

in demand occurs in a period when there is much excess capacity, as happened in World War II in the United States, then to that extent the increase in demand may very well be offset to a substantial degree by a rise of output. It is of some interest, as Professor Slichter points out, that for 11 countries the increase in the price level from 1953 to 1957 was substantially less, on the average, than the increase from the years 1948 to 1953. The explanation of this fact might very well be that, having once recovered from the disorganization caused by war, these countries are able to increase output, raise their incomes and provide less inflationary monetary and fiscal policies as the result.¹⁴

RECENT MOVEMENTS OF PRICES AND OUTPUT IN INDIVIDUAL INDUSTRIES

Perhaps a word should be said about the relationship between output and prices in individual industries.

In one respect, one might expect the greater the rise of output in any one industry the lower its prices would be relative to an earlier period. This would be based on a theory that increasing output results in better use of capacity and lower unit costs. Costs tend to fall in the period of rising output on the upward swing of the business cycle though in later stages with increased pressure and bottlenecks, the unit cost may tend to rise.

In the first study paper¹⁵ Professor Schultze presents effectively the general theory that at least from 1955 to 1957 there is a fairly high correlation between the rise of prices and that of output by industries. His conclusion is:

During the 2 years after 1955, total aggregate output and industrial production rose very slowly, and by significantly less than the increase in productive capacity. Aggregate demand was not excessive. The demands for capital goods, for exports and military equipment, however, were in excess of potential supply, while housing and auto demand fell well below the capacity of the two industries. Instead of a realignment of relative prices around a stable center, prices of almost all final goods and services rose. Price increases were generally larger for those goods in excess demand, but were not confined to those goods alone * * *.

He also writes:

* * * On the average, stability of output was associated with substantial price rise. But aggregate output rising less than capacity however, there was no aggregate excess demand over this period * * *.¹⁶

For the years 1947 to 1957 I examined the rise of wholesale prices and of industrial output in a number of industries where relatively comparable figures were available.

¹⁴ Ibid., p. 12.

¹⁵ Charles L. Schultze, "Study Paper No. 1—Recent Inflation in the United States," September 1959.

¹⁶ Ibid., pp. 111 and 113.