

34 PRICES AND COSTS IN MANUFACTURING INDUSTRIES

TABLE 7.—*Relationship of changes in demands, unit labor costs and gross margins,¹ 1948-56*

[Number of industries]									
	Gross margins decreased, demand rise relative to average			Gross margins approximately unchanged, demand rise relative to average			Gross margins increased, demand rise relative to average		
	Greater	Same	Less	Greater	Same	Less	Greater	Same	Less
Unit labor cost increase greater than average	2	1	0	0	0	0	3	1	1
Unit labor cost increase about the same as average	0	0	1	0	0	0	1	0	0
Unit labor cost increase less than average	0	0	5	2	0	0	1	0	1

¹ Gross margins are the percent of value added going to gross business incomes.

Industries are first classified according to whether their unit labor costs, during the 1948-56 period, rose more, about the same, or less than the average for all industries. Within each of these groups, industries are further classified according to whether gross business incomes rose or fell as a percent of value added. In each of these subgroups a further classification is provided according to the relative magnitude of demand increases. Each cell in the table can be labeled according to whether its characteristics are consistent, inconsistent, or are uncertain, with respect to expected behavior. For example, in an industry whose unit labor cost rose by less than average, while the demand for its products rose by more than average, we should expect to find that gross business income rose as a percent of value added. Industries which exhibited these three characteristics, we label as consistent with expectations. This does not necessarily imply that profit maximization was the sole guide to price-cost relationships. It merely indicates that the actual behavior of prices relative to costs did not contradict what would be expected from a profit maximization hypothesis, over a period of intermediate length. An industry which possessed the first two characteristics (labor costs rising less than average, demands more than average) but whose gross business income fell relative to value added, would exhibit behavior inconsistent with expectations. There are a number of situations, however, which preliminarily we should have to label "uncertain." If one characteristic, e.g., a less-than-average rise in unit labor costs, leads us to expect an increase in gross business income relative to value added, while the other characteristic, a less-than-average rise in demand, leads us to expect the opposite, then without information about the *magnitude* of the forces involved we must label the results as uncertain. While we do not have a precise measurement of the extent to which the rise in demand was greater or less than average, we can resolve a number of uncertain cases where it is obvious that increases in demands were *substantially* greater or less than average.

A preliminary count of the characteristics of the 20 industries yields 4 cases in which actual behavior is consistent with expectations, 4 cases of inconsistency, and 11 uncertain cases. An investigation of the relative magnitudes involved, however, allows us to correct our findings to 13 cases of agreement, 3 disagreement, and 3 uncertain.