Automobile Pricing

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At issue in these hearings is the request of five producers of automobiles and trucks to increase the prices of 1973 models to recover costs arising from changes in safety and emission equipment. Even if I were an expert on the accounting procedures used by automobile producers or the details of their pricing, I would prefer to discuss a somewhat broader question: Is there some way of separating the private and social benefits of the decision? Even if the man in the street, or the members of some vocal group, or the members of this body believe that automobile producers should charge less and earn less, it is useful to ask whether society is better served by a decision to grant or to refuse the pending requests.

Chairman Jackson makes two main points on the social benefit of preventing the increase in his statement of August 29. One is that automobile prices significantly affect the economy and the consumer. The other is that higher automobile prices would revive inflationary expectations. Let me take up these points briefly.

One great problem in using price and wage controls is that the symptoms of inflation are interpreted as causes of inflation. Attention shifts from the problem of reducing inflation to the task of assuring that price index numbers do not rise or do not rise very much. Prices that enter the index with large weights get more attention than prices that enter with small weights or that do not enter the index at all. The attempt to control
to buy more automobiles and more of other goods and services than they
would have been able to buy if auto prices were a bit higher.

The prices of other goods and services rise more than they otherwise
would have increased. The price index, properly measured, would be no
different in one case than in the other. Only the components will be
different.

The effects of the decision do not stop there. The relative decline
in the price of automobiles and in the profits of automobile producers
affects the way in which we use resources. Faced with lower prices and
profits, the automobile industry will produce less, invest less, and
expand less; other industries will be encouraged to produce more, invest
more and expand more. Instead of market decisions guiding resources to
the uses most desired by consumers operating in the market place, the
constraints you place on individual prices will determine how resources
are used.

Consumer and producer freedom is reduced. Resources are used less
efficiently. The price level and the rate of inflation are unaffected.
In short, the social benefit of this decision is much less than the social
cost.