

TABLE 5.—*Cost indexes for manufacturing industries—Continued*

TRANSPORTATION EQUIPMENT

	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
Unit price index and points of cost components												
Unit price index.....	100.0	108.2	122.3	134.7	133.1	139.9	134.9	138.8	145.5	136.3	139.0	140.1
Compensation.....	72.6	72.6	72.7	73.1	85.4	91.4	90.5	92.2	87.3	93.7	92.9	98.7
Net business income.....	14.5	21.2	33.4	44.5	31.0	30.1	27.5	25.8	37.0	20.1	24.3	16.3
Capital consumption.....	3.4	3.5	3.7	3.5	3.8	4.0	4.2	5.7	5.4	6.7	7.1	8.6
Indirect taxes.....	9.5	10.9	12.5	13.6	12.9	14.4	12.7	15.1	15.8	15.8	14.7	16.5
Gross business income.....	17.9	24.7	37.1	48.0	34.8	34.1	31.7	31.5	42.4	26.8	31.4	24.9
Component costs as percent of unit prices												
Unit price.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.01	100.0	100.0	100.0
Compensation.....	72.7	67.1	59.5	54.3	64.2	65.3	67.1	66.4	60.0	68.7	66.8	70.5
Net business income.....	14.5	19.6	27.3	33.0	23.3	21.5	20.4	18.6	25.4	14.8	17.5	11.6
Capital consumption.....	3.4	3.2	3.0	2.6	2.8	2.9	3.1	4.1	3.7	4.9	5.1	6.1
Indirect taxes.....	9.5	10.1	10.2	10.1	9.7	10.3	9.4	10.9	10.9	11.6	10.6	11.8
Gross business income.....	17.9	22.8	30.3	35.6	26.1	24.4	23.5	22.7	29.1	19.7	22.6	17.7

With this broad picture of the postwar behavior of costs in manufacturing industries in mind, let us now attempt to determine the *why* of this behavior. The mere possession of historical price and cost data does not, in itself, furnish us with any answers to the question of *why* prices and costs behaved the way they did. The simple fact that costs rose in industry after industry gives us no warrant to assert that prices rose solely because costs rose. And even if we knew that the rise in prices stemmed, in a causal sense, from the rise in costs, the more relevant question—why did costs rise—would still remain unanswered. We are, however, not restricted to the examination of cost and price data alone. By combining our data on prices and costs with our measures of output and expenditures we can begin to draw some tentative conclusions about the relationship of price and cost changes to changes in demands and technology. In particular we can investigate the *relative* magnitude of changes in prices and in price-cost relationships among various industries and examine how these relative magnitudes compare with the relative size of expenditure and output changes in the same industries. We can construct hypotheses about the behavior of prices and costs in relationship to output and productivity and test them against our data.

One of the major questions to which we will address ourselves is how to explain the behavior of relative prices among the 19 manufacturing industries. This explanation of the behavior of relative prices can be divided into two parts. First, given the behavior of relative costs and demands, did relative prices behave as economic theory would have predicted. Second, what explanation can be given for the behavior of relative costs. We will examine each of these questions in turn.

To this point we have defined total unit costs to include labor costs, indirect taxes, and gross business income. In the following analysis, however, gross business income will be treated as the residual or balancing element between prices and costs. Thus, unless otherwise