

Finally, the course of prices in the last 4 years no longer affords much support for the market power inflation thesis. The wholesale price index has been stable. The consumer price index and GNP deflator have continued to rise, but at a diminished rate, and it is doubtful that a cross sectional analysis of their components would show any correlation between price increases and concentration of market power.

I do not suggest that the market power inflation thesis should therefore be laid to rest. On the contrary, I believe that some such inherent tendencies exist, though I think they still await a wholly convincing explanation and demonstration. It hardly answers the market power inflation thesis to point out that wage and price increases have abated in a period when monthly unemployment has chronically exceeded a (seasonally adjusted) 5 percent of the labor force—entirely apart from part-time work and the withdrawals from the labor force that seem to occur when job opportunities diminish—and when the rate of utilization of our productive capacity has failed to break a long-run downward trend. That thesis does not deny that a sufficient constriction of aggregate demand can hold wage and price increases in check; on the contrary, it is its very essence that market power poses the dilemma for public policy of having to choose between the goals of price stability and full employment. The fact that we have apparently come close to achieving the former at the sacrifice of the latter does not prove, in contradiction of that hypothesis, that we can have both simultaneously.

In short, my suggestion about market power inflation is a modest one. First, the only verdict I am prepared to recommend at this stage is something like a Scotch one—"extent of guilt not proved." And second, I would like to see the committee reexamine the question in light of our experience during the 2½ years since it published its excellent staff report on "Employment, Growth, and Price Levels," to try to come closer to a determination of whether the 1955-58 experience was more or less unique, or the relative price stability we have had since reflects nothing more than our having chosen to impale ourselves on one rather than the other of the horns of the dilemma.

We can hardly take satisfaction from relative stabilization of prices in a period that witnessed one aborted recovery—the committee is in a sense trying to find out whether the number is now two—one recession, and a failure to break the long-run decline in the percent utilization of our productive plant. We might usefully remind ourselves that the original concerns about the behavior of so-called administered prices, tracing back to the 1930's, revolved not around any alleged tendencies to rise chronically, but around their resistance to downward pressures in periods of recession, declines in demand being reflected in reduced production rather than reduced prices. Those earlier controversies were never wholly resolved either, and I do not attempt to resolve them here. But they do suggest two relevant observations.

First, while I think most economists would agree it is highly doubtful that prices more flexible on the downside would prevent, cure, or even moderate general recessions, it is almost certainly true that if rigid prices in periods of excessive unemployment engender an understandable reluctance on the part of the Government to ease credit, reduce taxes, or expand its spending, in the fear that any such efforts would upset the precarious price balance, then recession price rigidity does, in fact, pose a definite obstacle to recovery. If prices went down in recessions, there would certainly be less hesitation on the part of the Government about trying to expand effective demand. And second, rigid prices may have quite a different overall significance in periods of general and widespread economic decline, when it is quite possible greater downward price flexibility might accentuate rather than moderate the general deflation, and in periods of merely inadequately rapid growth such as our economy has experienced in the last 5 to 7 years.

For if there is one point about the relationship of prices to growth on which I think most economists would agree, it is the point that Dr. Nourse has been expounding for the last 25 years: that one essential for economic progress in a private enterprise economy is the aggressive pursuit of price-reducing policies by its leading business firms. And this brings me to the second, and in my judgment more important, of the possible relationships between market power and growth that I wish to call to your attention today. I refer to the implications of market power with respect to the dynamic quest for new, cost-reducing processes and products, the unremitting probing of the longrun elasticity of demand by continuous price reductions over time, that are a prerequisite of satisfactory growth in a private enterprise economy.