

while demand also rose more rapidly than average (expectation: an increase in gross margins). Gross margins in these three industries actually rose. In two of the industries—nonelectrical machinery and instruments—the rise in demands appeared to be greater than average, while the rise in unit labor costs was only slightly to moderately greater than average. Hence, expectations and results coincided, and the industries were transferred to the “consistent” column. In the case of primary metals, however, demand appeared to have risen only moderately more than average, while unit labor costs increased by very much more than the average for other industries. Yet the share of gross business incomes increased. Further, the increase in capital consumption allowances per unit in the primary metal industries exceeded by far that in any other industry. Despite the large rise in both labor costs and capital consumption allowances relative to average, the share taken by *net* business income rose substantially.

The increase in demand does not appear to have been sufficiently greater than average to explain this behavior. Indeed, if we take into account the fact that the demand for primary metals is probably less elastic than in most other industries, the combined output and price changes in the industry may indicate an increase in demand little if any larger than the all-industry average.¹¹ For all of these reasons we have reclassified the primary metals industry as one of those which are inconsistent with expectations.

The furniture industry was classified as an uncertain case. Unit labor costs rose by less than average, but demand also rose by less than average. Gross business income per unit rose by more than unit labor costs. The *relative* decline in unit labor costs was significant; the *relative* decline in demand appeared to be quite moderate. Hence we might be justified in placing the industry in the “consistent” column. However, the various relative changes were not so large as to make this conclusion obvious, and we have left the industry as “uncertain.”

The tobacco industry was one of those originally placed in the “inconsistent” column. In this industry unit labor costs rose more than average, demand rose less than average, yet gross business income obtained an increasing share of value added. Unlike the situation in most industries, however, indirect business taxes form a very large part of total costs in the tobacco industry. In 1948 such taxes accounted for about 75 percent of total costs. Between 1948 and 1956 indirect taxes per unit rose by only 14 percent. Relative to the rise in other costs, this was quite small. Even though the increase in demand for the products of the tobacco industry was smaller than average, the relatively modest rise in the chief element of its cost structure made possible an increase in gross business income per unit relative to value added. We have reclassified this industry from the “inconsistent” to the “consistent” column.

On the basis of the given data one would have to classify paper and allied products as an industry in which price-cost relationships

¹¹ We have used the magnitude of relative output and price changes as a rough measure of changes in relative demand. Without a measurement of demand elasticities in the various industries, however, our criteria are very rough approximations. In general, the lower the demand elasticity the greater the change in relative price consistent with an unchanging relative demand. In the case of primary metals, output rose by 26 percent compared to an average rise of 40 percent for all industries. Prices on the other hand rose by 57 percent compared to an average rise of 23 percent. We have preliminarily considered these magnitudes to indicate a rise in relative demand. If, however, the overall elasticity of demand for primary metals is substantially lower than that which characterizes most other industries, the relative price and output behavior of the industry might be consistent with a rise in demand no greater than average.