into the equally important controversies about the respective merits of devoting additional resources to the satisfaction of private market or public needs. It seems to me that in any event there can be no disputing the particular relevance at this juncture of considering the extent to which the structure of our private markets is conducive to long-term growth, and the ways in which their growth potential might be improved. This, it seems to me, is the relevance of the particular subject that I have been asked to discuss: does the existence of centers of market power in important areas of our economy, in both labor and product markets, impede economic growth?

The first possible connection between market power and economic growth is one that this Committee has already considered at great length in its enormously valuable hearings, studies and reports on "Employment, Growth, and Price Levels." This is the possibility, variously described and characterized, that market power may itself be responsible for a persistent tendency for costs and prices to rise, even when the level of aggregate demand in the economy at large falls short of what would be necessary to maintain adequately full employment.

The principal significance for economic growth of this tendency is of course that the goal of price stability tends in these circumstances to counsel monetary and fiscal policies restrictive of further expansion of aggregate demand, even though resources remain incompletely utilized; and if the experience of the 1940–55 boom shows anything, it shows that our economy grows most rapidly when it is subject to continuing pressures of demand on productive capacity.

There is no room for doubt that market power played a significant role in the disturbing increases in the general price indexes during the 1955–58 period. As I pointed out in a statement to this committee on February 3, 1959:

"It was an unmistakable sign of monopoly power that the steel industry could raise prices in 1957, with operations slumping, and again mid-1958, when it was working at less than 60 percent of capacity; it was equally a sign of monopoly power that the steel workers' wages (and the industry's unit labor costs) could have been boosted in those circumstances—in the second instance with well over 100,000 steel workers unemployed."

The continued increase in the price of new automobiles after 1955, when sales ran continuously below that 1955 peak, was, I averred, another "sign of ineffective price competition. The contrast between the behavior during the recent recession of the prices of aluminum and steel on the one hand and copper and zinc on the other, of crude oil on the one hand and of petroleum products on the other is simply inexplicable except in terms of the different degrees of market control over these groups of goods. I have no doubt either that some part of the rise in prices of services, which has played so important a role in boosting the cost of living, itself reflects wage and price administration, rather than the mere upward pull of demand."

The more thorough investigation and explantion by Prof. Charles L. Schultze of the inflationary tendencies of these years, expounded in a study prepared for this committee, which places heavy emphasis on the sharply increased demand for producers' durable goods in the 1955–57 period, likewise rests heavily on market power—a power reflected in the failure of prices and wages in other sectors of the economy to decline, in the tendency instead for wages elsewhere to rise in imitation of wage trends in the booming sectors, and in the so-called ratchet effect, resulting from the downward rigidity of prices and wages in producer durables after the booming demands subsided.

On the other hand, it is as yet not at all clear to what extent the 1955–58 experience was unusual, to what extent instead the tendency to market-power inflation is really chronic in our economy. As I pointed out in my earlier statement to this committee, there were bases for the former interpretation: witness, for example, the lingering inflationary influence in the steel industry of a 3-year labor contract, signed when demand was still strong and providing for annual increases in wage costs far greater than the historic growth of productivity, increases that went into effect in subsequent years when demand steadily declined. Moreover, while it is certainly clear why monopoly power in product markets would tend to produce levels of price higher than those that would prevail if markets were more competitive, it is less clear why monopoly power should be expected to produce prices continuously rising relative to the competitive. Monopoly power is the power to hold price above cost, however defined; it is not the power continuously, year by year, to raise prices relative to cost, or to exact perpetually widening profit margins.