

The use of the Census employment data for adjusting data reported on a company basis is based on two heroic assumptions. First, since the data are available only for 1954, it is assumed that the relative size of the necessary adjustments is the same for all years covered by the study. Second, it is assumed that for any given industry, the net business income per employee, capital consumption allowance per employee, and indirect business taxes per employee are the same for all employees who are classified in the industry on an establishment basis. The correctness of these assumptions is rather doubtful. Therefore, it seems that at best, the adjustments based on employment data are very crude and can only be assumed to be in the right direction. Substantial error from this source undoubtedly still affects the data of some industries. The importance of this problem varies considerably from industry to industry. In appendix B the magnitude of these adjustments is indicated for each industry.

The gross product originating valued in constant prices was obtained by multiplying an index of physical output for each industry by the value of the industry's output in the base year. This method provides a dollar value series which moves as physical output, i.e., without any price changes, and is therefore the constant price GPO desired.⁵

The procedure used to obtain the data used in this study, both those used to derive the unadjusted data and those used to adjust the data for the company-reporting problem, make it unwise to put too much faith in the significance of any one figure. It is the opinion of the authors that the general patterns which appear in the data are reliable, particularly the *relative* movements of the various series. Thus, although reference may be made to individual figures for individual industries, it should be kept in mind that no figure considered by itself can be considered reliable enough to sustain a firm conclusion, particularly where small changes or minor differences among various industries are concerned.

WARNINGS ON THE USE OF THE UNIT COST INDEXES

The data developed in this paper make it possible to trace the behavior of costs within a given industry. It is very important to note, however, that the mere possession of price and cost data does not permit us to infer the *causes* of changes in prices. There is far too much interdependence between costs and prices to permit this sort of direct inference. An example will show the danger of such inferences. It is clear that costs must rise even in the purest sort of "demand pull" inflation. The reason for this is that the increased demand cannot be sustained unless incomes rise, but incomes, i.e., labor and business income, are the basic costs which we have identified. The mere fact that unit labor costs in an industry have risen does not mean that they *caused* the price rise; we cannot say, from price and cost data alone, whether prices rose because unit labor costs rose, or unit labor costs rose because prices rose—or more likely, whether the final result grew out of a combination of both causal factors. Similarly, the fact that business incomes per unit in an

⁵ The output index required for this method is one based on value added weights. Value added weights are necessary in order to be consistent with the cost concepts which are based on value added. The Federal Reserve Board kindly furnished unpublished production indexes with 1954 value added weights based on the "Standard Industrial Classification Manual," 1954 edition.