as well as advances. For example, prices of all commodities in the CPI declined in 1949, 1953, 1954, and 1955 and prices of the durable goods component, an area of great visibility, declined in 1953, 1954, 1955, 1960, 1961 and 1965.

The objective of stabilizing the CPI could not be attained because of the inability to prevent a rise in the prices of many services (such as hospital care, education, personal care, etc.) which represent essentially labor costs. These are sectors of the economy which have relatively small improvements in output per man-hour so that higher labor costs tend to be translated more readily into higher prices. The impossibility of preventing rises in farm and food prices also was important. The CEA recognizes that these are "areas to which the guideposts have no applicability." (p. 128)

The fact is that the guideposts failed to stabilize the CPI from the outset even apart from the increases in foods and services, as the figures in Table 5 show. From 1961 to 1966, the total CPI rose 8.5%. If it had not been for the rise of 13.6% for services and 11.3% for food, the overall advance would have been considerably smaller but there would still have been a rise of about 5% or an average of about 1% annually.

Thus, the effort to contain price inflation by confrontation has not been successful. Criticisms of price increases in aluminum, steel, and other industries have held down prices in those areas and undoubtedly has resulted in a more cautious approach to price increases in other industries. However, the overall effect on the WPI has been minor and there probably has been little effect on the CPI.

In this connection, too, it should be noted that the incomes policy—the parallel approach in such countries as Western Germany and United Kingdom—has not prevented general increases in prices. In England, for example, the cost of living increased almost 5% in 1965 and almost 4% in 1966. The increases in West Germany were about one-half percentage less in both years.

Market power and prices

The CEA states that "businesses and unions can push prices up even when resources are not fully utilized." (p. 119). However, the record shows that from 1958 to 1964, when the economy operated substantially below capacity, wages and prices were not "pushed up" generally. (See Tables 6 and 7)

Between 1958 and 1964:

For manufacturing industries, capacity utilization averaged between 74% and 86%.

The unemployment rate was between 5.2% and 6.8%.

Wholesale industrial prices recorded no change with the annual indexes ranging between 100.3 and 100.7 (1957–59=100).

The consumer price index rose slightly more than 1% a year.

Unit labor costs in manufacturing industries remained relatively stable and for the entire corporate economy rose about 1% annually.

This period of relatively unimportant changes in prices and in unit labor costs includes the 3 years *before* the guideposts were formulated (1958 to 1961) and the first three years of their use (1962 to 1964).

In connection with the assumption that big business has market power which can be used to raise prices excessively, it is instructive to keep in mind that the largest price rises in the past two years have been in farm products, foods, and services rather than in the products of big business. In the absence of the guidepost policy, it is probable that there would have been somewhat larger increases than actually developed in the latter areas. However, there is no evidence that they would have been as large as the rise for services or that they would have had an important impact on the CPI.

Similar charges concerning the effects of market power upon prices were made in connection with the price rises in the mid-1950's. To check the factual basis for such an assumption, I studied the relationship between economic concentration as measured by the share accounted for by the Big Four in 1954, and the changes in wholesale prices from May 1955 to May 1957 for 136 groups of metals and metal products. Chart 1 shows that there was no relationship between the price change and the degree of concentration.[1]

[1] Jules Backman, ***Administered Prices, Administered Wages, and Inflation,*** Current Business Studies, Society of Business Advisory Professions, New York University, October 16, 1957, pp. 5–24.