pacity seriously dampen incentive to invest. I hope that we have also advanced to the point where it is no longer controversial to argue that high employment accompanying high output levels is importantly related to a high rate of economic growth, and vice versa.

One of the painful lessons of the past decade is that a national economic policy designed to promote the stabilization of prices by relying directly or indirectly on deliberately continued unemployment has little chance of permanent success. More important, pursuit of this policy has meant a reduction in the rate of economic expansion of the U.S. economy. The lack of wisdom in such a policy has been thoroughly exposed by the activities of this committee, which, if I sense matters correctly, have contributed to a wider general understanding of the problem we face.

But, you may ask, what does this have to do with the relationship between economic concentration and economic growth? Just this. In the aftermath of the exposure of the fallacy of a national policy for inflation control predicated upon reduction in the rate of utilization of industrial capacity, this very restrictionist approach has been instituted as a fundamental corporate policy by large, pace-setting firms in the concentrated sectors of industry.

In effect, what has occurred over the past decade is that a thoroughly discredited policy of national economic management has been adopted as an operational policy of business management in firms that are large and have a substantial measure of control over their price situation. Indeed, corporations following a restrictionist policy have been accorded a great deal of applause and acclaim in the business community for their soundness, and their business acumen in being better able to stabilize prices and profits over cyclical swings. This bit of irony has had unfortunate but nonetheless predictable consequences. The aggregative effect of private restrictionist production policies by economically powerful corporations has produced what we wish to eschew, a national restrictionist posture.

This policy incorporates the target-pricing-target-profits approach which uses a "standard volume" of plant utilization. "Standard volume" actually means leaving idle as much as 20 to 30 percent of plant capacity as a production "norm." Who are the firms that pursue such a policy? They are the really large manufacturing companies in the United States, which operate under conditions where entry of new competitors is difficult and concentration has persisted. These are the industries where, for technical reasons, large aggregates of capital are required, where patents are important, and economic and marketing advantages accrue from large-scale operations over and above the technical efficiencies of a single plant. Corporations of this type have a recognized latitude or discretionary power in price and production policy.

One of the important characteristics of corporate price and production policy that follows the above line is the planning of capital investment with some built-in or planned excess capacity as a normal operating policy. Predetermined profits targets become a kind of "fixed cost" in this policy, influenced by a predetermined return on capital to support longrun investment plans. The absolute size of the targets is not the important thing, though they tend to be relatively generous. Under the circumstances investment considerations calling for a specific profit rate becomes the basic determinant of price policy, to deliver the flow of funds to meet the desired rate of new investment. The impact on economic growth and stability of large firms freezing minimum profit rates in their pricing policy is shown in Professor Schultze's excellent treatise for this committee. You will recall that he uses the freezing of profit rates to help reconcile the phenomena in the 1950's of credit stringency, recession, and price advances.

My position so far is this: The industrial sector of our economy is becoming more and more rigid and inflexible in its pricing and investment decisions. In part, this is attributable, especially in the large concerns, to rigidities in costs, the "fixed" commitments to stockholders and employees, long-term arrangements with suppliers and customers, and tacit understandings with competitors, which increasingly bind and constrain pricing, production, and investment decisions. What emerges is a tendency for existing price structures, however arbitrary, to become self-justifying.

The effect of these tendencies, in turn, has been to induce the really big manufacturing companies to behave more and more like public utilities, which is a very distressing development for a free enterprise system. One is obliged to ask: Do frozen profit rates, based upon cost-plus pricing, restricted production, with market-sharing overtones, characterize a promotive and innovative policy? I think not. This kind of approach essentially means pricing to satisfy overt

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