this is one area of investigation which was not undertaken for this study.

The warnings raised above indicate that the data presented below must not be interpreted uncritically. Neither causal direction nor the exact nature of the unit cost changes may be deduced without analyzing the data very carefully and taking into account influences of the sort noted above. The data do, however, provide an excellent basis for such an analysis, and with due care, important insights may be made about the causes for price and cost changes in the economy.

II. The Pattern of Changes in Output, Prices, and Costs

OUTPUT

Essential to any interpretation of the price and cost data with which this study is primarily concerned is a knowledge of the behavior of output during the period under consideration. This first section will therefore be devoted to an analysis of output in manufacturing industries during the postwar period.

There are three major technical features of the data on manufacturing output which are of particular importance in an analysis of the industrial pattern of output changes. In the first place the classification of all industries into only 20 major groups inevitably means that some of these groups will contain individual industries which are quite heterogenous in nature. For example, the nonelectrical machinery industry includes establishments manufacturing such diverse products as agricultural equipment, construction machinery, air-conditioning units, refrigerators, and gas ranges. The total output of this industry, therefore, includes not only establishments whose primary output is some type of producers' equipment but also establishments which specialize in the production of consumer durable goods. There are many periods in which the demand for consumer durables moves in the opposite direction from the demand for producers goods. The overall output of the industry group in such periods will thus reflect the balancing of divergent forces.

A second problem of data interpretation arises from the fact that we are working with an *establishment* rather than a *commodity* classification. A manufacturing establishment is assigned to an industry on the basis of its principal product. All of the output (and all of the wages, employment, etc.) of the establishment is counted in this one industry. Thus an establishment whose principal product is, say, textile machinery is classified in the nonelectrical machinery group. All of the output of this establishment, including any of its secondary products, is included in the output of the nonelectrical machinery industry. In this case the statistics, which are designed to measure economic activity in each industry, simply reflect the diversity of output which characterizes American industry. Since our industry group classifications are quite wide, most of the secondary products of particular establishments will be products which belong in the major industry group. Consequently the problem of secondary products is not too troublesome. There appears to be one major exception, however—military output. Part of military output will be produced in in establishments which *specialize* in producing military equipment, and the remainder will be in establishments where military equipment