

During a period of inflation, everyone is anxious to raise prices because of increases in costs and other pressures to which they are subject and because demand is strong enough to make it possible to raise prices. However, most companies are waiting until Mr. Big does it, because they are afraid there may be adverse effects in terms of loss of market to other companies if they have any idle capacity.

And so the minute the leaders in an industry raise prices, other companies which were anxious to raise prices follow. In fact, there is ample testimony of this experience before many congressional committees. The Celler committee, for example, in 1949 heard the testimony from Jones & Laughlin officials that they were severely critical of the delay in raising steel prices, and when they were asked—I think it was \$6 or \$8 a ton at that time—was that adequate, they said “No, we would have raised it \$14 but we couldn’t.”

In other words, I think we must separate the effects of an inflation from the exercise of market power before we can really have a firm conclusion that it is market power that explains price leadership-followership.

Senator PERCY. Could I ask you this question? If you were a businessman, and you were establishing a price on a new product line, say bringing out colored television for the first time, and you knew that you could reduce your prices any time, but you knew under this system that you would have to give advance notice and justify any increase in price, then wouldn’t you tend to establish your price as high as possible, so that you wouldn’t get stuck, rather than as low as possible, which might be the tendency of a businessman trying to broaden his market for a new product?

Mr. BACKMAN. I think there would be that tendency, but it is subject to one extremely important qualification, and that is that he doesn’t have all of the freedom you suggest in setting his price. In other words, if he establishes the price too high under those circumstances, he is going to pay a penalty in loss of sales.

It seems to me there is inherent in the question the assumption he can set the price any place he wants. He can’t. He is forced by the pressures of the marketplace, not in the sense of classical economics in a perfectly competitive market, which has never existed except in textbooks, but in terms of the real pressures of the marketplace, including substitute products, the alternatives available, the competitors available, and today the other large companies, who would love to come into his industry if they found that a big profit was possible at this high price. In other words, the businessman doesn’t have the power to do what you have suggested he might do.

Senator PERCY. That has been my experience also, but I would like your verification of the faith in the pricing system of the marketplace.

Mr. BACKMAN. Senator Percy, I have participated in the pricing of many products and I can tell you I still have to find the situation where people sat around the table and in effect were able to set prices without regard to market forces. The usual questions are “What can we get, will customers pay these prices, what volume can we anticipate, what will our competitors do, what substitute products will be important, what imports will come in,” and so on and so on.