conditions which influences the short-run movements of wages and prices. Finding cures, in this sense is equivalent operationally to finding the cause of inflation.

8. The evidence on the distribution of national income in the postwar inflation does not show any large-scale shift among the major income categories. The wage and salary share gained about 4.5 percentage points between 1947 and 1956; corporate profits did not change perceptibly; the relative loss fell heavily upon unincorporated business. The reduction in the income of unincorporate business is hard to assess, for two reasons: (1) It is not at all clear how much of the income of proprietors of unincorporate business ought to be counted as wages and how much as entrepreneurial returns; (2) the sharp decline in the farm income share is accounted for largely by the withdrawal of farm proprietors from agriculture to other occupations. During World War II, the increase in farm proprietors' income (personal income per recipient) was more than twice as rapid as the increase for nonfarm proprietors and more than three times the employees' gain. The relative decline after the war years may, therefore reflect some catching-up on the part of employees.[3]

9. Within the corporate profits share there are other ambiguities. The most important possible source of error arises from the use of historical values as the base of depreciation charges in a period of rising replacement costs. In 1947, it is estimated by the Machinery and Allied Products Institute, the ratio of current prices to average prices underlying historical-cost depreciation of plant and equipment was 1.44; in 1956, it fell to 1.31. In manufacturing, the ratio declined from 1.54 to 1.38, between 1947 and 1955. The difference between the share of property income in manufacturing net income under current value as opposed to book value depreciation is an almost constant 2 percent. There are two observations to be made on the basis of this data: (1) Profits net of depreciation charges will be overstated in the light of historical changes in plant and equipment costs. Gross profits will contain a larger part necessary to provide for replacement than would appear in the income accounts. (2) To the extent that accelerated depreciation arrangements, such as the sum-of-the-digits method, do not compensate for these changes in replacement costs, manufacturing corporations are pressed to add to their markups over direct costs an amount sufficient to provide for the added cost of new equipment.[4]

10. When we turn to the manufacturing sector the appearance of stability in the wage and salary share becomes even more striking. Between 1947 and 1956 the share of total compensation of employees in value added (which is gross of depreciation) increased from 53.4 percent to 55.2 percent. Within the period, however, the short-run variation was much wider. In 1949 the wage and salary share rose to 56.7 percent and in the following year, fell back to 53.4. The share rose again until in 1953 and 1954 it was 56.4 percent, after which a decline of 1.6 percentage points occurred.

[3] Cf. G. L. Bach and A. Ando, "The Redistributional Effects of Inflation," Review of Economics and Statistics, February 1957, especially, pp. 4, 5.

[4] Department of Commerce, Survey of Current Business, November 1956, pp. 11, 20, and Machinery and Allied Products Institute, Capital Goods Review, No. 29, quoted in Joint Economic Committee, "Productivity, Prices, and Incomes," Washington, 1957, pp. 99–101.