

C. PROFIT MARGINS AND VALUE ADDED

Year	Value added Value of product Index	Profit margin on sales, index
1947	93.3	99.6
1949	103.8	95.4
1950	105.0	108.0
1951	115.7	87.0
1952	114.8	75.7
1953	114.3	74.3
1954	115.0	82.7
1955	118.6	94.0
1956	121.3	84.2

Sources: Wages and salaries, value added, output/employment indexes: Census of manufactures. Value added/value of product, unit wage and salary costs: "Productivity, Prices, and Income," table 51. Profit margins: First National City Bank, in "Productivity, Prices, and Incomes," table 22.

15. How have these variables moved during the 1947-56 period? The share of wage earners and salaried employees increased from 1947 to 1949 and then fell sharply in the first year of the Korean war. In 1951 the employees' share began to improve and continued to rise until in 1953 the level of 1949 had almost been recovered. There was a decline in 1955 and some recouping in the following year. The gain in the wage and salary share over the period was almost two percentage points.

16. If we separate the production workers from the administrative group, the pattern changes considerably. Between 1948⁵ and 1950, unit wage costs fell, since real output per production worker rose more rapidly than production workers' earnings. At the same time the markup of prices over material costs and, therefore, the profits margin continued to rise. The wage share fell by more than three percentage points between 1949 and 1950. In 1954 and 1955, a similar thing happened: unit wage cost fell, this time under pressure of declining employment, while output per man-year and the value added markup continued to rise. Over the whole period, the production workers' share of value added declined by about 3.4 percentage points.

17. As the economy recovered after the recessions of 1949 and 1954, the profit margins made the first gains. Much of the shift in favor of profits was due to the reduction in unit overhead costs as output increased from levels far below plant capacity. And some of the gain represents the fact that unit production wage costs fell at the start of both recessions and did not turn up again until the second year of recovery. By contrast, wholesale prices responded very quickly to the revival of demand in 1950, and the value added markup did not decline at all. Between 1954 and 1955, total unit labor costs fell, while unit value added rose.⁶ It seems clear from this evidence that in 1950 the increase in profit margins provided much of the inflationary pressure. In between, from 1951 to 1954, the rapid rise in unit wage and salary costs was achieved at the expense of profit margins; wholesale prices and unit value added did not change noticeably. In 1955, profit margins rose and the wage and salary shares fell. In 1956, the

⁵ In 1948, the unit (production worker) wage cost index was 102.5.

⁶ Unit production labor costs fell sharply from 1953 to 1954 and stayed down until 1956.