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PRICES AND COSTS IN MANUFACTURING INDUSTRIES

(By Charles L. Schultze and Joseph L. Tryon ¹)

I. INTRODUCTION

This paper presents a study of the behavior of output and costs in manufacturing industries over the period 1947-58. The analytical method used is consistent with the national income framework of the Department of Commerce and the data presented may be readily related to the published national income data. Since the data are so constructed that prices may be resolved into their various cost components, they should prove valuable in the study of price fluctuations.

The statistical part of this study covers the 21 manufacturing industries of the Standard Industrial Classification Manual with ordnance and fabricated metals combined.² The analytical method, however, is a general one which may be applied to any industry groupings for which the necessary data are available. A broader study using the same basic methods and covering all major industries has been publicized recently.³ In view of this fact, the presentation here of the general method will be brief. For a more detailed discussion of the method and its shortcomings, the reader is referred to that study.

By means of the method described below it is possible to show the following for any industry:

1. The part of gross national product contributed by the industry.
2. The part of any general price rise or fall which is contributed by the industry.
3. The behavior of labor, capital, and other costs per unit of output in the industry.
4. The relative growth of output per man-hour in the industry.

BASIC METHOD

Gross national product is the value of all goods and services produced in the economy, valued at market prices. As such it includes all costs entering into the final prices of the goods produced: labor cost, capital consumption, taxes, rent, interest, and profits. The inclusion of profits in the concept of "total costs" is a terminological convenience, adopted to avoid the repeated use of the awkward phrase, "total costs plus profits." This use of the term implies no judgment

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² For certain purposes satisfactory data for the petroleum and coal products industry were not available, and in these cases this industry was omitted from the analysis.

³ Charles L. Schultze, "Prices, Costs, and Output for the Postwar Period: 1947-57," Committee for Economic Development (Washington, D.C., 1960).