

prices determine or influence the pricing levels for an industry or product; such prices are sometimes called administered prices. Whenever one or more organizations acting singly, concurrently, or jointly have the ability through the administration of wages or prices to exact more income for the amount and quality of labor, capital, commodity or service supplied than could be obtained in the absence of such organizational action they may be said to have market power.

The effective exercise of market power may contribute to inflation in several ways. The first is through the downstream movement (the passing on) of the particular item of cost which is controlled. For example, market power over producers' prices of automobiles or steel will be reflected in succeeding stages of distribution and ultimately in consumers' costs. Because successive sellers often increase their dollars-and-cents markups more than the increase in their purchase costs the amount of the price increase will swell as the commodity moves through successive stages of production and distribution. This pyramiding of prices through the pricing practices of successive groups of sellers enlarges the inflationary effect of original cost increases in producer industries. Second, market power may contribute to inflation if exercised under such conditions as to create a pattern to be followed in other industries, thus creating lateral downstream movements of pyramiding prices which further enlarge the effect of the original exercise of market power. This kind of enlargement of the effects of cost increases is now familiar as a result of the pattern-setting wage negotiation and the pattern-setting price movement of firms in a leadership position. Third, exercises of market power may give rise to repetitive cycles of wage-price or price-wage increases. These cycles, after the manner of the chicken and the egg cycle, may lead to an inflationary spiral which feeds upon itself. Thus three types of chain reaction may be created by the exercise of market power: the direct, pyramiding, downstream; the pattern-setting, pyramiding, lateral; and the wage-price or price-wage cycle.

There is, therefore, latent inflation in the existence of market power. When concentrations of power are sufficient to create market power these concentrations become inflationary concentrations of power; that is, they are capable of producing inflationary effects. This capability creates the threat of sellers' inflation. Whether such inflation actually develops will be dependent upon the exercise of market power in situations which create one or more of the types of chain reaction described above and upon the nonexistence of measures to counteract these effects.

Organization decisions leading to price increases may be made concurrently with other developments in a general movement of prices upward. To the extent that such decisions stimulated or accentuated the inflationary trend there would be sellers' inflation within a general inflation. But organizations might force particular wages or prices upward even when there was no general upward trend in prices. In such a case there is a sellers' inflation but it is industry or commodity inflation in the absence of general inflation. It is a form of sectoral inflation and could exist concurrently with unemployment of men and resources. Such inflation, produced by market power, appears to be