balance of payments, the sharp recovery in the balance on current account, after it had dipped into a deficit position in 1959, probably made the difference between an international dollar crisis and an external payments position that has been tolerable even if not comfortable. From 1954 to 1959 the U.S. export price index increased 8 percent compared with 3 percent for other industrial nations as a whole. During the next 5-year period (1959–64), however, our export prices rose only 3 percent, a markedly better record than the 8 percent in the first half of that decade and somewhat better than the average for other industrial countries. The fact that the U.S. price level did perform much better by international standards is undoubtedly relevant to our improved payments performance on current account in recent years.

In the domestic economy a reasonably stable price level is desirable in itself for many obvious reasons. A rising price level does, for example, pose problems of equity. Some incomes are, if not fixed, at least sticky. The real purchasing power of financial assets held by those of moderate means is more adversely affected than those held by the affluent. The empirical evidence about the relationship between price increases and rates of domestic economic expansion is more complex, but it presents no persuasive case that acceptance of a more rapidly rising price level enables a country to achieve a more rapid rate of economic progress. The record of 39 nations for the period 1950 to 1960 and 1960–63 reveals no significant relationship between rates of growth of GNP (total or per capita) and the rate of increase in the price level. In studies (largely of developing nations) by the International Monetary Fund there seems, in fact, to be some evidence of an inverse correlation between rates of economic growth and the rapidity with which the price level was rising.[1] Countries with a relatively stable price level have done somewhat better on the average than those experiencing strong upward pressures on the price level. There are persuasive reasons for expecting that things might work out this way. The pervasive expectation of continuing inflation does disturb economic decisions. The pattern of capital formation is distorted. It encourages an outflow of domestic capital, and it impedes the inflow of capital from the outside. On all of these matters there is supporting empirical evidence.

The relationship between the rate of growth of output and the rise in the price level for more developed nations such as the United States is again indistinct. For 17 of these nations in the 1950's there seems to be no discernible relationship between the rate of rise in the price level and the rate of growth in real per capita GNP. For total output there was a faintly perceptible negative relationship, but too low to be statistically significant. If we limit ourselves, in our quest for a price-level target, to the criterion of growth rates, international experience does not lend support to the view that a moderately rising price level is essential or inimical to vigorous growth in developed nations.[2] The desirability of a strong position on price-level policy must then rest reavily with such considerations as equity or our external economic position.

II

Suppose we turn now to the second question. Is there more to the problem of a stable price level than good monetary and fiscal policy? Is there a market power dimension to the problem? The decision does not automatically go to the affirmative. From 1909 to 1929 (exculding 1914–20) there were 14 years of rising business activity. In eight of these the price level rose, in three there was no change, and in three the price level declined from that of the preceding year. On the average the price level rose 1 percent per year for these 14 years. For

[1] Cf., for example, Graeme Dorrance, "The Effect of Inflation on Economic Development," staff papers, March 1963, pp. 1–47.

[2] Computations were made for 17 developed nations for the period 1950–60. They were: Australia, Austria, Belgium, Canada, Denmark, France, West Germany, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Sweden, Switzerland, United Kingdom, and the United States. The terms were: G—rate of growth in real total GNP; G^1—rate of growth in real per capita GNP; P—rate of rise in the cost of living. GNP growth rates are from the United Nations Yearbook of National Accounts, 1965, and the rate of increase in the cost of living was computed from data in International Financial Statistics. The results are:

Equations		
1950–60		R^2
$G=5.5-0.30P$		0.060
$G^1=f(P)$		