#### IS THIS A NEW TYPE INFLATION?

By: Geo. P. Hitchings, Ford Motor Company

The type of inflation experienced in recent years is different from past inflations. Traditional inflations involved a sharp rise in prices, reflecting excess money demand for goods and services relative to supply. This excess demand was made possible by expansion in the supply and/or use of money. In recent years, however, the rise of prices has been more gradual and for the most part has not been based upon excess money demand. Instead, price increases have been based largely upon a steady rise in costs forced from the supply side.

Careful statistical analysis is required to disentangle cause and effect relationships in rising prices. This is because, with a rise in prices, there is also a rise per unit of production in:

- 1. Expenditures.
- 2. Incomes (which are also costs of production).
- 3. Money usage.

The problem is to determine which factor initiated the rise and which factors followed.

These identity relationships are illustrated in the chart below for income and expenditure flow relative to gross national product.



Total production is bought by some customer in the form of business investment, government purchases, or personal consumption. In 1957, for example, the \$440.3 billion of gross national product was absorbed by:

\$68.8 billion - Business investment (Residential construction, Other private construction, Producers' durable equipment, Change in business inventories, and Net exports).

- \$87.1 billion Government purchases (Government employee payrolls, Public construction, and Other purchases of equipment, supplies, and services from business.
- \$284.4 billion Personal consumption expenditures (Durable goods, Nondurable goods, and Services).

In turn, the revenue received from sale of this production flowed to these groups as follows:

- \$45.6 billion Funds retained by business (Depreciation and other capital consumption allowances, Undistributed profits, and Government transfer payments to foreign countries).
- \$88.8 billion Net revenues of government (Tax revenues less the total of Government interest, Transfer payments, and Net subsidies).
- \$305.1 billion Personal income after taxes (Personal income less tax payments).

The slight difference between total income and production (or expenditure) is due to discrepancies in source data. Conceptually, they are equal.

Although income and expenditure balance in total, individual spending units or groups spend either more than, or less than, their income for a given period. The central category of bank credit and savings shown in the flow chart makes possible such variation for individual components, within the framework of equality in total income and expenditure.

The identity relationships in this flow chart make it clear that when prices rise, there is an equivalent percentage rise per unit of production in total expenditures, total income, and total money usage. It is necessary to examine internal relationships within the aggregate flow, therefore, to determine cause and effect.

One of the primary factors to examine, in view of its importance in traditional inflations, is the relationship of money supply to physical quantity of production.

During World Wars I and II, and the immediate postwar periods, there was a substantial rise in the quantity of money relative to production. In 1915-20, demand deposits and currency rose 108 per cent, compared with an increase of about 14 per cent in quantity of production. Time deposits (which are not used directly as a medium of exchange but which are readily converted to money) rose nearly 72 per cent. Similar monetary inflation occurred in 1940-45, when demand deposits and currency increased 142 per cent, compared with about 53 per cent for production. Time deposits were up 75 per cent. After the war, in 1945-48, the money supply increased further in the face of slightly lower production levels.

				Factors Affecting Deposits & Currency - Total Banking and Monetary System (increase in billions of \$)				stem
	Money S Cons (\$	upply vs. tant Dolls increase)	GNOP in ars		Loans & Invest- ments	U.S. Govt. Secur- ities	Gold & U.S. Treas.	Less: Foreign
Time Periode	GMP in Constant Dollars	Demand Deposits & Currency	Time Deposits	Total Deposits & Currency	U.S. Govt. Secur- ities	U.S. Treas. Bal- ances	rency less Treas. Cash	Deposits Capital, & Misc. Accounts
Price Increase								
June 1915-June 1920	13.9	108.1	71.5	18.9	16.3	3.9	.7	2.0
June 1933-June 1937	و. 44	60.1	19.6	15.8	.8	10.4	5.4	.7
Dec. 1940-Dec. 1945	52.6	142.1	74.7	80.8	5.8	79.6	8	3.8
Dec. 1945-Dec. 1948	-6.7	9.0	18.7	18.3	20.8	-5.7	5.4	2.2
Dec. 1949-Dec. 1951	16.8	12.0	4.8	16.2	21.3	-2.4	-1.6	1.1
Dec. 1954-Dec. 1957	12.1	3.1	18.4	18.0	31.9	-13.0	1.3	2.2
Price Stability								
June 1921-June 1929	57.6	25.9	72.5	18.4	17.8	1.1	1.3	1.8
June 1937-Dec. 1940	12.2	37.7	7.1	13.4	.5	3.5	11.4	2.1
Dec. 1948-Dec. 1949	-0.1	-0.4	1.9	.7	2.5	7	.2	1.3
Dec. 1951-Dec. 1954	6.2	7.9	22.5	23.7	22.7	5.8	2	4.5
Price Decline								
June 1920-June 1921	-8.5	-12.4	4.7	-2.2	-1.4	4	.5	.9
June 1929-June 1933	-30.4	-26.8	-24.3	-14.0	-21.1	4.1	.2	-2.8

1/ Year-to-year comparisons.

The expansion of deposits and currency during 1915-20 and 1945-48 arose largely from increased loans and investments to business and individuals. During 1940-45, on the other hand, the increased money supply stemmed from government borrowing to finance the war.

These periods of substantial price inflation were clearly the result of excess demand fed by expansion of the money supply relative to production. During World War II, the excess money supply was held in check by the substitution of rationing and price controls for free markets. Once free markets returned, this excess money, coupled with the large volume of other liquid assets readily convertible into money, made possible money demands well in excess of the available supply of goods and services.

An increase in the quantity of money relative to production was not a primary factor in the other periods of rising prices since 1915. During 1933-37, rising prices represented more of a recovery from depression levels rather than excess demand pressing against productivity capacity. They also reflected government policies deliberately aimed at such recovery of prices.

In the 1949-51 price rise, excess demand was again the driving force. After the outbreak of war in Korea, business and consumers bid for commodities and services that they feared would become in short supply and higher priced. This was accomplished through faster turnover of money rather than an increase in its quantity relative to production. The recent general price rise of 1954-57 was marked neither by expansion of the money supply relative to production, nor by broad demand pressures against available supplies. Demand pressures were a factor only in limited segments of the economy, and then only for part of the period. For the broad range of consumer goods and services over the period as a whole, however, excess demand was not a factor.

The weight of evidence points to conditions on the supply side rather than on the demand side as the initiating force behind general price increases over recent years. This is not to deny the role of demand in determining relative price changes among various commodities and services. Nor is it to deny that sufficient demand and money usage was required to pay generally higher prices. These flowed from the price rise, however, rather than the reverse.

The initiating force in steadily rising prices for nonfarm production since 1951 has been the increase in costs of production. This is illustrated in the chart below where the aggregate average price for nonfarm production is broken down into component costs and profits.

#### Chart 2





The chart is based on U.S. Department of Commerce data for gross national product exclusive of government and agriculture. Dollar revenues from production are divided by production in constant dollars to obtain the implicit price, costs, and profits per unit of production. The average price is shown in terms of an index (1954=100), with costs and profits shown as component points in the total index. Costs and profits shown on the chart do not add exactly to the total price because of excluding a small residual for business transfer payments (such as consumer bad debts and gifts to nonprofit institutions), net subsidies of government enterprises, and the statistical discrepancy between income and expenditure measures of production value.

Unit labor costs (which include total employee payrolls and fringe benefits) accounted for

two-thirds of the aggregate price rise from 1951 to 1957. Unit labor costs increased because pay rates and fringe benefits expanded at a more rapid rate than production per employee man-hour.

Other unit costs also moved up steadily over this period. This rise was concentrated in depreciation, interest, and indirect taxes. Higher unit labor costs in construction and capital equipment industries, as well as in government, were a factor also in these cost increases.

Income remaining for business owners did not rise over this period relative to production. Net income to owners of unincorporated business per unit of production was virtually unchanged. Corporation unit profits declined, both on a beforetax and after-tax basis. The chart shows unit profits on an after-tax basis because, to the stockholder, this represents income before taxes. The investor pays income taxes on dividends and capital gains taxes on gains realized from investment of undistributed profits. Corporation profits taxes are a cost to the investor of doing business just as any other expenditure. In diagnosing the 1951-57 period, however, it is not essential to distinguish between before- and after-tax figures. There was a decline on either basis relative to production.

This type of income distribution from production does not prevail in a traditional inflation. Where demand is the driving force, unit profits will rise along with unit costs. Excess money demand normally bids up prices more rapidly than costs. The prospect for higher profits also leads to competitive bidding for employees, construction, capital equipment, and investor funds.

The decline in unit profits for recent years clearly indicates that neither general excess demand nor business pricing for higher profit margins was responsible for rising prices on nonfarm production after 1951. The generating force was a push-up in unit costs, largely the result of attempts to move ahead more rapidly on general pay rates and fringe benefits than could be validated by greater efficiency of production for the nonfarm economy as a whole. Business profits were not large enough to absorb these cost increases even if profits had been wiped out.

A strikingly different picture has prevailed since 1951 in farm prices, costs, and net incomes per unit of production.

In contrast with the nonfarm segment, farm unit costs (hired labor, depreciation, etc.) account for a relatively small portion of the price and have been fairly stable since 1951. Farm prices declined sharply from 1951 to 1955, as temporarily heavy demands receded and supplies increased. The decline in price was reflected in lower net income to farmers per unit produced. It should be noted, however, that farm prices and unit net income had previously risen more sharply during 1940-48.







It is not surprising that farm prices and incomes show greater fluctuation than the total nonfarm sector of the economy. Farm supplies cannot be geared as readily to demand as most nonfarm products and services because:

- 1. Farm production is influenced to an important extent by weather conditions.
- 2. The production cycle is longer than most nonfarm items.
- 3. Low unit costs for marginal production relative to price encourage extra production, particularly with government price-support operations.
- 4. Perishable farm products cannot be held off the market. They must be marketed for whatever price they will bring.
- 5. The large number of producers makes for less stability in production and prices. It is more difficult to effect necessary changes in production.

Further light on the inflation problem can be obtained by examination of the major component industry groups within the nonfarm economy. Unfortunately, data are not yet published on an industry breakout for the components of gross national product in current dollars and in constant dollars. Computations thus cannot be made for unit prices, costs and profits comparable with the two preceding charts for the total private nonfarm segment and for the farm segment of the economy. It is hoped that such data can be made available in the future.

Data are available, however, for national income originating in the major industry groups. This makes possible a comparison of employee compensation with net profits and profits taxes. Chart 4 illustrates the data for industries dominated largely by the corporate form of business.

In manufacturing, mining, and transportation, corporation profits have obviously not been a



CHART 5



factor in higher prices over recent years. Manufacturing corporation profits after taxes were  $\$l\frac{1}{2}$  billion higher in 1957 than in 1948, compared with a \$39 billion increase in employee compensation. l/ The absolute level of employee compensation in 1957 was nearly 8 times as large as net profits. It is clear then that higher manufacturing prices in the aggregate did not reflect higher profits, and that profits are not large enough to cover much of a pay increase. The 15 per cent rise in physical quantity of manufacturing production shown by the Federal Reserve Index.

In mining and transportation, profits actually declined over this period, while employee payrolls went up substantially. Obviously, profits had nothing to do with higher prices in these segments.

Only in communications and public utilities did aggregate profits participate appreciably in rising revenues. Net profits rose by \$1.3 billion from 1948 to 1957, while employee compensation increased \$3.8 billion. Profits are also larger in absolute amount relative to employee compensation in this segment of the economy, because so much of the production process represents capital facilities input. Prices charged by these corporations are, however, subject to government regulation. It can be assumed that pricing to obtain higher profits was not a factor even for communications and public utilities.

For the industries dominated by unincorporated business firms, trade (wholesale and retail) shows a picture comparable with manufacturing. (See Chart 5.) Employee compensation 2/ increased by \$18 billion from 1948 to 1957, while income to the unincorporated owners rose only slightly more than \$1 billion. The 12 per cent rise in aggregate owner income was undoubtedly less than the increase in value of services performed in constant prices. Here again, higher profits had nothing to do with higher prices.

The picture for agriculture in terms of unit labor costs and owner income has been covered in the earlier chart for farm product. Income to owners declined, while total hired worker payrolls remained unchanged. Owner income in agriculture is much larger than employee compensation because hired workers contribute only a small portion of the value added on the farm. The owner and his unpaid family help account for the great bulk of man-hours worked on the farm, as well as for the capital used in farm production. To a substantial extent, net income to farm owners represents pay for their labor. Only part of this income can be considered as return on capital invested in production.

The results for service industries and construction are more similar to communication and public utilities. Income to the owners of unincorporated firms in these industries has grown in line with employee payrolls, although the absolute level and amount of increase in payrolls has been greater. These industries are not dominated by large business enterprises, which are usually designated as the culprits in pricing policies to obtain high profits.

That pricing to obtain higher profit margins is not the cause of inflation in recent years is even more forcefully indicated by the following chart, which relates profits of all manufacturing corporations to sales and to invested capital. The profit margin on sales is shown both on a before- and after-tax basis. This comparison is useful in periods of changing tax rates.

#### Chart 6

#### RATES OF RETURN

#### ALL MANUFACTURING CORPORATIONS



Selection of proper base dates is most important in analysis of profit margins between two years. Profit margins always shrink in recession years such as 1949, 1954, and 1958, and rise in recovery years. Tax-rate increases after outbreak of war in Korea and reductions after cessation of hostilities affected after-tax comparisons in the last half of 1950 and in 1954.

With due allowances for these impacts, profit margins in recent years have fallen short of comparable postwar years prior to Korea. Even in 1955, profit margins did not return to the levels of earlier prosperous years such as 1948 and 1950. Margins declined from 1955 to 1957 during the period of sharpest price rise since 1951.

Despite these facts on aggregate profits and costs, some observers still argue that pricing policies of large corporations are to blame for inflation. They usually base their arguments on data comparisons which are at best incomplete and at worst a distortion.

Such is the case where price increases are attacked because they bring in more total revenue than the added cost of hourly worker payrolls per unit of production for an individual company or group of companies. Hourly worker payrolls of the individual company are only part of the total cost. There are many other factors in the production process; e.g., salaried workers, capital input, and materials and services purchased from others. The latter in turn represent employee costs and profits of supplying firms. Wage-rate and fringe benefit increases for a company's hourly-paid workers infiltrate all these other costs as well. Also, there may be a shift in the mix of the various input factors. A comparison of increased cost per unit of production for only one of the input factors relative to price presents a partial and distorted picture.

Another distortion is the comparison of profits from a low-volume year to a high-volume year, or of absolute dollar profits over a period of time without allowance for increased volume or capital investment. Profits fluctuate sharply over the business cycle so that comparisons are valid only if they refer to the same stage in the cycle. The absolute volume of profits in itself is not meaningful in a discussion of prices. Only the profit margin on sales or on invested capital is significant for price purposes.

The relationship of profits to prices is also distorted by use of the most profitable companies as a standard for ability to absorb cost increases without raising prices. A squeeze in profits of these companies also means a squeeze on their less profitable competitors. The ultimate result of such a policy would be to drive out of business all but the most efficient producer. Even if it were possible to equalize the profit position of the most and least efficient producers, the incentive for increased efficiency would be eliminated.

Incomplete analysis also underlies the argument that "administered prices" are to blame for inflation in recent years. The term "administered prices" is far from precise, but generally refers to quoted prices that do not fluctuate frequently and sharply with changes in demand. The seller is not at the mercy of an auction market over which he as an individual has little control.

On that basis, most nonfarm prices are administered. Since nonfarm prices have accounted for most of the price rise since 1951, it obviously follows that this is the area of inflation during this period. As mentioned earlier in this discussion, however, the reason for the differential performance of prices is to be found in costs and in the fact that farm production was not adjusted adequately to demand.

Every seller can "administer" the price of his own product or service. He cannot, however, administer his combined price-volume-cost-profit relationship. He is primarily interested in maximizing his return on investment, rather than receiving a stated price. Price is only one factor in determining return on investment, as shown in the following examples. This is true whether the business is large or small.

In Example A, the seller's cost picture shows a variable cost  $\frac{3}{2}$  per unit produced of \$700 and a total dollar fixed cost  $\frac{4}{2}$  of \$4,000 at his present productive capacity. His problem is to maximize his return on an investment which we assume to be \$10,000. At a price of \$1,000 per unit, he can sell 20 units. On this basis, his profit before taxes will be \$2,000 or 20 per cent on investment. At a price of \$950 a unit, he would have to sell 24 units to make the same total dollar profit (assuming that his productive capacity is ample to handle the greater volume without a rise in fixed cost). In other words, he would have to sell 20 per cent more units at a 5 per cent lower price, an elasticity factor of 4 to 1. Furthermore, his break-even volume would also increase 20 per cent (from 13-1/3 units to 16 units) by the narrowing in price spread over unit variable cost.

# PRICE-VOLUME-COST-PROFIT RELATIONSHIPS

	UNIT VOLUME WITH PRICE OF \$1,000			UNIT VOLUME REQUIRED AT PRICE OF \$950		
	DOLLARS PER	SOLD	TOTAL DOLLARS	DOLLARS PER	UNITS TOTAL SOLD DOLLARS	
PRICE Variable Cost Fixed Cost Profit before taxes	\$1,000 700 200 3 100	20 " "	\$20,000 14,000 4,000 2,000	\$ 950 700 166-2/3 83-1/3	24 \$22,800 1 16,800 1 4,000 1 2,000	

#### EXAMPLE B

PRICE	\$1,000	20	\$20,000	\$ 950	22	\$20,900
VARIABLE COST	(450)		9,000	(450)		9,900
FIXED COST	450		(9,000)	409	<b>"</b>	(9,000)
PROFIT BEFORE TAXE	s 100		2,000	91		2,000

In Example B, the seller's cost distribution is different. Variable costs are only \$450 per unit, but total fixed costs are \$9,000. Sale of 20 units at a price of \$1,000 will yield the same \$2,000 before taxes. In this case, however, only a 10 per cent increase in volume is necessary to offset a 5 per cent reduction in price, or an elasticity factor of 2 to 1. Break-even volume would be raised the same 10 per cent.

It is clear, then, that differential price behavior may be related to differences in cost structure and in elasticity of demand relative to price. Each seller must take into consideration his particular price-volume-cost-profit relationship in setting his price. If he sets a price higher than his competitors, the loss of volume may more than offset his higher unit margin over variable costs. On the other hand, if he takes the lead in setting a lower price, he must gamble on enough increase in volume to offset the lower unit margin. He receives no competitive volume advantage if his competitors meet his price. If all sellers meet the lower price, they will realize lower returns on investment unless the total market is stimulated enough to offset lower margins.

Presumably the concern about "administered prices" as a factor in inflation is that sellers will be able to set higher profit margins for themselves. The previous chart on profit margins in recent years, however, indicates that profit margins have acted as a drag, rather than a push, on prices in recent years.

#### Conclusion

The underlying factor in the long-run rise of nonfarm prices since 1951 has been increasing costs. Price performance has not been uniform among various products and services because of differential cost increase and because of differential demand impact on profit margins. The economy was not, however, suffering from general excess demand in this period.

This is a different type of inflation than that experienced in wars and immediate postwar periods. It is more gradual and sustained. It leads to different expectations by business and consumers and has a different impact on the economy.

Traditional tools to combat inflation through restrictive monetary, credit and fiscal policies are effective primarily against excess money demand. They are also partially effective in holding down cost increases, but only at the risk of curtailing demand below levels needed for a prosperous and growing economy.

The recent type of inflation can be combatted only by holding total payrolls in line with production. Rising production is the only source of real purchasing power. Paying out excess dollars creates only inflation, not real economic growth and stability.

#### Footnotes

- 1/ Employee compensation includes a small amount for unincorporated firms which cannot be segregated in the national income figures.
- 2/ Including employee compensation for corporations, which cannot be segregated in the national income data.
- 3/ Variable costs are those items where total dollar costs vary directly in proportion to volume.
- 4/ Fixed costs are those items where total dollar costs are the same regardless of volume.

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#### PRICES, COSTS, AND PROFITS PER UNIT OF PRODUCTION

(PRIVATE NONFARM PRODUCT)

	Total <u>Price</u> (Index) (1954=100)	Labor Cost	Other <u>Costs</u> <u>1</u> / (Points	Net Profits 2/ of <u>Corporations</u> in Total Index)-	Net Income 2/ of Unincorp. Business
1929	58.2	29.3	17.0	5.6	5.7
1930 31 32 33 34 35 36 37 38 39	56.9 52.6 48.2 47.3 49.3 48.6 50.5 50.6 49.9	29.7 27.5 25.2 24.6 25.1 25.1 24.4 26.7 26.0 25.6	17.9 18.4 20.4 20.3 18.5 17.3 15.7 15.6 16.7 15.7	4.2 1.0 -2.2 -2.5 0.3 1.6 2.5 3.1 2.3 2.8	5.3 4.5 3.3 3.2 4.1 4.4 4.6 4.7 4.8 4.7
1940 41 42 43 44 45 46 47 48 49	50.4 54.3 60.9 66.6 68.0 67.9 72.8 81.1 86.9 87.6	25.4 27.4 32.0 36.0 36.1 35.9 40.3 45.0 48.0 48.0 47.4	15.6 17.2 18.6 19.4 18.8 18.8 18.9 20.9 22.6 23.5	3.7 3.5 3.8 4.2 3.2 3.5 5.1 7.3 7.1	4.9 5.5 6.5 7.4 7.5 8.0 9.1 8.2 8.9 9.0
1950 51 52 53 54 55 55 56 57	88.8 94.9 97.2 98.7 100.0 101.4 104.5 108.3	47.7 51.3 53.4 55.0 55.6 55.2 58.3 60.4	26.0 27.7 28.6 29.3 30.2 31.5 32.8	6.5 6.3 6.0 5.4 5.3 <u>6.3</u> 5.9 5.7	8.6 8.9 8.9 8.7 8.9 9.0 8.9 8.9

1/ Includes capital consumption allowances, profits taxes, indirect business taxes, net interest, and rental income. Does not include business transfer payments, net subsidies of government enterprises to nonfarm business, and the statistical discrepancy between measures of income and production. Total costs, net profits, and net income of unincorporated business will differ from total price by the total of these excluded items.

2/ Excludes profits and losses from inventory revaluation.

Source: Indexes computed by the author from Department of Commerce data on national income and product.

# COMPONENTS OF "OTHER COSTS" PER UNIT OF PRODUCTION

### (PRIVATE NONFARM PRODUCT)

	Tot <b>a</b> l Other <u>Costs</u>	Rent <b>a</b> l Income	Net Interest	Capital Consumption Allowances	Indirect Business Taxes	Corporate Profits Taxes
		Points	in total pr	ice index (1954	=100)	
1929	17.0	3.5	3.6	4.8	4.2	0.9
1930 31 32 33 34 35 36 37 38 39	17.9 18.4 20.4 20.3 18.5 17.3 15.7 15.6 16.7 15.7	3.4 3.0 2.6 1.5 1.4 1.2 1.4 1.8 1.8	3.8 4.1 4.6 4.5 3.9 3.5 3.0 2.9 3.0 2.7	5.3 5.8 6.5 5.7 5.2 4.5 4.8 4.4	4.8 5.1 6.8 6.4 5.9 5.3 5.8 5.8	0.6 0.4 0.5 0.7 0.8 1.0 1.0 0.7 0.9
1940 41 42 43 44 45 46 47 48 49	15.6 17.2 18.6 19.4 18.8 18.8 18.9 20.9 22.6 23.5	1.7 1.8 2.1 2.2 2.2 2.4 2.6 2.7 2.9 3.3	2.4 2.1 1.8 1.5 1.3 1.2 1.2 1.4 1.5 1.7	4.2 4.0 4.1 4.1 4.3 4.5 4.1 4.7 5.4 6.0	5.7 5.3 5.4 5.2 7.4 7.9 8.3	1.7 3.8 5.2 5.4 3.9 4.9 4.9 4.1
1950 51 52 53 54 55 56 57	26.0 27.7 27.9 28.6 29.3 30.2 31.5 32.8	3.3 3.2 3.4 3.3 3.5 3.2 3.1 3.4	1.8 2.0 2.2 2.4 2.7 2.9 3.0 3.4	6.0 6.4 6.9 7.3 8.2 8.4 8.9 9.6	8.4 8.5 9.0 9.2 9.4 9.4 9.9 10.3	6.5 7.6 6.4 6.4 5.5 6.4 6.4 6.1

1/ See pp.133-134 of "The Relationship of Prices to Economic Stability and Growth," Joint Economic Committee, Oct. 31, 1958.

Source: Indexes computed by the author from Department of Commerce data on national income and product.

# PRICES, COSTS, AND PROFITS PER UNIT OF PRODUCTION

(FARM PRODUCT)

	Total Price (Index) (1954=100)	Labor Cost (Pe	Other <u>L</u> / <u>Costs</u> <u>L</u> / pints in Total	Net Income 2/ of Uninc. Farms Index)
1929	59.6	7.8	15.5	36.2
1930 31 32 33 34 35 36 37 38 39	51.3 35.1 26.9 28.1 32.0 42.1 44.4 45.9 37.8 36.6	7.8 5.2 3.8 5.0 4.7 6.1 5.6 5.5 5.6	16.3 12.5 11.6 10.3 12.1 9.8 11.8 10.0 10.1 10.4	27.4 17.9 11.6 14.9 18.1 30.5 28.0 31.9 24.4 24.3
1940 41 42 43 44 45 46 47 48 49	39.2 49.8 65.5 81.5 81.4 89.5 104.9 122.8 123.6 105.2	5.9 6.7 8.1 10.9 11.6 12.8 13.9 16.7 15.8 15.7	10.6 10.8 10.9 12.5 13.1 14.7 11.0 14.8 15.8 19.3	26.1 34.6 49.1 60.4 60.0 65.3 82.8 92.0 92.2 70.6
1950 51 52 53 54 55 56 57	106.2 130.4 121.0 107.4 100.0 91.6 90.1 92.6	13.9 15.5 15.0 14.4 13.4 12.8 13.1 13.9	20.3 24.9 25.4 25.4 25.0 24.6 25.1 27.1	72.5 90.2 81.6 68.1 62.5 55.0 54.1 55.8

1/ Includes capital consumption allowances, indirect business taxes, and net interest. Does not include farm corporate profits after tax, profits taxes, and subsidies of government enterprises to farms. Total costs and net farm income will differ from total price by the total of these excluded items.

2/ Excludes profits and losses from inventory revaluation.

Source: Indexes computed by the author from Department of Commerce data on farm income and product.

## NATIONAL INCOME BY INDUSTRY

# CORPORATE INDUSTRIES 1

(Billions of Dollars)

#### MANUFACTURING MINING Corporate Corporate Profits Compensation Corporate Profits Compensation Corporate After of After Profits Profits of Taxes 2/ Taxes 2/ Employees Taxes Employees Taxes 48.6 9.7 9.6 .40 •97 •69 1948 7.1 3.54 49 46.1 .26 5.7 3.13 3.44 52.5 62.4 10.9 14.4 9.5 10.0 .40 1950 .92 .90 .72 .65 .69 51 52 53 54 55 57 57 .45 3.91 67.4 74.8 9.5 9.0 3.97 4.08 •35 •27 11.6 12.4 3.74 4.06 .29 .42 **8.**8 71.1 9.6 78.0 13.1 11.9 .96 .82 83.9 87.7 4.53 4.68 .47 .36 11.3 13.2 12.3 11.2

	TRA	NSPORTATION		COMM. &	PUBLIC UTIL	ITIES
	Compensation of Employees	Corporate Profits Taxes	Corporate Profits After Taxes 2/	Compensation of Employees	Corporate Profits Taxes	Corporate Profits After Taxes 2/
1948 49	10.29 9.88	.68 .47	.79 .66	4.12 4.38	.58 .67	.81 1.06
1950 51 52 53 54 55 55 56	10.42 11.97 12.51 13.08 12.47 13.25 14.32	.90 1.04 1.02 .92 .59 .84 .82	.98 .84 .69 .30 .58 .51	4.62 5.11 5.61 6.13 6.46 6.85 7.44 7.92	.94 1.34 1.54 1.72 1.78 2.10 2.22 2.34	1.15 1.29 1.44 1.60 1.71 1.90 1.99 2.13

1/ Consist primarily of corporate businesses.

2/ Excl. inventory profits and losses.

Source: Department of Commerce

# NATIONAL INCOME BY INDUSTRY

# UNINCORPORATED INDUSTRIES 1/

(Billions	of	Dollars)	

	TRA	DE		۱ <u>.</u>	
	Compensation of Employees	Income of Unincorp. Businesses	Compensation of Employees	Income of Unincorp. Businesses	Net Interest
1948	26.05	10.06	12.57	6.17	1.37
-49	26.43	9.81	12.95	6.24	1.66
1950	28.33	9.57	13.82	6.68	2.12
51	31.23	10.94	15.14	7.01	2.36
52	32.99	11.20	16.22	7.45	2.72
53	35.09	10.88	17.30	7.99	3.39
54	36.09	10.99	17.96	8.13	3.63
.55	38.62	11.51	19.61	9.38	<b>4.18</b>
56	<b>41.66</b>	11.35	21.58	9.87	4.81
57	44.01	11.30	23.17	10.38	5.21

	AGRIC., F & FISHE	ORES TRY RIES	CONSTRU	CTION
	Compensation of Employees	Income of Unincorp. Businesses	Compensation of Employees	Income of Unincorp. Businesses
1948	3.35	18.03	7.44	2.61
49	3.18	13.19	7.27	2.66
1950	3.01	14.27	8.35	3.00
51	3.18	16.63	10.37	3.28
52	3,22	15.65	11.26	3.51
53	3.24	13.60	11.80	3.58
54	3.18	13.03	12.02	3.54
55	3.23	12.13	12.93	<b>4.0</b> 0
56	3.35	12.02	14.30	4.26
57	3.45	11.99	14.72	4.50

 $\underline{1}$  Consist primarily of unincorporated businesses.

Source: Department of Commerce

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# RATES OF RETURN

(ALL	MANUFACTURING	CORPORATIONS)
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		PROFITS AS % OF SALES		PROFITS AS % OF INVESTED CAPITAL		
		Before Taxes	After Taxes	Before Taxes	After Taxes	
1948	19 2 3 4	11.5 11.1 11.0 10.9	7.2 7.0 6.9 6.8	26.8 25.2 25.2 25.2 25.2	16.8 16.0 16.0 15.6	
1949	1 <b>Q</b>	9.9	6.1	20.4	12.8	
	2	8.5	5.2	16.8	10.4	
	3	9.5	6.0	18.8	12.0	
	4	9.3	6.0	18.0	11.6	
1950	1 <b>Q</b> 2 3 4	10.1 11.8 13.5 14.9	6.2 7.4 7.6 6.9 *	19.6 24.8 31.2 35.6	12.0 15.6 17.6 16.4 *	
1951	19	13.5 12.4	6.1 5.6	32.8 32.0	14.8 14.3	
	2	12.8 11.7	5.8 5.2	30.4 29.7	13.6 13.3	
	3	11.5 10.5	4.7 4.2	25.5 24.9	10.4 10.0	
	4	11.0 10.1	4.8 4.4	25.8 25.3	11.2 10.9	
1952	1 <b>Q</b>	9.9	4.2	23.6	10.1	
	2	9.2	4.2	22.0	10.0	
	3	8.9	4.3	20.7	9.9	
	4	8.6	4.4	22.2	11.3	
1953	19	10.0	4.3	24.9	10.7	
	2	10.4	4.4	26.4	11.2	
	3	9.6	4.3	23.3	10.5	
	4	6.7	4.0	15.8	9.5	
1954	1 <b>Q</b>	8.4	4.3	18.5	9.4	
	2	8.9	4.7	19.8	10.4	
	3	8.2	4.4	17.5	9.3	
	4	8.2	4.7	18.3	10.6	
1955	19	9.9	5.1	22.3	11.4	
	2	10.6	5.5	25.0	13.0	
	3	10.2	5.4	23.3	12.3	
	4	10.3	5.6	24.6	13.5	
1956	19, 2 3 4	# 10.3 10.2 10.3 10.3 9.0 9.3	5.4 5.3 5.5 5.5 4.9 5.2	23.4 23.8 23.8 24.2 20.2 22.3	12.2 12.5 12.8 13.0 11.0 12.6	
1957	19	9.7	5.1	22.5	11.9	
	2	9.4	5.0	21.6	11.6	
	3	8.5	4.7	19.1	10.5	
	4	7.6	4.4	16.8	9.8	
1958	1 <b>Q</b> 2 3 4	6.4 6.8 7.8	3.4 3.8 4.4	12.9 13.9 15.9	6.8 7.8 9.0	

\* New Series beginning 1Q 1951; # New Sample beginning 1Q 1956. (Source: FTC-SEC)