were inconsistent with expectation. This industry has been retained in this classification. However, it should be noted that unit labor costs rose by less than average, demand increased by more than average, yet the percentage of value added going to gross business income remained about the same in 1956 as in 1948. Further, the relative decline in unit labor costs was quite modest—a 20-percent increase as against the 24-percent average increase for all industries; similarly, the apparent increase in relative demand was not large. The "measured" deviation of price-cost behavior from expectations was, therefore, a minor one.

Those industries in which the relative behavior of costs and demands was clearly inconsistent with expected behavior were rubber and chemicals. These two industries illustrate the opposite extremes of disagreement with expectations. In the rubber industry, unit labor costs rose by more than average. Even though the increase in demand in the industry appeared to be about average, both gross and net business income per unit increased by far more than unit labor costs. In the chemical industry on the other hand, unit labor costs increased very much less than average. Demand on the other hand rose by more than average. Both of these factors would lead us to expect an increase in gross business income per unit larger than the increase in unit labor costs. In actuality, however, the opposite occurred. Indeed, net business income per unit declined.

The reader will recall that we added to the four industries whose relative demand and cost behavior was originally classified as inconsistent with expectations, one other industry: primary metals. We also eliminated the tobacco industry from this classification, since its apparent deviation from expectations could be explained by the behavior of indirect taxes. We are thus left with 13 industries in which the relationship of unit labor costs and gross business incomes per unit appear to be explainable by the relative changes in demands and unit labor costs, 4 industries in which the unit labor cost-gross business income relationship seems to deviate from what would be expected on the basis of relative cost and demand changes, and 2 industries which cannot be easily classified.

The analysis has to this point been carried out in terms of value added prices and unit costs. It has thus ignored the impact of relative changes in raw materials prices. There are two major ways in which certain types of relative changes in raw materials costs incurred by different industries could seriously affect our analysis. First, we have classified the relative change in demand among the different industries on the basis of relative changes in output and *value added* prices. However, the appropriate criterion is changes in *market* prices. For example, an industry exhibiting a significant relative increase in its value added price might not have experienced a rise in its relative market price if the relative cost of its raw materials declined substantially. A second problem introduced by the lack of data on raw materials prices is that it weakens the validity of our assumption that a relative increase in unit labor costs indicates a relative increase in total unit costs, excluding gross business incomes. A greater than average rise in unit labor costs may not connote a greater than average rise in total unit costs if the relative cost of raw materials to the industry has declined.