

means only that margins changed in the expected direction. It does not tell us whether the *magnitude* of the change in the share going to gross business incomes can be explained by the *magnitude* of shifts in relative demands and unit labor costs.

The general hypothesis tested in this section was that the behavior of relative prices of the products of manufacturing industries may be explained by two major factors: (1) the relative behavior of unit labor costs, assumed to be given, and (2) the relative behavior of demands. It was found that in a large number of industries the degree of change in relative prices could be explained by relative shifts in demands and unit labor costs, at least to the extent of explaining whether or not gross business incomes rose or fell as a percent of value added. However, the investigation revealed some exceptions to this general pattern. Of the 19 industries examined, 13 were consistent with expectations, 4 were not, and in the case of 2 other industries, it proved impossible to determine whether or not price behavior was consistent with expectations.

The hypothesis tested was constructed on the assumption that producers set prices with profit maximization as their goal. It should be remembered, however, that the analysis covered a change in relative costs, demands, and prices over an 8-year span. Even though the data for a majority of industries suggested behavior not in contradiction to the profit maximization hypothesis, the analysis by no means implies profit maximization for very short-run periods. And even for the longer period of 8 years, the analysis simply indicates that the *direction*, not necessarily the *magnitude*, of margin changes was consistent with profit maximization. Indeed, cost-price behavior during the three short postwar recessions indicates that in such periods of absolute demand declines, prices in many industries do not move relative to costs as might be expected from a pure short-run profit maximization hypothesis.

UNIT LABOR COSTS, AVERAGE EARNINGS, AND DEMANDS

A simple hypothesis about unit labor costs would be that they are largely determined by the demand for labor. As shown below, however, the effect of changes in the demand for labor on unit labor costs appears to be very greatly modified by other factors. In fact, there appears to be very little relationship between the relative magnitudes of changes in unit labor costs and the demand for labor.

Over the entire period from 1948 to 1957, there was a very wide range of experience among the various industries in terms of the changes in their unit labor costs. The changes ranged from a decrease of 3 percent in the textile industry to an increase of 57 percent in the primary metals industry. The average rise in unit labor costs in the five industries with the largest increase was 46 percent; the average rise in the industries with the lowest increase was only 11 percent.

An examination of increases in wage rates compared to the increase in employment indicates that the two magnitudes had little if any relationship to each other. In table 9 we compare changes in average hourly earnings of production workers to changes in employment for the 20 manufacturing industries. Between 1948 and 1957 the average increase in wage rates for those industries whose employment was expanding most rapidly was insignificantly larger than the increase in