SOURCES AND LIMITATIONS OF DATA

During the early part of this period from 1947 to 1950, labor costs and profits all rose considerably. From 1950 to 1954, profit margins declined, then again rose sharply with the strong recovery of 1955. During the subsequent period to 1957, they declined moderately, then fell considerably in the 1958 recession. By the end of the period (1956–58), the proportion of the sales dollar going into profits plus depreciation and depletion was at approximately the same level as in 1947–49. The pattern of movement, however, has been for gross margins to rise sharply at the beginning of boom periods and to recede gradually during the subsequent years of "leveling off."

The index of direct labor costs per unit of output has shown a continuing upward trend over the period, except for relatively small declines in 1950 and 1955, undoubtedly reflecting the increase in productivity which normally accompanies a strong upswing in output.[11] Table 13 also shows the very considerable shift in employment toward nonproduction workers. It has already been noted that one probable result of this shift in employment patterns has been to raise the rate of increase in total labor costs per unit faster than is reflected in the index of unit direct labor costs. An additional implication of the rising importance of nonproduction worker employment is the fact that labor costs have become less responsive to cutbacks in production during recessions; this is clearly shown by the very much greater cutbacks in production worker than in nonproduction worker employment during the recessions of 1949, 1954, and 1958. By the same token, as Schultze has pointed out, one major reason for the rapid rise in labor costs per unit from 1955 to 1957 was the more than 10 percent increase in nonproduction worker employment as contrasted to the rise of only 3.5 percent in manufacturing production; the result, of course, was to hold down the rate of increase in productivity per total worker man-hour.[12] One must presume, however, that in the long run, producers expect the shift in employee-mix to represent a profitable choice; in the 1955–58 period, however, it probably had a considerable adverse effect on unit labor costs and profit margins.

The data included in appendix C provide a basis for comparing the general trends of prices, wages, profits, and other variables over time, both within and between industries. In table 14, ratios of the specific industry indexes to the index of all manufacturing are shown for several important variables, as of 1957.[13] The year 1957 is used in order to avoid the effects on the data of the 1958 recession. For purposes of analysis, the industries have also been classified according to the extent of concentration and the strength of unionization in each. It should be stressed, however, that these trends cannot be considered as anything more than suggestive; considerably more detailed studies would be required within each sector before a more

[11] It must be stressed here that the trend indicated by the index of profits margins cannot be meaningfully compared to the trend indicated by the index of labor costs per unit of output, since the basis of computing the indexes is quite different. The index of profit margins is a measure of profits deflated by sales. The index of labor costs per unit, on the other hand, is a measure of direct labor costs deflated by man-hour productivity. The profits index reflects a percentage, whereas the labor cost index reflects an absolute amount.

[12] See Charles L. Schultze, "Recent Inflation in the United States," Joint Economic Committee Study of Employment, Growth, and Price Levels, Study Paper No. 1.

[13] It should be noted that we are here comparing the ratios of indexes, rather than the indexes of each variable directly. Thus the problem cited in footnote 11 does not arise.