have increased the depreciation charges by 60 percent above the 1940 level.[3]

Obviously, if prices are to continue to rise, as seems likely, and certainly seems much more likely than was generally assumed in the early postwar period, then to that extent, the profits of industry tend to be overstated. The tendency to allow accelerated depreciation since the above evidence was given, to some extent prevents the emergence of this difficulty. At any rate, it may be held in a general way that profits are a smaller part of the national income, and that once correction is made for the overstatement because of the inadequate allowances for replacement of inventories and equipment, then profits have suffered an additional loss.

This problem has also received attention in recent years, particularly by the Machine and Allied Products Institute. This organization shows that in 1955 the ratio of current prices to average prices underlying historical cost depreciation was about 1.31 compared to 1.38 shown by the study of the Department of Commerce.

> The MAPI study also shows profits adjusted by reducing them by the amount of the additional depreciation required to shift from historical to current prices; by adding accelerated amortization in excess of depreciation otherwise allowable; and by adjusting for the effects on profits of changes in inventories values as estimated by the Department of Commerce. The effect of these shifts is to reduce profits by less than 1 percent on the average during the period 1925–29 and by about 25 percent for the average of the years 1946–55 * * *.
>
> In a period of rapidly rising prices such as has prevailed in the last 15 years, the use of current replacement costs rather than original or historical cost in calculating the cost of fixed assets will have the effect of reducing the ratio of corporate profits to sale, to net worth, or to income originating * * *. Contrariwise when prices are falling, the use of current price depreciation will result in higher profits than if original cost depreciation were used. Which basis should be used in calculating depreciation has been and still is a matter of widespread debate * * *.[4]

In 1929 the ratio of current-year cost to original cost for structures and equipment in manufacturing establishments, was 1.17; in 1933 it was 0.92; by 1939, 1.09; for 1948, 1.58 and by 1955, 1.38.[5]

PRICES AND WAGES IN CYCLES

One of the striking developments in the last generation or so, has been an increased tendency for prices to be relatively rigid in the downward phase of the business cycle, and also for wages to be much more rigid. In earlier cycles, as the business situation deteriorated, wages would be cut sharply and prices would fall greatly. But now, whatever the reason, there seems to be a greater degree of stability. In fact, in periods of recession now, average hourly earnings tend to rise though not as much as in periods of prosperity.

Even before the war, this situation had become apparent. For example, here is a table based on Daniel Creamer's study.[6]

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[3] Ibid., pp. 5–7.
[4] Joint Economic Committee, "Productivity, Prices and Incomes," 1957, p. 30.
[5] Ibid., p. 99.
[6] "Behavior of Wage Rates During Business Cycles," NBER occasional paper 34, 1950, p. 37.