

industry have risen gives us no warrant to assert that prices were "pushed" up by monopolistic firms attempting to raise their profit margins. In sum, historical facts about prices and costs provide us with useful information with which to combine other information in an analysis of economic events. But such data, *in themselves*, provide no answers to the questions of why prices and costs behaved the way they did. As a consequence, a substantial part of the analysis which follows relates the price and cost data to other data on changes in output and expenditures in an attempt to provide some insights into the basic factors determining the movements of relative prices and costs.

Changes in the unit cost indexes may occur for a variety of reasons. Changes in the prices of factors of production are, of course, important ones. There are, however, several other sources of change in these indexes. The reader should keep in mind that some of the behavior of the cost indexes may be accounted for by reasons not investigated in this study.

One source of change that is independent of factor prices is a shift in demand between products *within* an industry.

A shift in demand between products within an industry means that the output product mix for the industry changes. Such a change may not be reflected in a change in total output, but it may very well lead to different requirements for labor and capital, and may also alter compensation, business income, and indirect taxes for the industry, all without changing price or total unit costs for any individual products. When there are internal shifts in demand, no set of weights—base year, weights, current year weights, or some combination of the two—will give a wholly satisfactory index of output because the effect of the output shift on the index will depend on the weighting system. This problem is more acute over long periods than short simply because demand patterns have more time to change, and the difference between current and base year weights will widen. How long a period may be before it is seriously affected by such demand shifts is impossible to say *a priori*. A discussion of the effects of certain known shifts in demand in the postwar period is presented in the section following this one.

A second source of change unrelated to factor price changes is change in productivity. If factor prices and proportions remain the same, but productivity increases, then unit costs will decrease. This source of unit cost change is discussed in the section "Wages, productivity, and unit labor costs."

Finally, any change in factor proportions may lead to a change in unit costs without changes in factor prices. It is, of course, true that changes in factor prices are likely to lead to changes in factor proportions. In such a situation unit cost changes will reflect the combined effect of the factor price changes and the shift in factor proportions. Technological changes may also lead to a change in factor proportions. For whatever reasons, there appears to have been a shift toward a greater proportion of capital, particularly machinery, in the period covered by this study. This fact is probably one factor in explaining the persistent rise in the share of total unit costs going to capital consumption over the period. Although changes in factor proportions undoubtedly had some effect on the unit costs,