nondurable prices and costs during the 1954 and 1958 recessions was the fact that demand and output fell very slightly. In 1949, on the other hand, output of nondurables fell by a somewhat larger amount.

Perhaps the most significant feature of the behavior of prices and costs in manufacturing during recessions is the fact that increases in unit labor costs are not fully absorbed in gross margins. Particularly in the durable goods industries, the increases in unit labor costs—associated in part with the reductions in output—are partially reflected in higher value added prices, despite the rather sharp cutbacks in the demand for durable products. Moreover the rise in durable goods unit labor costs during recessions is largely attributable to increases in "overhead" labor costs. With a growing proportion of total labor costs accounted for by salaried labor, a given cutback in production tends to increase labor costs by a larger amount. The fact that such increases in fixed unit costs are even partially passed on in higher prices in the face of declining demand for output, strengthens the evidence that pricing policies are strongly cost-oriented during periods of demand decreases. Markups are clearly not rigid; gross margins do decline. Nevertheless, in most industries prices are raised in the face of declining demands if costs increase, even when those cost increases are largely attributable to the decline in output itself.

Table 17 has already presented the behavior of prices and the various unit cost components during three postwar recessions. As we noted, unit labor costs tend to rise in recessions, largely because a substantial part of unit labor costs represent a relatively fixed cost. If this explanation is correct, we should expect to find that a period when unit labor costs had *risen* during a recession would be followed by a period when unit labor costs would *fall* during the recovery. Table 18 classifies each industry according to whether or not its compensation per unit of output followed this pattern during the two completed cycles in the postwar period. In the 1949–50 cycle, 11 industries conformed to the pattern and 4 did not; another 4 had no decline in output and hence could not be put in either group. In the 1953–55 cycle 10 conformed, 4 did not, and 5 could not be classified because output did not fall. It is of some interest to compare these results with a similar classification of industries according to the behavior of capital consumption allowances. Since depreciation, the principal element of capital consumption allowances, is in the short run largely a function of the lapse of time rather than of output, capital consumption per unit of output should rise when output falls and fall when output recovers. Table 18 shows that in 1949–50 13 of the 15 industries having output dips showed this pattern and 2 did not. In 1953–55, however, only 4 of the 14 with output dips showed this pattern while 10 did not. Why did so many industries appear to contradict the expected pattern in 1953–55? For 4 of the 10 whose capital consumption allowance rose continuously over the period, heavy plant and equipment expenditures were bunched in 1954 and 1955. This increase in plant and equipment led to an immediate jump in depreciation. Probably more important, the rapid amortization of defense facilities and the changes in the tax laws in 1954 which permitted faster depreciation generally, also helped to explain the failure of capital consumption per unit to fall with the recovery in the 1953–55 cycle.