (electric parts) Royal Electric Co. Ltd. ITT Electron Tube American Electric Manufacturing Corp. (Street lights), ITT Lighting Fixtures, ITT Cannon Electric Manufacturing, International Standard Electric Corp. of New York Ltd. Aetna Electric Co., Consolidated Electric Lamp Co., Amplex Photo Lamp Corp., Got-ham Lighting Corp., ITT Lamp Division, Lustra Corp., Vulcan Electric, ITT Illumination Inc., Champion, Inc., Clamps, bulbs, photo flashes, lighting fixtures), Press Wireless Inc., The Commercial Cable Co., All American Cables and Radio Inc., American Cable and Radio Corp., Radio-y Television Inc.

Howard W. Sams Inc. (magazines, books) The Bobbs-Merrill Co., ITT Education Services Inc., The Research & Review Service of America, Maniquis, Johns, G.K. Hall Corp., ITT Technical Services, Inc.

Sheraton Corp. of America (Sheraton, Biltmore, Four Ambassadors, Ritz, Park Sheraton, Cleveland Motels (Holiday Inns) etc. Sheraton/Thompson Inc. operates hotels, apartments, office buildings, APCOA - Airport Parking Company of America (also operates buses, taxis, limousines) Transportation Display Co. (advertising + timetables) Airport Advertising Company, ITT Consumer Services, Corp. (Airport Parking & Motel Companies) ITT Avis Rent-a-Car National Auto Renting National City Truck Rental State Auto Parks Thompson Industries Inc. (Auto moldings + accessories)

Central America Cables & Radio Inc. ITT Caribbean Industrial Products Inc. ITT Geophysical, Inc. ITT Latin America, Inc. ITT Far East & Pacific Inc. ITT Export Co., ITT World Communications, Inc. ITT Europe, Inc. Puerto Rico Telephone Co., ITT owns plants & companies in Argentina, Australia, Austria, The Bahamas, Belgium, Brazil, Canada, Chile, Colombia, The Congo, Cuba (1), Denmark, England, Finland, France, Germany, Greece, Hong Kong, Iran, Ireland, Italy, Indonesia, Jamaica, Luxembourg, Mexico, Morocco, Malaysia, New Zealand, Nigeria, Norway, Northern Ireland, the Netherlands, Panama, Peru, Portugal, Puerto Rico, The Phillipines, Rhodesia, Scotland, South Africa, Spain, Sweden, Switzerland, Surinam, Thailand, Tunisia, Turkey, Uruguay, Venezuela, the Virgin Islands, and Zambia, producing electric and lighting equipment, telecommunications, radio, auto & electric parts, motors, pumps, bakery & frozen foods, metals, hardware car rentals, parking, hotels, motels.

Q. What effect do wage-price controls have?

A. Wage-price controls are most successful in controlling wages; they are less successful in controlling prices; they have virtually no effect on profits — except to increase them.

It's easy to impose a wage ceiling. All the government does is encourage business to do what it always does — pay workers as little as it can get away with. Government wage controls simply allow businessmen to wrap themselves in the flag when they resist wage increases. But there's no comparable ready-made machinery for regulating prices — business can't be trusted and the government won't commit itself to checking the weights and prices of hundreds of thousands of individual products.

Any attempt to control profits would meet tremendous opposition from the powerful investors who finance both the Republican and Democratic parties and have enormous influence on American political life. Both Nixon and Johnson placed rich stockholders and their friends in almost every important position in government.

As an example of how controls work, we'll look at the effect of "Phase II" of Nixon's wage-price controls on:



Wages: In the first half year of Nixon's Phase II, the Nixon pay board limited wage increases to an average of 4.13%, well under the board's own guidelines of 5.5%. That 5.5% guideline was in effect from Nov. of 1971 to January of 1973. (*Fortune Magazine*, April, 1972.)

Executive salaries: Meanwhile, the pay of top corporate executives jumped almost 14% during 1972. Here are some examples:



	'71 salary	'72 salary	% increase
J.D. Harper — Alcoa	\$324,000	\$386,000	37%
L. Townsend — Chrysler	\$210,000	\$650,000	110%
M. Bluementhal — Bendix	\$176,000	\$266,000	51%
G. Weyerhaeuser — Weyerhaeuser	\$195,000	\$305,000	56%
R. Sarnoff — RCA	\$275,000	\$341,000	24%
C. Siverd — American Cyanamid	\$247,000	\$316,000	27%
B. McCormick — International Harvester	\$190,000	\$258,000	36%

(*Business Week*, 5/5/73.)

Profits:

Profits soared during 1972 to record heights of \$52 billion, a 12% increase over 1971. Profits increased in 35 out of 36 industries surveyed by Standard & Poor's:

% increase in profits over 1971

Airlines	115%
Steel	98%
Metals and Mining	87%
Special Machinery	71%
Paper	66%
Aerospace	105%
Beverages	9%
Oil	9%
Trucking	8%

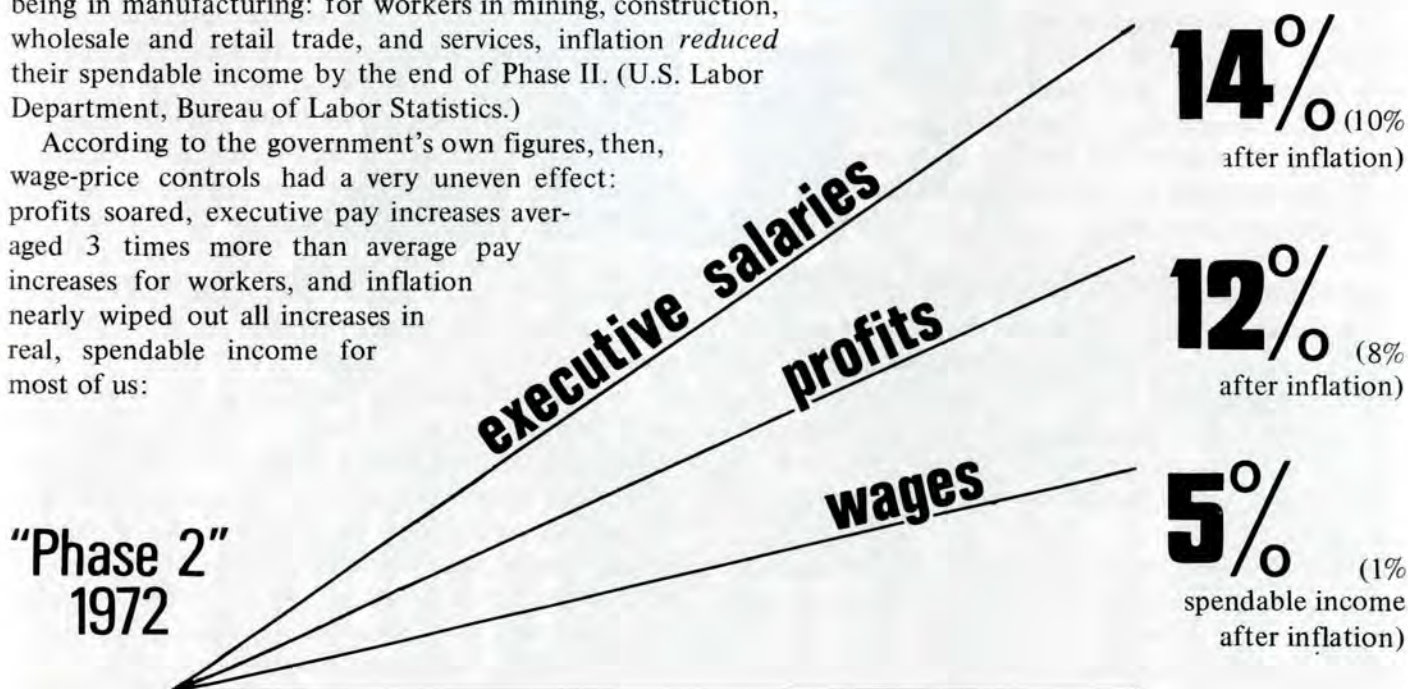
(*Business Week*, 3/10/73.)



Prices:

Inflation slowed down significantly in the opening months of 1972 – but by the end of the year it was rapidly increasing again. In the last year of Phase II (Feb. 1972 to Feb. 1973) consumer prices increased by almost 4% according to government statistics – which meant that the modest wage increases of workers under Phase II were largely wiped out by the reduced buying power of the dollar. *Real*, spendable earning went up only 1%, most of the increase being in manufacturing: for workers in mining, construction, wholesale and retail trade, and services, inflation *reduced* their spendable income by the end of Phase II. (U.S. Labor Department, Bureau of Labor Statistics.)

According to the government's own figures, then, wage-price controls had a very uneven effect: profits soared, executive pay increases averaged 3 times more than average pay increases for workers, and inflation nearly wiped out all increases in real, spendable income for most of us:



Statistics vs. real prices....

Government statistics don't tell half the story. For one thing, they fail to take into account the numerous invisible price increases companies pass on to consumers, things you don't catch unless you carefully weigh or inspect the product. The Hershey 10¢ candy bar is a good example. The price of their candy bar hasn't changed for decades. But the amount of chocolate in the bar has dropped from 2.0 ounces in 1965 to 1.2 ounces in 1973. That's 37% less chocolate in 1973 for your dime than in 1965. But as far as the government statistics are concerned, the price of the Hershey chocolate bar hasn't gone up. (*Boston Globe*, 3/9/73.)

Q. What's the solution?

The solution is determined by the problem — and the problem *isn't* wage increases. Any wage increase is justifiable as an effort by workers to correct the inequality of income in the United States. As long as a small class of stockholders monopolizes the country's wealth, all efforts by workers to chip away at that pile of gold should be supported.

The immediate problem is that the giant, privately-owned corporations can stymie efforts to redistribute income by raising prices. And the bigger the corporations become, the easier it is for them to fix prices at high levels.

Simply breaking up the monopolies won't solve the problem. After all, they didn't form by some fluke. Capitalism begins as a fight between many small companies; eventually, a few companies win the fight and start to collect the spoils — at everyone else's expense. Breaking up the monopolies wouldn't *permanently* eliminate them: the "fight" would simply start over again, leading to a new set of "winners."

Monopoly and inflation are stems of the same weed. Their common root is the tiny minority of wealthy Americans who control the economy. As long as they rule, there will be no economic or social democracy — corporations will price-gouge and overwork the majority of Americans to increase the minority's profits. So the solution has to be in the area of *who controls the economy*.

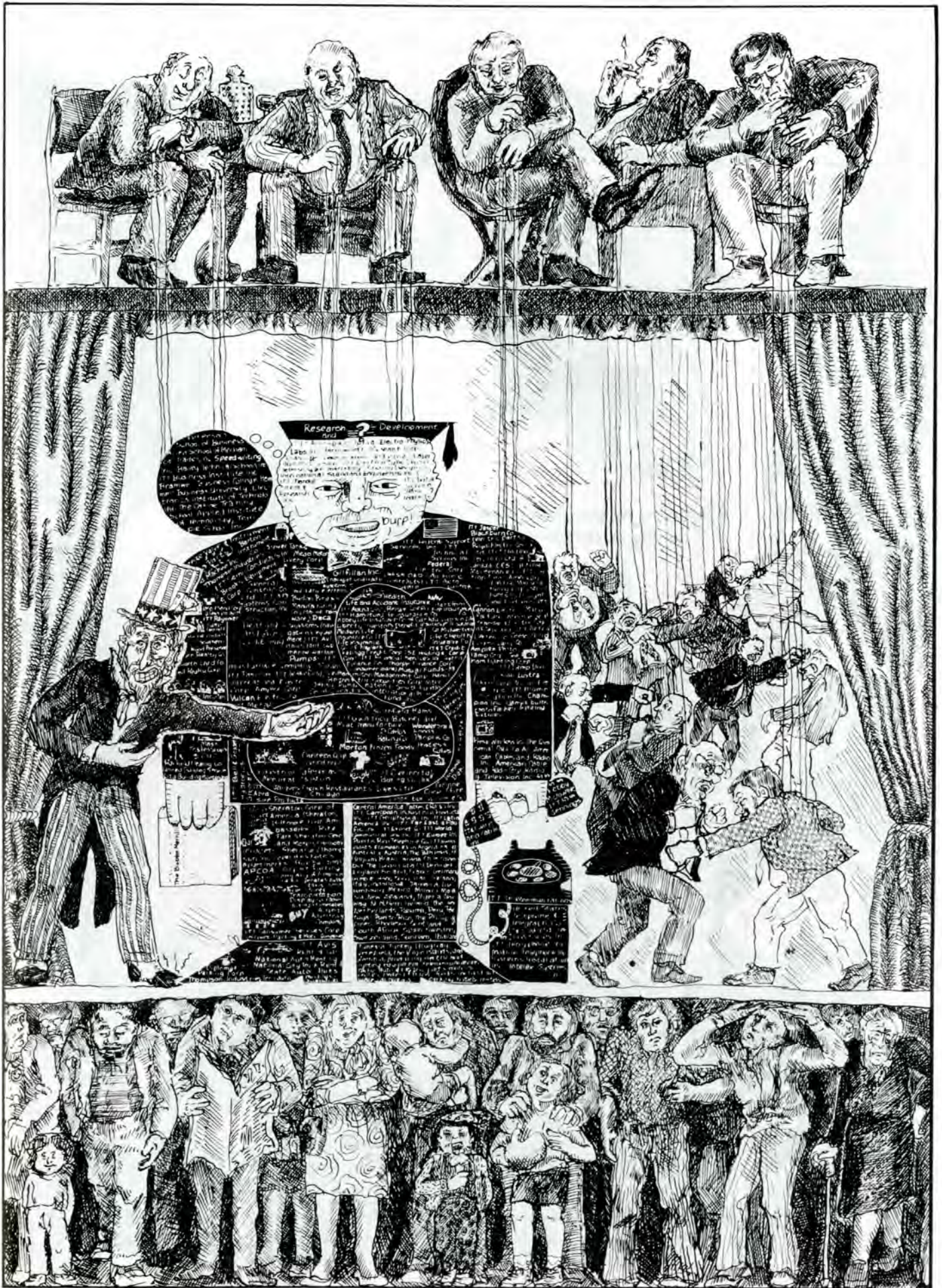
The first step is for working people to assert control over corporate price policy by demanding that wage increases be paid for out of profits, *not* out of higher

books tell us so little about the recent past. In 1946, the United Automobile Workers demanded "Wage Increases Without Price Increases" during negotiations with General Motors. When GM insisted such a demand was "economically" impossible, the union demanded the company open its books and prove it, something GM refused to do.

A strong consumers' movement could also help put a lid on prices by organizing rent strikes and pressuring for strict rent control laws; by organizing neighborhood food co-ops to buy food in bulk to circumvent the supermarkets; by supporting boycotts against price-gouging or anti-union corporations; and by demanding strict price controls enforced by neighborhood consumers' councils.

We should make sure we know what the government is doing to support big business, and demand — through the action of our own grassroots political organizations — that these policies be stopped. Our own interests as workers and consumers should be supported by government, not the profits of rich stockholders who are already getting something for nothing.

All these things would help, but in the long run the only solution is to put industry *entirely* under the democratic control of the workers and communities who make production possible. Instead of reflecting monopoly profits and unnecessary advertising and styling costs, the price of a product could then be lowered to the real value of the labor and materials that went into it. And income would go to those who do the work, not absentee owners.

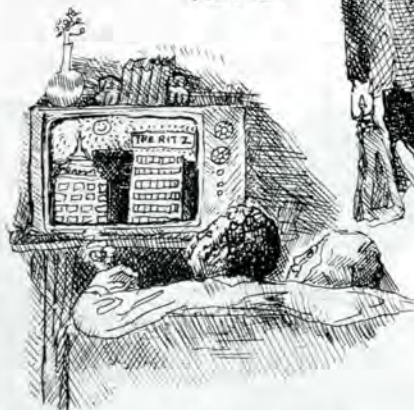


Aren't most Americans pretty well off?



MOST AMERICANS HAVE NEVER STAYED IN A HOTEL.

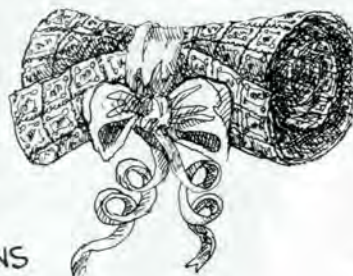
IN 1967 **HALF** THE POPULATION DID NOT TAKE AN OVERNIGHT TRIP OR VENTURE OVER 100 MILES FROM HOME.



4 OUT OF **5** AMERICANS HAVE NEVER FLOWN IN AN AIRPLANE.



25% OF AMERICANS BUY THEIR CHRISTMAS GIFTS WITH TRADING STAMPS.



IN THE U.S. TODAY THERE ARE ONLY **12** DOCTORS WHO TREAT PEOPLE FOR EVERY **10,000** RESIDENTS.

IF EVERYONE WHO NEEDED DENTAL CARE NOW HAD IT DONE, IT WOULD TAKE ALL U.S. DENTISTS **10 YEARS** TO CATCH UP.



About the authors:

This booklet grew out of regular meetings of the Popular Economics Group in Somerville Mass. during 1971-1973. Participants were: Steve Babson, Nancy Brigham, Derek Shearer, Hub Stern and Jeannie Winner. Steve researched and wrote the text. He has worked as a researcher at Community Press Service and Urban Planning Aid in Cambridge, Mass., two community oriented organizations recently defunded by OEO. Nancy edited, designed and illustrated the booklet. She is a member of the Cambridge Tenants Organizing Committee (CTOC) and has worked for local newspapers and textbook publishers as artist and writer. Jeannie and Hub helped research various sections. Jeannie works with CTOC. Hub is now a graduate student in sociology. Derek originally organized the group. He has taught political economics at Tufts University and the Cambridge-Goddard Graduate School, and writes regularly for *Ramparts*.

