

STUDY PAPER NO. 10

POTENTIAL PUBLIC POLICIES TO DEAL WITH INFLATION CAUSED BY MARKET POWER

(By Emmette S. Redford¹)

INTRODUCTION

This paper deals with the inflationary threat inherent in wage setting and pricing practices in large organizations of labor and capital. It states the problem of cost-push inflation, discusses generally and briefly the applicability and adequacy of various approaches in public policy to the problem, and points up in more detail the specific administrative problems involved in direct Government limitation or surveillance of wage and price increases by organizations with considerable market power.

The paper is intended to serve only as an introduction to the problem. The issues outlined are so broad and complex that it may be expected that they will be the subject of study by many task forces dealing with the problem of inflation in the future.

I. INFLATIONARY CONCENTRATIONS OF MARKET POWER

It can be assumed that there is a public interest in avoidance of inflation, and that inflation is manifested in the price level. There is also evidence now that inflation may be caused in two ways. One is through an increase in demand so as to put pressure upon the supply of goods, which is commonly referred to as demand or demand-pull inflation. The other is through an independent increase in wages or prices and is called sellers' or cost-push inflation.

Demand inflation has so long been the concern of economists that it forms the classic model of inflation. Sellers' inflation has only recently received substantial attention, in part because it is recognized to be an inherent possibility of the existence of organization power, but in the main because of studies tending to show that it was an important element in the most recent inflationary movement (since 1955) in the United States.

Key economic decisions on wages and prices are now made for vital areas of the economy by organizations of great size and power. Wages are fixed by agreement between organizations; such wages are now often referred to as administered wages. Prices may be fixed by organizations in accord with objectives desired to be attained and such

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