STATEMENT OF DR. ALFRED E. KAHN, PROFESSOR OF ECONOMICS, CORNELL UNIVERSITY

Dr. KAHN. Yes, Mr. Chairman.

I will try to summarize my statement orally.

Chairman PATMAN. The statement of each one of you will be inserted in the record at the time of your appearance, and then you may comment as you desire.

Dr. KAHN. Thank you.

(Statement referred to follows:)

STATEMENT ON MARKET POWER IN RELATION TO ECONOMIC GROWTH

(By Alfred E. Kahn, professor of economics, Cornell University)

As I understand it, the Joint Economic Committee's present sequence of hearings is concerned principally with the current state of our economy, in particular with such questions as whether the recovery of the last 18 months is coming too soon to a halt, and what if anything can be done to sustain the expansion of economic activity and in so doing to make fuller use of a still too large volume of idle labor and plant. Such relatively immediate questions necessarily cause you to focus your attention principally on current issues of fiscal and monetary policy, because these are by far the principal instruments of policy for exerting relatively immediate and short-run influences on the pace of economic activity.

In contrast, the questions to which the committee has turned in the last day or so, concerning as they do the basic structure of our economy, the adequacy of the continuing stimuli it provides for expansion and of the limitations it imposes on the antisocial exercise of market power, are inevitably longer run in character. The policies it calls into question are not of a kind that can or should readily be varied with the stage of the business cycle, to sustain a halting business recovery or prevent a threatened recession. Indeed, they may even complicate the problems of economic stabilization: growth in a free society (perhaps equally in controlled economies as well) naturally proceeds in waves and spurts, and the institutions of free enterprise that promote innovation and expansion probably also accentuate short-run instability in some ways.

At the same time, I think there is a particular compatability, here and now, in mid-1962, between the various goals of long-run growth, price stability, and reinforcing and extending the current, halting recovery, that makes it important for this committee to consider not merely our current monetary and fiscal policies but also the adequacy of our market institutions to the promotion of these various purposes. I say this for two reasons. The first is that somewhere in the mid-1950's the American economy apparently came to the end of a long boom—a 10- to 15-year boom, depending upon whether one includes the World War II period. The consequence of this relatively long-run change is that the remedy for the principal economic problems that have been troubling us since that time—sharply reduced rates of expansion of gross national product, a trend to a decreasingly full utilization of our human and physical plant, rising unit costs of production translated, at least at certain times and in particular sectors of the economy, into rising prices—is not in my opinion to be found merely in short-term stimulants for effective demand, important though I regard such stimulants to be at this time. Second, we have become sensitized in the last 5 years or so to the dangers of creeping inflation, a growing sensitivity forced upon us by our changed balance-of-payments situation, among other factors. It becomes important therefore to ask more fundamental questions of how and whether a sustained general expansion can within the framework of our present market institutions be rendered more surely compatible with stability in the general price level, with an improved rather than a deteriorated competitive position of American products in world markets.

It is not necessary for my purposes to examine at this point the important and controversial question of whether the private economy alone can in the next decade, even with the assistance of such stimuli as tax reductions and reforms, bear the major burden of this expansion, or whether, alternatively, the remedy for the termination of a boom powered primarily by private expenditures must be a corresponding expansion of public effort. Nor can I here enter