

**PROFIT RATES :  
GRAVITATION AND TRENDS  
(APPENDICES)**

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## Appendices

### A.1 Individual and capitalist business: Additional tables relating to section 3

This appendix provides additional information concerning section 3. Table 8 reproduces the classification of table 2 in section 3.1, but presents the results of the tests of the capitalist features of industries. The table displays the average values, over the entire period, of the four variables :

$$\begin{aligned}C1 &= \frac{\text{Full-time equivalent employees}}{\text{Persons engaged in production}} \\C2 &= \log \frac{\text{Fixed capital in constant dollars}}{\text{Persons engaged in production}} \\C3 &= \frac{\text{Corporate profits before tax}}{\text{Corporate profits before tax} + \text{Proprietors' income}} \\C4 &= 8.7 C1 + C2\end{aligned}$$

Tables 9 and 10 supplement table 3 in the analysis of the comparative size (in terms of net product and employment) of the various sectors and industries of diagrams I and II. They provide average figures for the earlier (1948-1957) and latter (1988-1997) decades of the period, and the variations in between.

### A.2 Individual and capitalist business: Criteria over time

The selection in section 3.2 has been performed using the average values over the entire period,  $\overline{C1}$ ,  $\overline{C2}$ , and  $\overline{C3}$ , of the three criteria. These three criteria describe important features of the economy, which evolved over time. Although this does not affect the selection in section 3, it is interesting to examine their trends since World War II :

1. Recall that the first criterion, C1, accounts for the number of salaried workers within total employment, salaried and self-employed. As shown in figure 37 (for *Business*), this variable increased steadily between 1948 and 1968, but it later remained approximately constant until 1997 fluctuating around 89%. Thus, two quite distinct periods must be distinguished since World War II. Production was, at first, carried out by a growing proportion of salaried workers, but this rise was interrupted in the late 1960s.
2. The second criterion, C2, describes the more or less capital intensive features of the industries, using the logarithm of the capital-labor ratio. Its evolution since World War II is depicted in figure 38. This ratio rose rather steadily up to the end of the 1970s, when it significantly slowed down. This is a feature of technical change during the recent decades, which can be related to the better-known (labor) productivity slowdown, on which we commented in other works.<sup>36</sup>
3. The third criterion, C3, measures the importance of the corporate sector, compared to the total, by the ratio of corporate profits before profit tax to the total nonwage income

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36. G. Duménil, D. Lévy, *The Economics of the Profit Rate: Competition, Crises, and Historical Tendencies in Capitalism*, Aldershot: Edward Elgar, 1993, ch. 15 ; *La dynamique du capital. Un siècle d'économie américaine*, Paris: Presses Universitaires de France, 1996, ch. 15.

Table 8 - Values of the criteria (average 1948-1997)

	$\bar{C}_1$	$\bar{C}_2$	$\bar{C}_3$	$\bar{C}_4$	
3	BUSINESS	.871	3.998	.502	11.576
4	AGRICULTURE, FORESTRY, AND FISHING	.435	4.223	.022	8.011
5	Farms	.387	4.372	.015	7.742
6	Agricultural services, forestry, and fishing	.612	3.454	.081	8.780
7	MINING	.968	5.823	.824	14.249
8	Metal mining	.977	5.609	.875	14.111
9	Coal mining	.984	4.607	.657	13.168
10	Oil and gas extraction	.957	6.359	.852	14.688
11	Nonmetallic minerals, except fuels	.971	4.682	.828	13.128
12	Construction	.786	2.547	.177	9.387
13	MANUFACTURING	.981	3.720	.903	12.252
14	DURABLE GOODS	.980	3.586	.899	12.110
15	Lumber and wood products	.905	3.160	.657	11.035
16	Furniture and fixtures	.962	2.680	.808	11.045
17	Stone, clay, and glass products	.975	3.938	.878	12.424
18	Primary metal industries	.997	4.622	.928	13.295
19	Fabricated metal products	.988	3.359	.900	11.950
20	Machinery, except electrical	.981	3.308	.888	11.839
21	Electric and electronic equipment	.996	3.098	.967	11.764
22	Motor vehicles and equipment	.997	3.931	.983	12.605
23	Other transportation equipment	.993	3.271	.953	11.914
24	Instruments and related products	.993	3.240	.944	11.883
25	Miscellaneous manufacturing industries	.927	2.897	.786	10.960
26	NONDURABLE GOODS	.982	3.883	.902	12.426
27	Food and kindred products	.983	3.955	.933	12.506
28	Tobacco products	.999	4.024	.995	12.711
29	Textile mill products	.993	3.591	.952	12.230
30	Apparel and other textile products	.980	1.726	.732	10.251
31	Paper and allied products	.998	4.294	.974	12.976
32	Printing and publishing	.940	3.087	.786	11.265
33	Chemicals and allied products	.996	4.563	.926	13.224
34	Petroleum and coal products	1.000	5.671	.927	14.367
35	Rubber and miscellaneous plastics products	.995	3.490	.927	12.146
36	Leather and leather products	.985	2.341	.865	10.910
37	TRANSPORTATION AND PUBLIC UTILITIES	.949	5.599	.766	13.855
38	TRANSPORTATION	.924	5.276	.442	13.315
39	Railroad transportation	1.000	6.520	1.000	15.220
40	Local and interurban passenger transit	.879	4.277	.292	11.924
41	Trucking and warehousing	.860	3.638	.246	11.119
42	Water transportation	.974	5.063	.786	13.539
43	Transportation by air	.986	4.624	.900	13.199
44	Pipelines, except natural gas	1.000	7.455	.999	16.155
45	Transportation services	.943	4.748	.347	12.951
46	COMMUNICATIONS	.995	5.139	.944	13.792
47	Telephone and telegraph	.996	5.217	.965	13.881
48	Radio and television	.987	4.614	.833	13.201
49	Electric, gas, and sanitary services	.988	6.548	.882	15.141
50	Wholesale trade	.933	2.957	.655	11.074
51	Retail trade	.850	2.828	.349	10.223
52	Finance, insurance, and real estate	.912	5.002	.713	12.933
53	Banking	.999	4.160	.996	12.850
54	Credit agencies other than banks	.971	3.904	.963	12.352
55	Security and commodity brokers	.854	2.435	.207	9.866
56	Insurance carriers	1.000	2.674	1.000	11.374
57	Insurance agents, brokers, and service	.754	1.919	.200	8.476
61	Holding and other investment offices	.997	5.035	.497	13.708
62	SERVICES	.841	2.663	.100	9.976
63	Hotels and other lodging places	.757	3.896	.275	10.479
64	Personal services	.644	2.265	.090	7.869
65	Business services	.879	2.770	.217	10.415
66	Auto repair, services, and parking	.689	3.771	.072	9.766
67	Miscellaneous repair services	.532	2.548	.109	7.174
68	Motion pictures	.787	3.226	.417	10.074
69	Amusement and recreation services	.887	3.847	.249	11.567
70	Health services	.871	2.243	.080	9.817
71	Legal services	.635	2.535	.021	8.062
72	Educational services	.905	1.124	.159	8.993
73	Other	.898	1.955	.093	9.770

Table 9 - Net product: Shares of the components of *Business* (average 1948-1997 and variations over time)

	(1)	(2)	(3)	(3)-(2)
<b>Net Product</b>	48-97	48-57	88-97	
<b>BUSINESS</b>	100.0	100.0	100.0	
<b>NF-Capitalist business</b>	71.8	74.3	67.3	-7.0
Mining	2.5	3.3	1.3	-2.0
Manufacturing	29.9	35.7	22.4	-13.3
Durable goods	17.3	20.1	12.5	-7.7
Nondurable goods	12.5	15.6	10.0	-5.6
Transportation and public utilities	10.2	10.3	9.9	-.4
Transportation	4.8	6.2	3.9	-2.2
Communications	2.6	2.0	2.9	+9
Electric, gas, and sanitary services	2.8	2.2	3.1	+9
Trade	21.5	20.9	21.0	+1
Wholesale trade	9.1	8.2	8.9	+8
Retail trade	12.5	12.7	12.0	-7
Capitalist services	7.6	4.1	12.7	+8.6
<b>Individual business</b>	19.5	19.3	21.1	+1.7
Agriculture, forestry, and fishing	4.0	7.2	2.1	-5.2
Construction	6.0	5.8	5.6	-.2
Individual-business services	9.5	6.3	13.4	+7.1
<b>Finance and Nonresidential real estate</b>	8.7	6.3	11.6	+5.3
Finance	5.9	3.8	8.8	+5.0
Nonresidential real estate	2.8	2.6	2.9	+3

Table 10 - Employment: Shares of the components of *Business* (average 1948-1997 and variations over time)

	(1)	(2)	(3)	(3)-(2)
<b>Employment</b>	48-97	48-57	88-97	
<b>BUSINESS</b>	100.0	100.0	100.0	
<b>NF-Capitalist business</b>	68.3	67.4	67.7	+4
Mining	1.1	1.7	.6	-1.0
Manufacturing	25.2	30.1	17.6	-12.5
Durable goods	14.5	16.8	10.2	-6.6
Nondurable goods	10.7	13.3	7.4	-5.9
Transportation and public utilities	6.7	7.9	5.8	-2.1
Transportation	4.3	5.4	3.7	-1.7
Communications	1.4	1.4	1.2	-.2
Electric, gas, and sanitary services	1.0	1.0	.9	-.2
Trade	24.7	22.2	26.6	+4.4
Wholesale trade	6.1	5.6	6.1	+5
Retail trade	18.7	16.6	20.5	+3.9
Capitalist services	10.5	5.4	17.1	+11.7
<b>Individual business</b>	26.2	28.8	25.6	-3.2
Agriculture, forestry, and fishing	6.1	11.3	3.1	-8.2
Construction	6.3	6.4	6.2	-.2
Individual-business services	13.9	11.1	16.2	+5.1
<b>Finance and Nonresidential real estate</b>	5.5	3.8	6.7	+2.9
Finance	4.4	3.0	5.3	+2.3
Nonresidential real estate	1.1	.8	1.4	+5

(corporate profits before profit tax plus proprietors' income). It is an indicator of incorporation. It is interesting to notice, in figure 39, that this ratio fluctuated around one half (between 45% and 55%). However, a slight upward trend is apparent until 1968, which matches the rise of salaried workers during the same period.

### **A.3 Individual and capitalist business: The impact of the correction for self-employed persons**

This appendix is devoted to the impact of the estimation of the wage equivalent for self-employed persons. The general principle of this computation is the following: A unit wage is determined by employee, and this unit wage is multiplied by the number of self-employed persons to determine a wage equivalent. Two types of problems are posed by the determination of the wage by employee:

1. A first issue is the unit of analysis in which the average labor compensation of salaried workers is computed. Two such units of analysis have been considered: *Business* or the particular industry whose profit rate is computed, *i.e.*, industries in diagram II (*Finance*, the three components of *Individual business*, and the nine components of the *NF-Capitalist business*).
2. A second difficulty concerns the number of employees. One option is to divide the total labor compensation by the number of part-time and full-time employees. In this case, self-employed persons are assumed to work the average number of hours in the industry. A second option, is to divide the labor compensation by the number of full-time equivalent employees. This is equivalent to assuming that all self-employed persons work full time.

Since two possibilities are opened in each case, a total of four variants can be studied:

1. Total compensation in the industry divided by the number of full-time and part-time employees.
2. Total compensation in *Business* divided by the number of full-time and part-time employees.
3. Total compensation in the industry divided by the number of full-time equivalent employees.
4. Total compensation in *Business* divided by the number of full-time equivalent employees.

Figure 40 shows the results of these 4 computations for the *NF-Capitalist business*. Clearly, the choice makes no significant difference. This is due to the largely incorporated nature of the sector. Conversely, the effect is large for *Individual business* for the symmetrical reason, as shown in figure 41. It also appears on this figure that the second problem, (part-time and full-time) has a more limited impact. The crucial issue is the use of the labor compensation specific to the industry. The difference is dramatic prior to the 1970s. In this study, we always use the first variant above.

### **A.4 Gravitation: Additional tables and figures of section 4**

This appendix presents additional information concerning section 4.

Figure 42 shows the absolute deviations of profit rates from the average of the *NF-Core* where the hypothesis of a gravitation of profit rate around a common value can be

Figure 37 C1 over time: Proportion of salaried workers in total employment

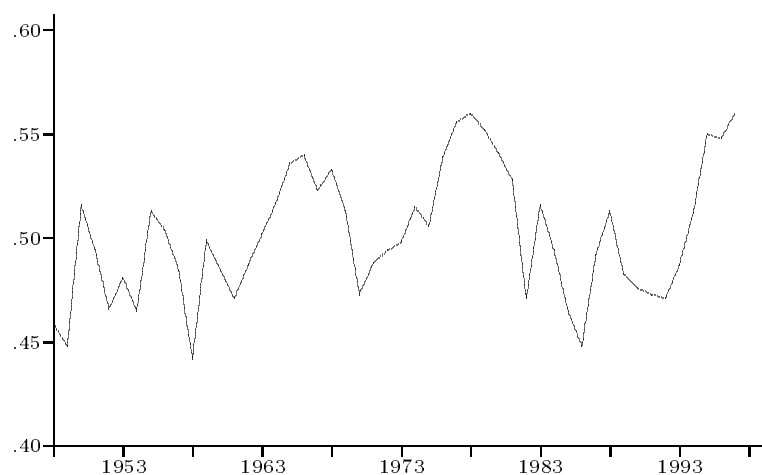


Figure 38 C2 over time: Logarithm of the capital-labor ratio



The sector is *Business*.

Figure 39 C3 over time: Share of corporate profits in total nonwage income



The sector is *Business*.

admitted. A striking feature of this gravitation is that its amplitude remained rather constant over time.

Figure 43 concerns *Communications* and *Railroad transportation*, which pertain to the group of *Highly capital intensive industries* for which we reject the gravitation hypothesis. This figure illustrates the heterogeneous feature of this sector comparing two extreme cases. *Communications* is close to the *NF-Core*, in particular during latter years, whereas the profit rate of *Railroads* is close to zero.

Figure 44 describes the sizes, in terms of net product, of the two components of *Manufacturing*: *Durable goods* and *Nondurable goods*. *Nondurable goods* declined steadily, while a break is observed for *Durable goods* from the mid-1960s onward, that we connect to the comparatively lower profit rate of this industry since then.

Table 11 supplements table 4 in section 4.2 which deals with the *NF-Core*, concerning variations over time. The decline of *Manufacturing* can be observed for the three variables: net product, employment, and fixed capital. The growth of *Capitalist services* is particularly evident for the net product and employment. The growth of *Trade* is mostly apparent for fixed capital.

Figure 45 finally shows that the revision of the estimates of capital stock by the BEA considerably increased the capital intensive aspect of the *Highly capital intensive industries*, doubling, for example, the fixed capital of *Transportation*.

### A.5 Gravitation: The impact of inventories, taxation, and interest

This section provides a more in depth examination of the *NF-Core*, for which a mechanism ensuring the gravitation of profit rates around a common value appears to be present. The main purpose of this investigation is to stress the importance of the choice of a relevant definition of the profit rate (the various components of capital and profits). The original

Figure 40 Profit rate of the *NF-Capitalist business*: Four variants of the correction for self-employed persons

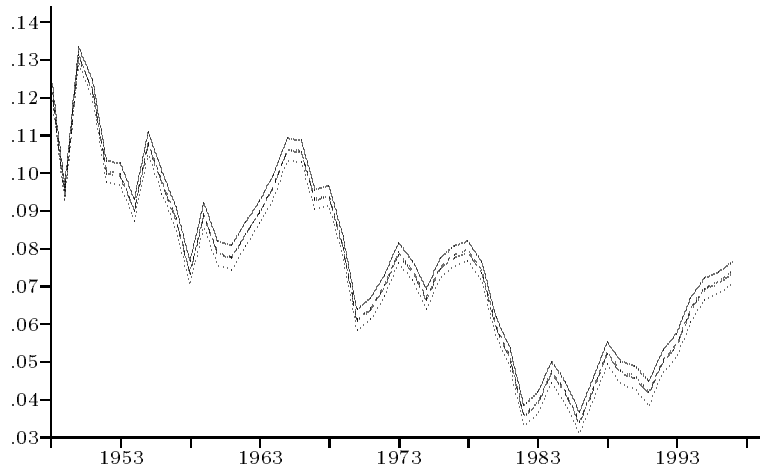
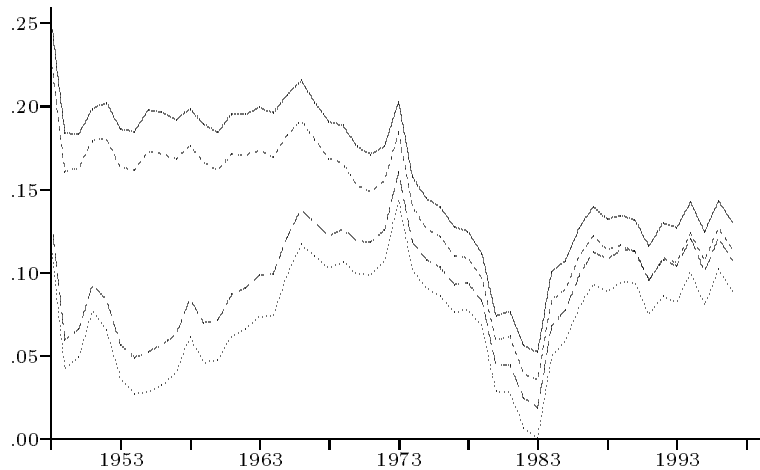


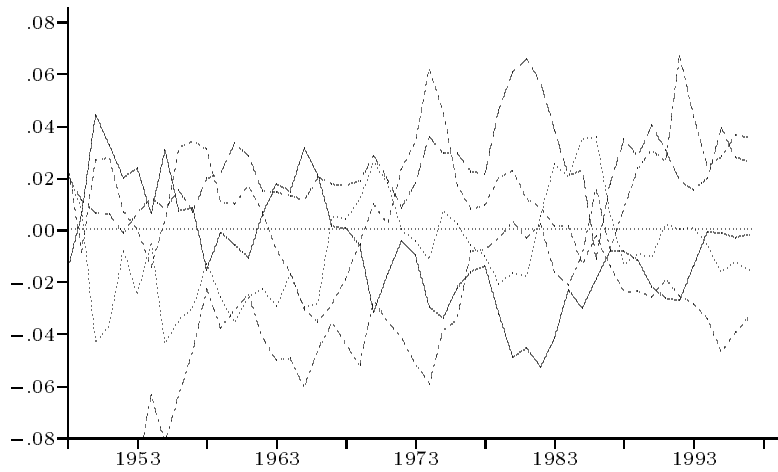
Figure 41 Profit rate of *Individual business*: Four variants of the correction for self-employed persons



The four alternative definitions of the wage equivalent are :  
 Total compensation in the industry divided by the number of full-time and part-time employees (—).  
 Total compensation in *Business* divided by the number of full-time and part-time employees (— —).  
 Total compensation in the industry divided by the number of full-time equivalent employees (-----).  
 Total compensation in *Business* divided by the number of full-time equivalent employees (.....).  
 Profit rate = (Net product - Labor compensation - Indirect bus. taxes - Net interest) / (Fixed capital + Inventories).



Figure 42 Absolute deviations of profit rates from the average: Gravitation within the *NF-Core*



*Durable goods* (—); *Nondurable goods* (---); *Wholesale trade* (.....); *Retail trade* (-.-.-); *Capitalist services* (- - - -). This figure supplements figure 8.  
 Profit rate = (Net product – Labor compensation – Indirect bus. taxes – Net interest) / (Fixed capital + Inventories).

Figure 43 Profit rate: Two extreme cases within the *Highly capital intensive industries*



*NF-Core* (—); *Communications* (---); *Railroad transportation* (.....). This figure supplements figure 13.  
 Profit rate = (Net product – Labor compensation – Indirect bus. taxes – Net interest) / (Fixed capital + Inventories).

Figure 44 Net product : The shares of *Durable goods* and *Nondurable goods* in the net product of *Business*



*Durable goods* (—); *Nondurable goods* (---).

definition of the profit rate is that of section 4.1:

$$r = \frac{\text{Net product} - \left( \begin{array}{c} \text{Labor} \\ \text{compensation} \end{array} \right) - \left( \begin{array}{c} \text{Indirect} \\ \text{business taxes} \end{array} \right) - \text{Net interest}}{\text{Fixed capital} + \text{Inventories}}$$

The profit rates of the five industries which compose the NF-Core are presented in figure 8 for this definition.

1. *Inventories*. Figure 46 displays the profit rates in the same measure as in figure 8, except that inventories are not included as components of capital:

$$r = \frac{\text{Net product} - \left( \begin{array}{c} \text{Labor} \\ \text{compensation} \end{array} \right) - \left( \begin{array}{c} \text{Indirect} \\ \text{business taxes} \end{array} \right) - \text{Net interest}}{\text{Fixed capital}}$$

A very large dispersion of profit rates is observed. The profit rate of *Capitalist services*, which hold very little inventories is not significantly affected by the deletion of inventories. Conversely, the profit rate of *Wholesale trade* is considerably increased during the first decades, since its inventories are very large. The three other industries, which hold similar average amounts of inventories, are raised to some degree.

2. *Indirect business taxes*. Figure 47 uses the same procedure to illustrate the impact of indirect business taxes. The profit rate is:

$$r = \frac{\text{Net product} - \left( \begin{array}{c} \text{Labor} \\ \text{compensation} \end{array} \right) - \text{Net interest}}{\text{Fixed capital} + \text{Inventories}}$$

The burden of indirect business taxes is very unequal. The major weight is on *Wholesale trade* and, to a lesser extent, on *Retail trade*. For this reason, the profit rates for these two industries are considerably increased when indirect business taxes are kept within profits.

Tables 11 - Net product, employment, and fixed capital: Shares of the components of the *NF-Core* ((1) Average 1948-1997 (1) ; (2) Average 1948-1957 ; (3) Average 1988-1997 ; (3)-(2) Variation between the earlier and latter decades)

	(1)	(2)	(3)	(3)-(2)
<b>Net product</b>	48-97	48-57	88-97	
NF-CORE	100.0	100.0	100.0	
<b>Manufacturing</b>	50.4	58.9	40.0	-18.9
Durable goods	29.2	33.1	22.2	-10.9
Nondurable goods	21.2	25.7	17.8	-8.0
<b>Trade</b>	36.5	34.5	37.4	+3.0
Wholesale trade	15.4	13.5	16.0	+2.5
Retail trade	21.2	21.0	21.5	+5
<b>Capitalist services</b>	13.1	6.7	22.6	+15.9

	(1)	(2)	(3)	(3)-(2)
<b>Employment</b>	48-97	48-57	88-97	
NF-CORE	100.0	100.0	100.0	
<b>Manufacturing</b>	41.8	52.1	28.7	-23.4
Durable goods	24.1	29.0	16.6	-12.4
Nondurable goods	17.8	23.1	12.1	-11.0
<b>Trade</b>	40.8	38.4	43.4	+4.9
Wholesale trade	10.0	9.7	9.9	+2
Retail trade	30.8	28.7	33.4	+4.7
<b>Capitalist services</b>	17.3	9.4	27.9	+18.5

	(1)	(2)	(3)	(3)-(2)
<b>Fixed capital</b>	48-97	48-57	88-97	
NF-CORE	100.0	100.0	100.0	
<b>Manufacturing</b>	62.1	67.9	54.4	-13.5
Durable goods	32.2	33.0	28.2	-4.8
Nondurable goods	29.9	34.9	26.2	-8.7
<b>Trade</b>	25.9	23.0	31.7	+8.7
Wholesale trade	8.7	5.1	13.5	+8.4
Retail trade	17.2	17.9	18.3	+4
<b>Capitalist services</b>	12.0	9.1	13.9	+4.8

Figure 45 Ratio of the fixed capital stocks as measured by the BEA in 1998 to the 1994 measure



Business (—); Manufacturing (- -); Transportation (.....).

3. *Profit taxes.* Profit taxes are only paid by corporations, not self-employed persons (who pay income taxes). We apply here the rate of taxation of corporations, for each industry, to the pseudo-profits of self-employed persons. The results are displayed in figure 48. The profit rate used is:

$$r = \frac{\text{Net product} - \left( \frac{\text{Labor}}{\text{compensation}} \right) - \left( \frac{\text{Indirect}}{\text{business taxes}} \right) - \left( \frac{\text{Profit}}{\text{taxes}} \right) - \text{Net interest}}{\text{Fixed capital} + \text{Inventories}}$$

There is no clear interpretation of the impact of profit taxes. Obviously, the profit rate is lower in this measure, it declines less (figure 29), and the spread seems to be increased.

4. *Net interest.* We now delete net interest in the definition of the profit rate. The results are presented in figure 49. The profit rate is:

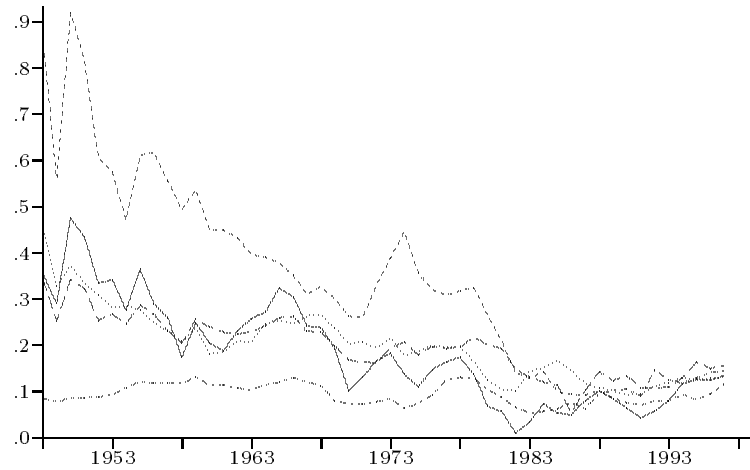
$$r = \frac{\text{NDP} - \left( \frac{\text{Labor}}{\text{compensation}} \right) - \left( \frac{\text{Indirect}}{\text{business taxes}} \right)}{\text{Fixed capital} + \text{Inventories}}$$

The dispersion of profit rates appears larger in this measure, in particular for the recent years during which the burden of interest was larger.

**A.6 Gravitation: The impact of adjustments and the use of GPO series**

This section supplements the investigation of the various definitions of the profit rate in appendix A.5 by the discussion of two additional problems in the measurement of profit rates: (1) the impact of inventory valuation adjustments (IVA) and capital consumption allowances adjustments (CCAd), and (2) the use of GPO series for corporate profits, instead of NIPA series. These two problems are independent. They are treated jointly in this appendix, since, contrary to the discussion in appendix A.5, we do not expect any specific outcome from theoretical considerations.

Figure 46 Gravitation: The effects of inventories



Profit rate = (Net product - Labor compensation - Indirect bus. taxes - Net interest)/  
Fixed capital.

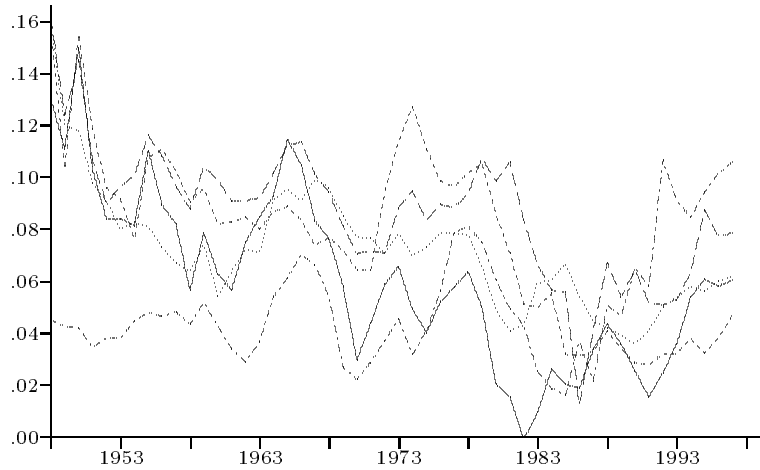
Figure 47 Gravitation: The effects of indirect business taxes



Profit rate = (Net product - Labor compensation - Net interest)/  
(Fixed capital + Inventories).

Durable goods (—); Nondurable goods (— —); Wholesale trade (-----); Retail trade (.....);  
Capitalist services (-----).

Figure 48 Gravitation : The effects of profit taxes



Profit rate = (Net product - Labor compensation - All taxes - Net interest) / (Fixed capital + Inventories).

Figure 49 Gravitation : The effects of net interest



Profit rate = (Net product - Labor compensation - Indirect bus. taxes) / (Fixed capital + Inventories).

*Durable goods* (—); *Nondurable goods* (---); *Wholesale trade* (.....); *Retail trade* (-·-·-); *Capitalist services* (- - - -).

IVA account for additional profits or losses due to variations in the price of commodities held as inventories :

1. These adjustments are included in the computation of the net product, therefore in any measure of profits where the costs are subtracted from the net product. Thus, when we determine profits as *Net product minus labor compensation*, the IVA is *de facto* made.
2. But these adjustments are not made in *corporate profits before tax* or *proprietors' income*. When we define profits as *Net product minus labor cost, indirect business taxes, and net interest*, we actually compute to the sum *corporate profits plus proprietor's pseudo-profits* (proprietors' income minus the wage equivalent). In this definition of profits, the one used in the analysis of gravitation, there is no IVA.

An alternative measure of profits is: *corporate profits plus proprietor's pseudo-profits plus IVA*. However, IVA are small and the effects of this correction are quite limited.

The CCAd of NIPA accounts for the difference between the capital consumption allowances in NIPA and depreciation in *Fixed Reproducible Tangible Wealth* (FRTW) :

1. The NIPA basic depreciation concept is *Capital consumption allowances* (CCA). They combine tax-based depreciations and estimates, depending on the sector. The definition given by the BEA reads as follows: "Capital consumption allowances — that is, tax-return-based depreciation for corporations and nonfarm proprietorships and historical-cost depreciation (using consistent service lives) for farm proprietorships, rental income of persons, and nonprofit institutions...".
2. The FRTW alternative concept is *Consumption of fixed capital* (CFC), defined as: "the charge for the using up of private and government fixed capital...". These data are in line with FRTW's estimates of capital stocks, at replacement costs, derived from investment and given services lives.
3. The sum of the *Capital consumption allowances* and *Capital consumption allowances adjustments* (CCAd) is equal to the *Consumption of fixed capital* in the FRTW :

$$\underbrace{\text{CCA} + \text{CCAd}}_{\text{NIPA}} = \underbrace{\text{CFC}}_{\text{FRTW}}$$

CCAd are only available in NIPA for large sectors, such as the corporate sector. However, CCA and CFC are known by industry on the basis of the two sources, NIPA and FRTW.

The examination of figure 50 is telling. It shows that the consideration of CFC, instead of CCA, considerably enlarges the band in which the profit rates of the *NF-Core* fluctuate. This observation questions the relevance of the estimates of fixed capital and services lives in FRTW, suggesting that the practices of investors are not based on similar measures.

We now turn to the use of GPO series instead of NIPA's. Most variables in NIPA and GPO are identical, with two problems :

1. In GPO and NIPA, variables are generally determined on an "an establishment-industry basis"<sup>37</sup>. This not the case for corporate profits and capital consumption allowances in NIPA (NIPA's tables 6). NIPA does not convert corporate profits and capital consumption allowances from a company-industry basis to an establishment-industry basis. Describing the determination of GPO data, the BEA refers to: a "matrix that converts NIPA corporate profits and capital consumption allowances from a company-industry basis to an

37. NIPA and GPO use the same notion of CCA.

establishment-industry basis”, or to “a newly available Census Bureau employment matrix that converts the NIPA industry estimates of corporate profits and capital consumption allowances from a company-industry basis to an establishment-industry basis”. Thus, tables 6 of NIPA include two variables, corporate profits and capital consumption allowances determined on a company-industry basis, whereas all other variables are estimated on an establishment-industry basis. GPO is formally more consistent, but the fact that NIPA does not make this correction shades some doubts on its reliable character.

2. No measure of inventories is available in GPO. Like corporate profits and capital consumption allowances, inventories are apparently determined on a company-industry basis in NIPA. Thus, they should not be combined with GPO data.

Two options are opened :

1. To use only NIPA’s data. This means that variables determined on an establishment-industry basis (most variables) are combined with variables determined on a company-industry basis (corporate profits, capital consumption allowances, and inventories). This is the choice made in section 4.

2. To use GPO data in combination with NIPA’s inventories, as in the present appendix. Two problems are posed :

- (a) A first difficulty is the problematic character of the conversion of corporate profits and capital consumption allowances to an establishment-industry basis, that NIPA refuses to make.
- (b) A second problem concerns inventories only available from NIPA, on a company-industry basis.

This second difficulty is only important for *Trade*, where inventories are large. In “a company-industry” estimate, such as NIPA, *Manufacturing* still holds large quantities of inventories, because of its own trade. Since both profits and inventories are determined on a consistent company-industry basis, we use the ratios of inventories to profits in NIPA, for *Trade*, as an indicator of the amounts of inventories required by a basically commercial activity, and allocate inventories to the two components of *Trade* in GPO using this ratio.

As shown in figure 51, the use of GPO series does not alter significantly the gravitation of profit rates. The gravitation of *Trade* with other industries is now somewhat tighter due to the specific treatment of inventories. The use of GPO also does not affect the difference between the industries in the *NF-Core* and *Highly capital intensive industries*.

#### **A.7 Gravitation: The two components of real estate**

This appendix is devoted to: (1) the gross product and income of *Real Estate*; (2) the profit rates of the two components of *Real estate* (residential and nonresidential, respectively *Nonfarm housing services* and *Other* in GPO).

In 1997, the gross product of *Real Estate* in GPO represented 935 billions dollars:

- 1. In this total, *Nonfarm housing* accounted for 935 billions according to GPO, and 713 billions according to NIPA. NIPA also indicates that 513 billions corresponded to owner occupied housings, *i.e.*, 55% of the total gross product of the sector.
- 2. After subtracting capital consumption allowances, wages, indirect business taxes minus subsidies, and interest, from these 935 billions, an income of 240 billions is determined.



Figure 50 Gravitation: The effects of inventory valuation adjustments and capital consumption adjustments

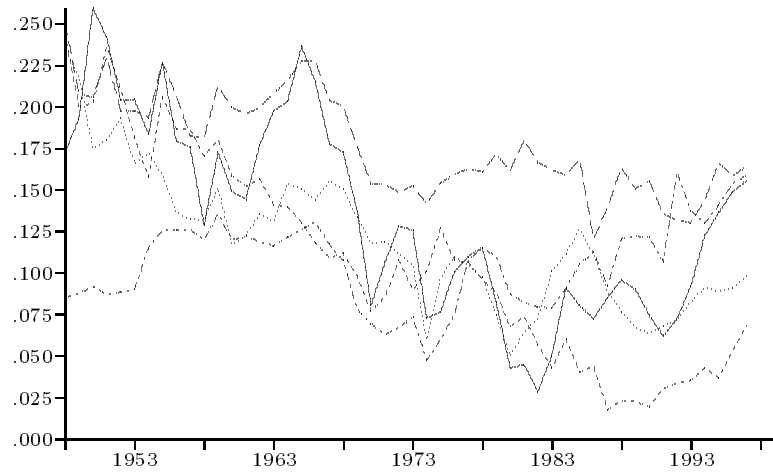
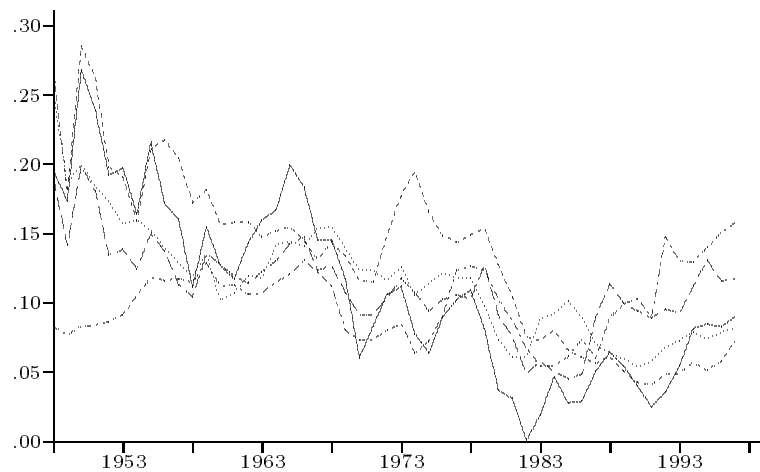


Figure 51 Gravitation: GPO series



Durable goods (—); Nondurable goods (---); Wholesale trade (-----); Retail trade (.....); Capitalist services (----).  
 Profit rate = (Net product - Labor compensation - Indirect bus. taxes - Net interest) / (Fixed capital + Inventories).

It is the sum of: (1) proprietors' income (27 billions); (2) corporate profits (4.2 billions, often negative in other years since 1981); (3) rental income of persons (208.6 billions).

We now turn to the comparison of the the profit rates of the two components of *Real estate* (residential and nonresidential), in relation to the *NF-Core*. Figure 52 displays the profit rates of the two components of *Real estate* in the same definition as in the analysis of gravitation, together with the profit rate of the *NF-Core*. The entire rental income of persons is treated as profit. The followings are noteworthy :

Figure 52 Profit rate : *NF-Core* and the two components of *Real estate*



*NF-Core* (—); *Nonresidential real estate* (---); *Residential real estate* (.....).  
 Profit rate = (Net product – Labor compensation – Indirect bus. taxes – Net interest) / (Fixed capital + Inventories).

1. The difference between the two components of *Real estate* is striking. Prior to the 1970s, the profit rate of the *Nonresidential real estate* is quite larger than that of the *Residential real estate*. The profit rate of the *Nonresidential real estate* has been consistently falling, except during the last decade, whereas the profit rate of the *Residential real estate* remained rather constant.

2. The profitability of the *Nonresidential real estate* was always inferior to that of the *NF-Core*, but by its value and its trend, it is similar, whereas the *Residential real estate* is unique. The lower and, in the 1980s, negative profit rates in the *Nonresidential real estate* are the effects of the large interest payments made by this “industry”.

#### A.8 The trend of the profit rate: Additional figures relating to section 5

Figures 53 and 54 decompose *Business* into the *Highly capital intensive industries* or the *Extremely capital intensive industries*, and the remainder of *Business* (as in figures 20 and 21) for the definition of the profit rate “closer to firm management”, instead of the broad measure. The same basic pattern is evident. The profit rate of either group of capital intensive industries is comparatively very low, and does not display any downward trend.

However, the difference in trends at the beginning of the 1980s, between the two groups of industries, capital intensive and others, is less pronounced for this second definition of the profit rate.

### **A.9 The trend of the profit rate: Government and Residential real estate**

This appendix supplements the investigation of the trend of the profit rate in section 5.1. Two new measures of the profit rate are considered and compared with the results displayed in figure 17. Figures 55 and 56 display the profit rate of *Business* in figure 17 (series 1.) jointly with the profit rates of two larger sectors: (1) *Business plus Government* and (2) *Business plus Residential real estate*. The capital stocks held by *Government* and *Residential real estate* are both large, and the profit rates for the two larger sectors are significantly lower. Note that the superposition of the two latter curves is purely coincidental.

Figure 56 shows that the addition of *Government* to *Business* does not alter the trend of the profit rate. The decline appears less pronounced when the *Residential real estate* is considered, since the profit rate in this sector remained constant over time (appendix A.7).

### **A.10 The trend of the profit rate: The impact of adjustments**

This appendix is devoted to the impact of inventory valuation and capital consumption adjustments on the trend of the profit rate. (The definitions are given in appendix A.6.) Two sectors are considered, *Business* and the *Restricted corporate sector* (figures 57 and 58). In both cases, the impact is limited: The profit rates after adjustment are lower during the 1950s, and larger since 1982.

The effects of capital consumption allowances adjustments are larger in the *Corporate sector* than in the *Restricted corporate sector*. This is due to the considerable masses of fixed capital and, thus, the large depreciation allowances, of the *Extremely capital intensive industries*. The trend of the profit rate for the total *Corporate sector* as in figure 27 appears even more horizontal when computed after adjustment. Thus, the *Extremely capital intensive industries* bias twice the trend of the profit rate, because of the horizontal trend of their own profit rate, and because of the large impact of adjustments.

### **A.11 The trend of the profit rate: The effects of inventories (corporate sector)**

This appendix supplements the analysis in section 6 of the trend of the profit rate in the *Restricted corporate sector* by a discussion of the effects of inventories. The results are displayed in figures 59 and 60. (The profit rate for which inventories are included in the measure of capital is the one presented in figure 25 (—).)

The first figure shows that, as could be expected, the consideration of inventories in addition to fixed capital diminishes the profit rate of the sector. In 1997, the profit rate is reduced from 22.1% to 17.2%. Figure 60, in which the two profit rates have been normalized to 1 for the decade 1956-1965, shows that inventories do not modify significantly the trend of the profit rate. However, inventories tend to decline in relation to fixed capital, and a small countertendency is apparent.

Figure 53 Profit rate: *Highly (or extremely) capital intensive industries* and the other components of *Business*

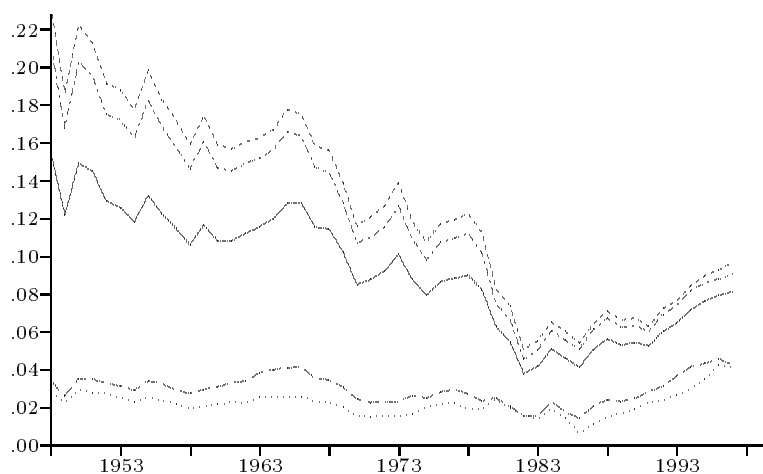
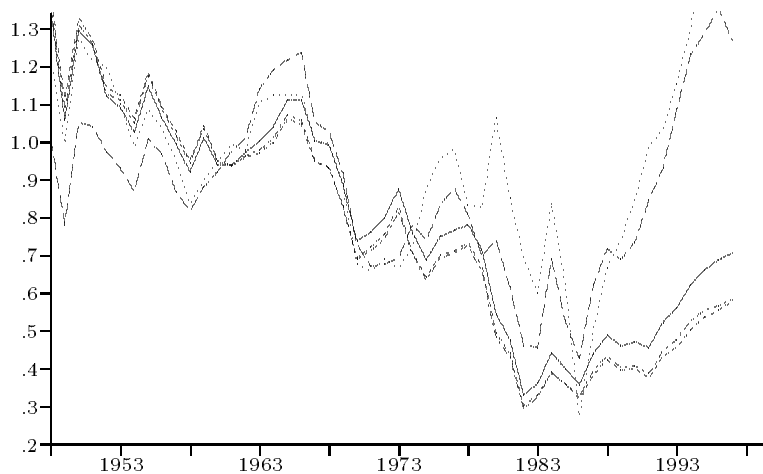


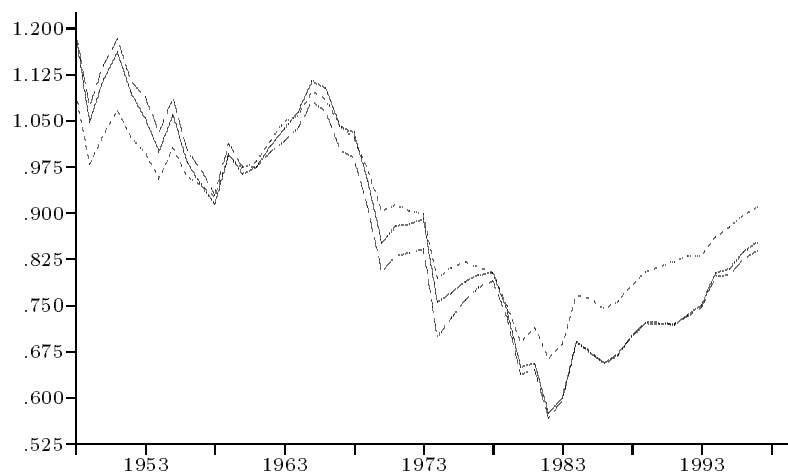
Figure 54 Profit rate as in figure 53 normalized to 1 for 1956-1965: *Highly (or extremely) capital intensive industries* and the other components of *Business*



*Business* (—);  
*Highly capital intensive industries* (---);  
*Business minus Highly capital intensive industries* (- - - -);  
*Extremely capital intensive industries* (.....);  
*Business minus Extremely capital intensive industries* (- - - -).  
 Profit rate = (Net product - Labor compensation - Indirect bus. taxes - Net interest) /  
 (Fixed capital + Inventories).

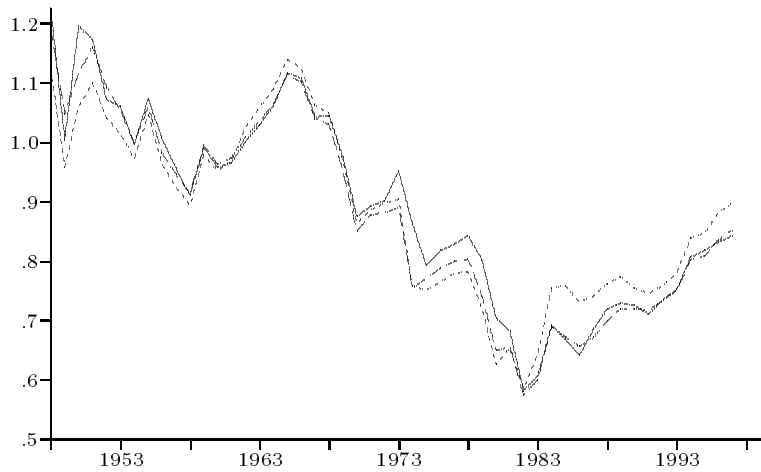
Figure 55 Profit rate: *Business, Government, and Nonresidential real estate*

Figure 56 Profit rate as in figure 55 normalized to 1 for 1956-1965



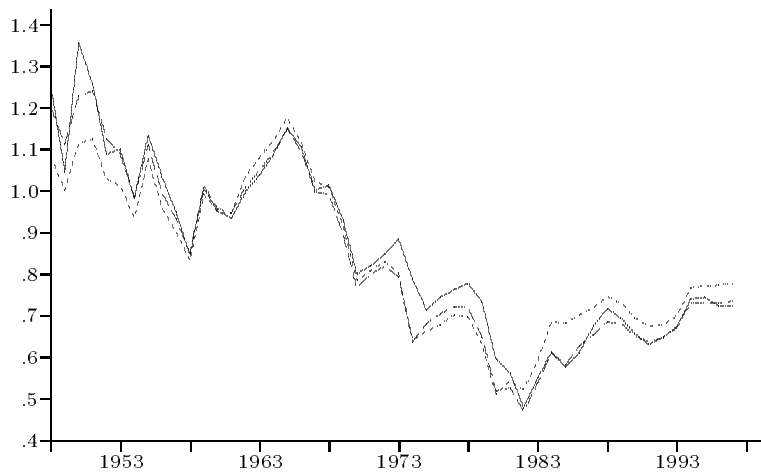
*Business* (—); *Business plus Government* (---); *Business plus Residential real estate* (.....).  
 Profit rate = (Net product - Labor compensation)/Fixed capital.

Figure 57 The trend of the profit rate in *Business*: The effects of inventory valuation and capital consumption allowances adjustments



Normalized to 1 for 1956-1965.

Figure 58 The trend of the profit rate in the *NF-Core*: The effects of inventory valuation and capital consumptions allowances adjustments

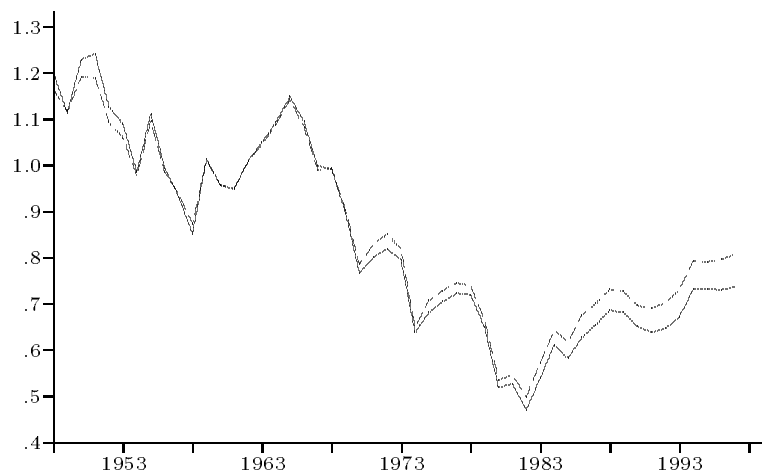


Without adjustment (—); After inventory valuation adjustment (---); After inventory valuation and capital consumption adjustments (-----).  
 Profit rate = (Net product – Labor compensation)/Fixed capital. Normalized to 1 for 1956-1965.

Figure 59 Profit rate : Effects of inventories



Figure 60 Profit rate as in figure 59 normalized to 1 for 1956-1965 : Effects of inventories



Excluding inventories (—); with inventories (---). The sector is the *Restricted corporate sector*.

Profit rate = (Net product - Labor compensation)/Fixed capital : (—).

Profit rate = (Net product - Labor compensation)/(Fixed capital + Inventories) : (---).

### A.12 Tangible assets v. net worth (corporate sector)

This appendix is devoted to a discussion of the definition of the profit rate used in the analysis of gravitation in section 4. In this measure, indirect business taxes and net interest are subtracted from profits. The stock of capital is the sum of fixed capital and inventories:

$$\frac{\text{Profits after indirect business tax and net interest}}{\text{Tangible assets}}$$

The choice of tangible assets is only the consequence of data limitation: Net worth is not available by industry, and it is impossible to consider the effects of inflation (net debt is not known). A more appropriate profit rate would be that used in section 6.3<sup>38</sup>:

$$\frac{\text{Profits after all tax, net interest, and correction for inflation}}{\text{Net worth}}$$

Figures 61 and 62 compare this latter profit rate and the previous one, in the *Restricted corporate sector*, where this comparison can be performed. The profit rate over net worth, after all taxes and interest, and with correction for inflation, is larger than that over tangible asset, also after interest but without correction for inflation. The difference is very large during the 1970s. Overall, the decline of the profit rate appears steeper in the latter measure up to 1997 when the two curves nearly coincide.

It is not possible to assess the effect of the use of the second, more appropriate measure of the profit rate, in the analysis of gravitation. The results displayed in figures 61 and 62 indicate that the main issue is the effect of indebtedness during the 1980s. Gravitation as depicted in figure 8 could be improved or deteriorated depending on the *comparative indebtedness* of the various industries, but this information is not available.

### A.13 The trend of the profit rate: Dividends received (corporate sector)

The measure of the profit rate in figure 32 still abstracts from the corporate equities held by corporations and the corresponding dividends received. Actually, the profit rate in this figure does not treat this problem consistently, since dividends received are not included within profits, and the corporate equities held as financial assets are kept in the determination of the net worth of corporations.

Within *Flow of Funds Accounts*, the corporate equities issued by other Nonfinancial US corporations and held in the sector are not considered within financial assets, and are not included in the net worth of the sector. The corporate equities which appear within financial assets are mainly composed of US direct investment abroad (in particular US affiliates). Correspondingly, the dividends received from other US corporations are not included in *dividends received*. Thus, the sector is treated *globally* in this accounting framework, as a single consolidated corporation. It is the profit rate of this “corporation” which can be studied.

The computation in figure 32 can be improved in two alternative manners. Either we include dividends received into profits, assuming that they basically correspond to US direct investment abroad, or we determine net worth excluding corporate US direct investment abroad. The results, for these two options, are presented in figure 63. The first profit rate

<sup>38</sup> In addition to the substitution of *net worth* to *tangible assets*, we also subtract *all taxes* instead of only *indirect business taxes*.



Figure 61 Profit rate : Tangible assets v. net worth

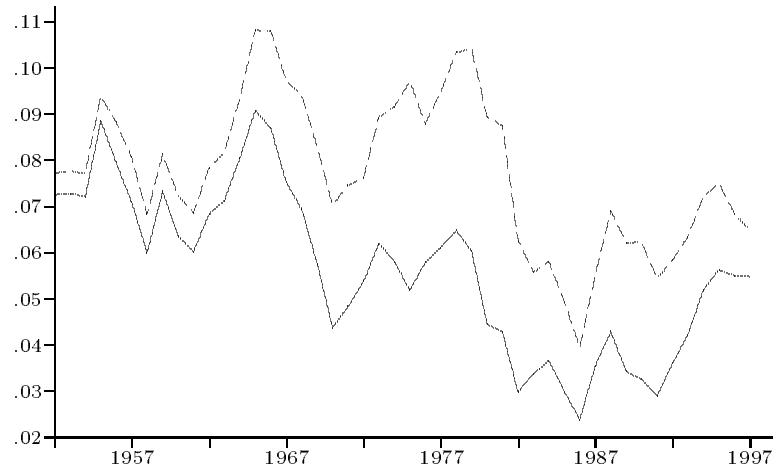
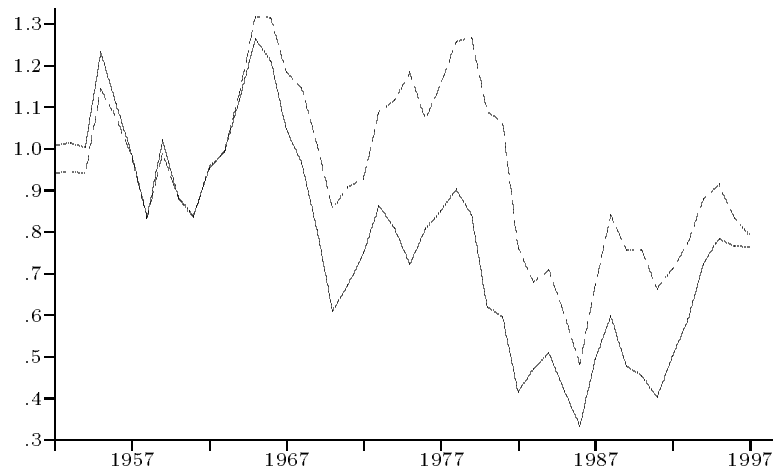


Figure 62 Profit rate as in figure 61 normalized to 1 for 1956-1965



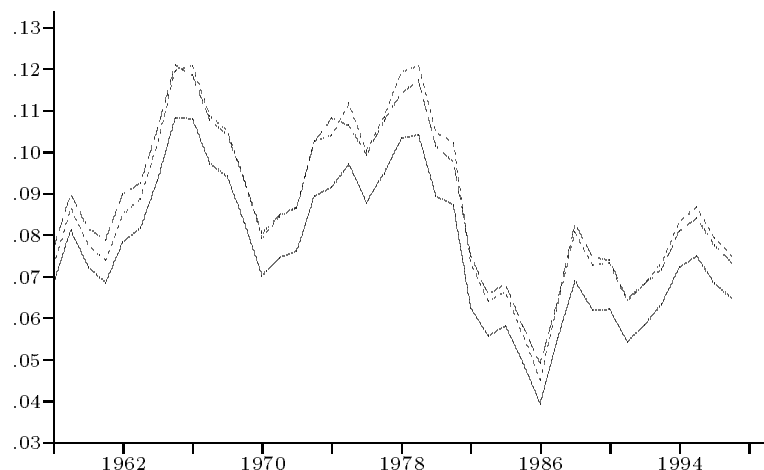
Two alternative definitions of the profit rate are used:

1. Profit rate = (Net product - Labor compensation - Indirect business taxes - Net interest) / (Fixed capital + Inventories) (—);

2. Profit rate = (Net product - Labor compensation - All taxes - Net interest and correction for inflation) / Net Worth (---).

The sector is the *Restricted corporate sector*.

Figure 63 Profit rate : Dividends received by corporations



As in figure 32, the sector is the *Restricted corporate sector*, and the first profit rate (—) is measured after interest and correction for inflation :

Profit rate = (Net product - Labor compensation - All taxes - Net interest + Correction for inflation)/Net Worth.

The two other measures of the profit rate account for the effects of dividends received :

Profit rate = (Net product - Labor compensation - All taxes - Net interest + Correction for inflation + Dividends received)/Net Worth (---).

Profit rate = (Net product - Labor compensation - All taxes - Net interest + Correction for inflation)/(Net Worth - Stock of US direct investment abroad) (-.-.-).

(—) is that displayed in figure 32, including the correction for inflation. The two other profit rates correspond to either one of the corrections. The size of the effect is similar. The profit rate is approximately 1 percentage point larger in both instances. It is striking that *there is no trend over time* in this correction.

Note finally that these observations suggest, still assuming that most dividends corresponds to US investment abroad, that the yield on equities of US affiliates abroad is of the same order of magnitude that the profit rate of US corporations in the above sophisticated measure of the profit rate. The discussion of this observation oversteps the limits of the present investigation.

#### A.14 Gravitation and trend : The *Restricted financial sector* and the *Restricted corporate sector*

This appendix supplements the analysis in section 6.4, by : (1) an estimate of the shares of the *Restricted financial sector* in the profits and fixed capital of the entire financial sector ; (2) a comparison of the profit rate of the *Restricted financial sector* and the *Nonfinancial corporate sector*, without correction for the devaluation of debt by inflation.

No measure of profits is provided in *Flow of Funds Accounts*, but a measure of gross savings can be used as an indicator of profits, and allows for an estimate of the proportion of profits made by the *Restricted financial sector* in comparison to total *Finance*. We consider the ratio of gross savings in these two components of *Finance* (the savings of the

*Restricted financial sector* over the savings of total *Finance*). Over the period 1952-1997, this ratio is equal to 1.07. It is larger than 1 because some among the excluded institutions have negative gross savings (for example, Monetary authority and Mutual Funds).

In a similar manner, we compute the ratio of gross physical investment in the *Restricted financial sector* to investment in total *Finance*. Over the same period, this ratio is equal to 0.96, showing that the *Restricted financial sector* holds nearly the totality of the capital stock of *Finance*.

It is possible to determine a financial sector, excluding *Real Estate*, from BEA (NIPA, GPO, and *Tangible Wealth*), for which measures of tangible assets and profits are available. The difficulty is that the nomenclature of agents used by the BEA differs from that used in *Flow of Funds*. These measures can, however, be used for the *Restricted corporate sector*, since this subsector makes nearly all profits and hold nearly all tangible assets of *Finance*. Differences of a few percentage points in the measures of profits and tangible assets have negligible effects on the estimate of the profit rate which will be derived from these computations.

The determination of a profit rate in the *Restricted financial sector* requires an estimate of its profits (profits plus correction of the devaluation of debt by inflation) and net worth (tangible assets plus financial assets, minus debt) :

1. As explained above, the total after tax profits of *Finance* in NIPA can be considered as a proxy for the profits of the *Restricted financial sector*.<sup>39</sup> The information required for the devaluation of debt by inflation is available from *Flow of Funds Accounts*.
2. Consider now the determination of net worth. The BEA's measure of tangible assets can be used. *Flow of Funds Accounts* provide financial assets and liabilities for the *Restricted financial sector* in a straightforward manner.

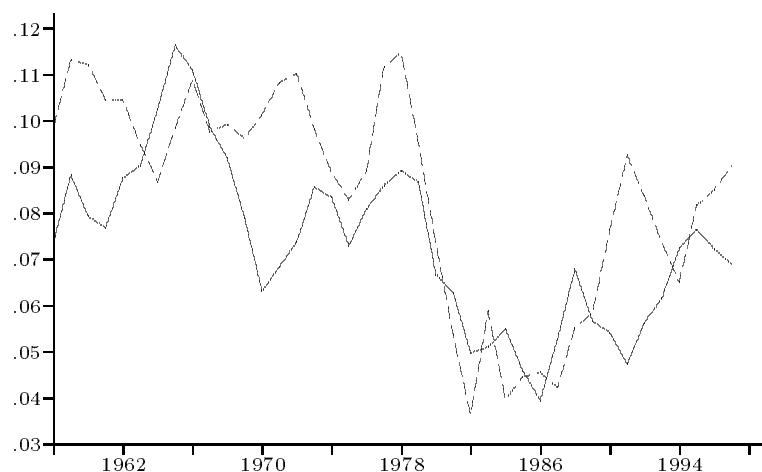
We now turn to the comparison of the profit rate of the *Restricted financial sector* and the *Nonfinancial corporate sector*, without correction for the devaluation of debt by inflation. The results are displayed in figures 64, 65, and 66 :

1. Figure 64, to be compared with figure 36, shows the importance of this correction concerning the gravitation and trend of the profit rate in the two sectors. The main difference concerns the 1970s and early 1980s, where the correction is large. The relative value of the two profit rates is inverted. Without correction, in figure 64, the profit rate in the *Restricted corporate sector* appears smaller than the profit rate of the *Restricted financial sector*, whereas the opposite is true after correction in figure 36.
2. Figures 65 and 66 show the impact of the correction in the two industries considered separately and confirms the above results. Note that the sign of the correction is always the same, negative for the *Restricted financial sector*, in figure 65, and positive in the *Restricted corporate sector*, in figure 66.

---

39. The profits the Federal Reserve Banks are large when measured before tax, but practically equal to 0 after tax.

Figure 64 Profit rates without correction for inflation: The Nonfinancial restricted corporate sector (—) and the Restricted financial sector (---)



Profit rate = (Net product – Labor compensation – All taxes – Net interest + Dividends received) / Net Worth

Profit rate = (Net product – Labor compensation – All taxes – Net interest + Dividends received + Correction for inflation) / Net Worth

### A.15 Profit rate, technology, and distribution

This appendix is devoted to the analysis of the trend of the profit rate in relation to the trends of technology and distribution. We begin with the familiar decomposition of the profit rate :

$$\text{Profit rate} = \text{Productivity of capital} \times \text{Share of profits} \tag{1}$$

The productivity of capital is the ratio of output to the capital stock. In the above expression, both the output and the capital stock are measured in current dollars. The productivity of capital can be further expressed as :

$$\text{Productivity of capital} = \left( \begin{array}{c} \text{Productivity of capital} \\ \text{using aggregates} \\ \text{in constant dollars} \end{array} \right) \times \left( \begin{array}{c} \text{Relative price} \\ \text{of output to fixed capital} \end{array} \right) \tag{2}$$

The share of profits can also be analyzed as :

$$\text{Share of profits} = 1 - \frac{\text{Hourly labor cost in constant dollars}}{\text{Labor productivity}} \tag{3}$$

The definition of the profit rate which is directly adapted to this analysis of the effects of technology and distribution is :

$$\text{Profit rate} = \frac{\text{Net product} - \text{Labor compensation}}{\text{Fixed capital}} \tag{4}$$

It is also interesting, however, to measure the share of profits after indirect business tax

Figure 65 Profit rates without (—) and with (---) correction for inflation: The Restricted financial sector

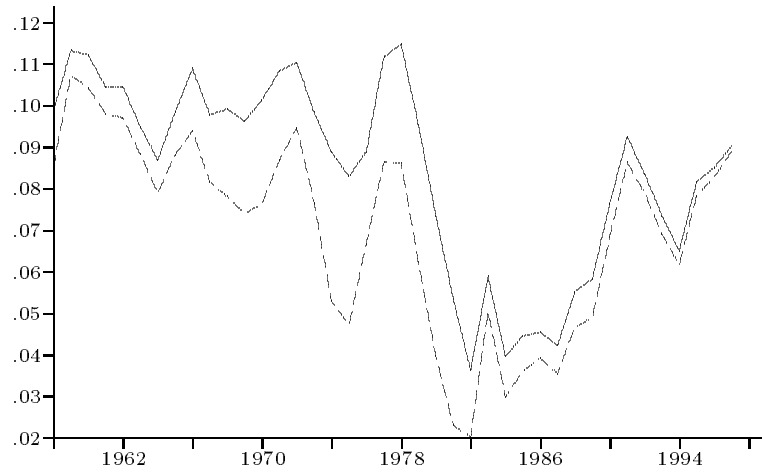
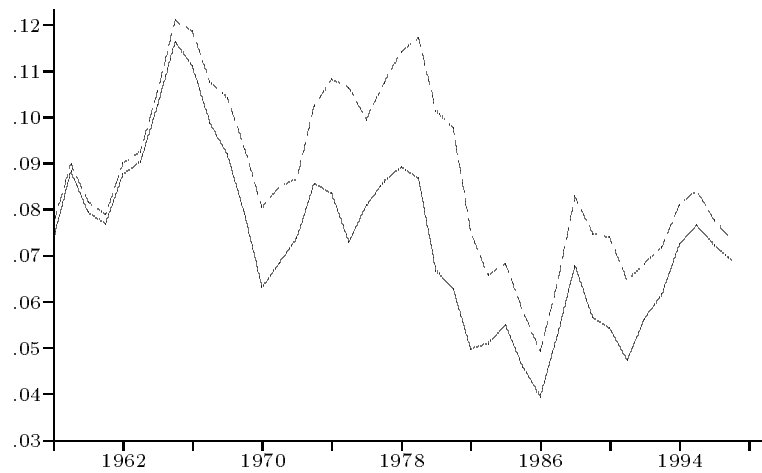


Figure 66 Profit rates without (—) and with (---) correction for inflation: The Restricted corporate sector



Profit rate = (Net product - Labor compensation - All taxes - Net interest + Dividends received) / Net Worth

Profit rate = (Net product - Labor compensation - All taxes - Net interest + Dividends received + Correction for inflation) / Net Worth

and net interest, *i.e.*, corresponding to the second definition used in section 4 :

$$\text{Profit rate} = \frac{\text{Net product} - \left( \begin{array}{c} \text{Labor} \\ \text{compensation} \end{array} \right) - \left( \begin{array}{c} \text{Indirect} \\ \text{business taxes} \end{array} \right) - \text{Net interest}}{\text{Fixed capital} + \text{Inventories}} \quad (5)$$

The consideration of profits after indirect business tax and net interest allow for the assessment of the burden of these deductions on profits, notably net interest, and its comparison to the effects of the declining productivity of capital.

We will successively consider three sectors (1) *Business*, (2) the *NF-Core*, and (3) the *Restricted corporate sector*. The results are displayed in figures 67 to 77, in which all series have been normalized to 1 for the decade 1956-1965. Four figures are presented for each sector :

1. The first figure plots the profit rate in the first definition above (equation 4) together with the productivity of capital and the share of profits (linked by equation 1).
2. The second figure repeats the same investigation for the second definition of the profit rate (equation 5).
3. The third figure plots the productivity of capital with output and capital measured in current dollars, its constant dollar measure, and the relative price of output to capital. As in the two previous figures, the first variable is equal to the product of the second and third (equation 2).
4. The fourth figure displays the hourly labor cost in constant dollars and the productivity of labor. Their quotient (the distance between the two curves in the figures) is the share of labor (its logarithm), the complement to one of the share of profits (equation 3).

The last figure is not presented for the *Restricted corporate sector* since employment and, thus, the labor cost, is not available for this sector.

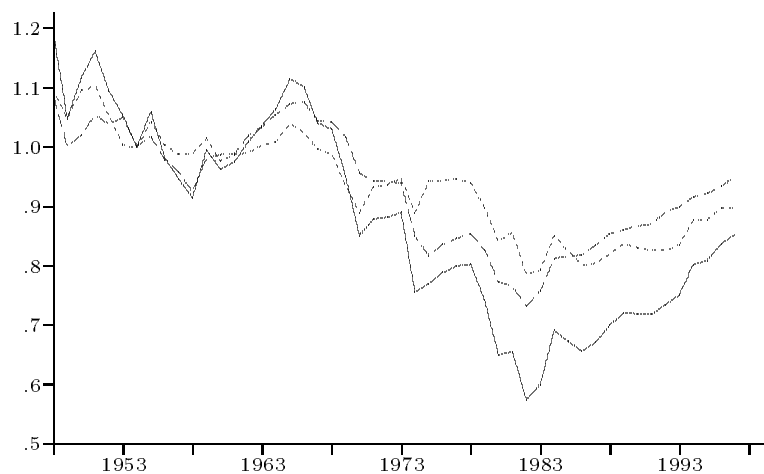
The following observations can be made :

1. In spite of a number of differences, a typical pattern of evolution emerges from this analysis. The declining trend of the profit rate, and its “recent” recovery, can be decomposed into several components :
  - Both the productivity of capital and the share of profits contributed to the downward trend of the profit rate up to the early 1980s, and its partial recovery since then.
  - The decline of the productivity of capital was the combined effect of the decline of its measure in constant dollars and the relative decline of the price of output in comparison to fixed capital. The recent recovery originated from a rise of the productivity of capital in constant dollars. With the exception of *Business*, no decline of the relative price of fixed capital contributed to this improvement.
  - With the normalization of the series for the average of 1956-1965, it appears clearly that the decline of the share of profits was the expression of the larger decrease of the growth rate of labor productivity in comparison to the growth rate of the hourly labor cost. (Note that both growth rates diminished from the 1970s onward, but the former less than the latter.) The recent rise of the share of profits mirrors an inverse pattern of evolution.
  - When the share of profits after tax and net interest is considered its effects appear significantly larger than those of the productivity of capital. This is mostly due to

the impact of interest payment. (The correction for inflation is not made since it can only be performed within the *Corporate sector*.) The alleviation of this burden of indebtedness becomes more evident since the early 1990s.

2. As could be expected, the *NF-Core* and the *Restricted corporate sector* display similar patterns of evolution. *Business*, which is larger than the *NF-Core*, due to the inclusion of *Finance*, the *Nonresidential real estate*, *Individual business*, and *Highly capital intensive industries*, is specific in at least two respects : (1) The decline of the share of profits after tax and net interest was very large in this sector between 1979 and 1982 ; (2) Half of the recent recovery resulted from the decline of the relative price of capital (mostly within *Highly capital intensive industries*).

Figure 67 Profit rate in *Business*: Productivity of capital and share of profits



Profit rate = (Net product - Labor compensation)/Fixed capital (—); Productivity of capital (---); Share of profits: (-----). Normalized to 1 for 1956-1965.

Figure 68 Profit rate in *Business*: Productivity of capital (fixed capital and inventories) and share of profits after indirect business tax and net interest



Profit rate = (Net product - Labor compensation - Indirect bus. taxes - Net interest)/(Fixed capital + Inventories) (—); Productivity of capital (fixed capital and inventories) (---); Share of profits after indirect business tax and net interest: (-----). Normalized to 1 for 1956-1965.



Figure 69 Productivity of capital in *Business*: Current and constant dollar measure and relative price



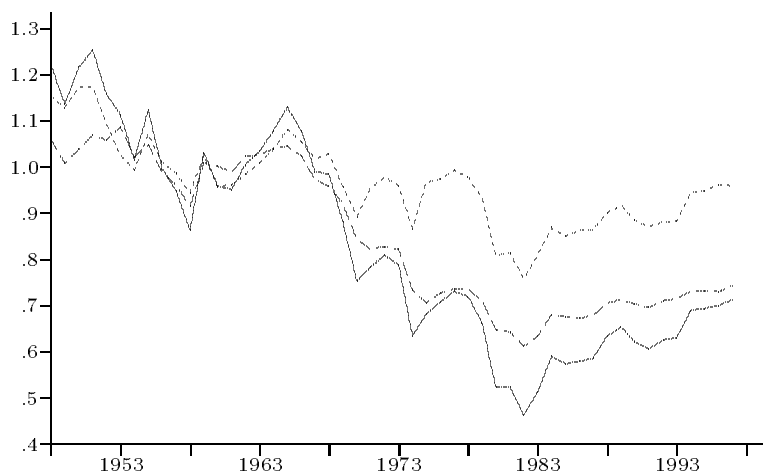
Current dollar measures of the productivity of capital (—); Constant dollar measure of the productivity of capital (---); Relative price of output to fixed capital (-.-.-). Normalized to 1 for 1956-1965.

Figure 70 Hourly labor cost in constant dollars and labor productivity in *Business*



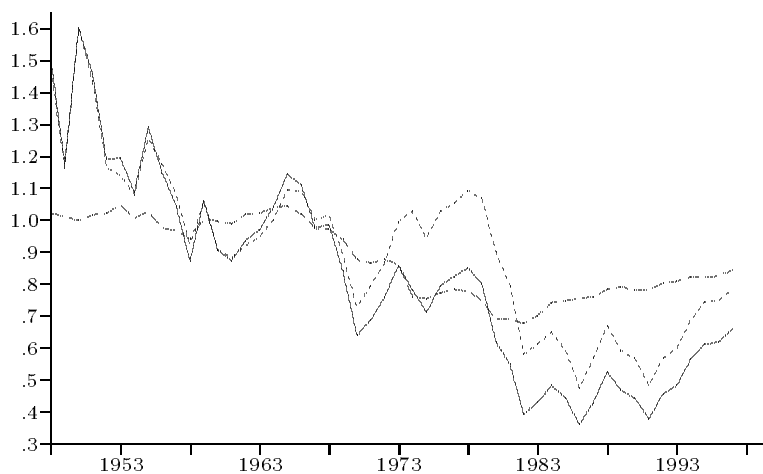
Hourly labor cost (—); Labor productivity (---). Normalized to 1 for 1956-1965.

Figure 71 Profit rate in the *NF-Core*: Productivity of capital and share of profits



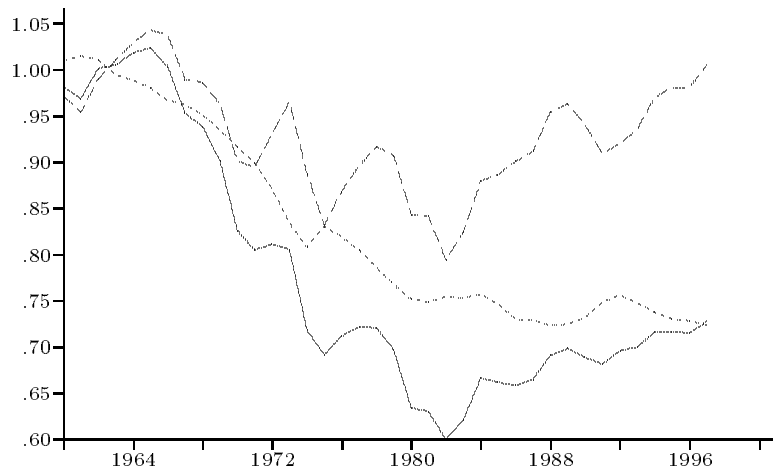
Profit rate = (Net product - Labor compensation)/Fixed capital (—); Productivity of capital (---); Share of profits: (-----). Normalized to 1 for 1956-1965.

Figure 72 Profit rate in the *NF-Core*: Productivity of capital (fixed capital and inventories) and share of profits after indirect business tax and net interest



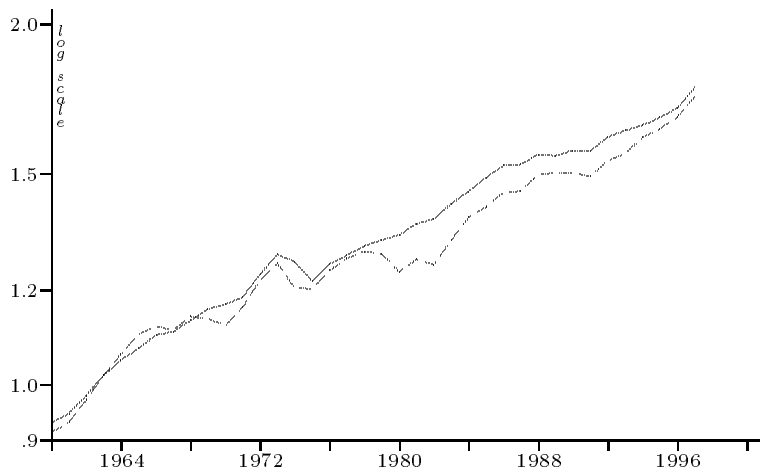
Profit rate = (Net product - Labor compensation - Indirect bus. taxes - Net interest)/(Fixed capital + Inventories) (—); Productivity of capital (fixed capital and inventories) (---); Share of profits after indirect business tax and net interest: (-----). Normalized to 1 for 1956-1965.

Figure 73 Productivity of capital in the *NF-Core*: Current and constant dollar measures and relative price



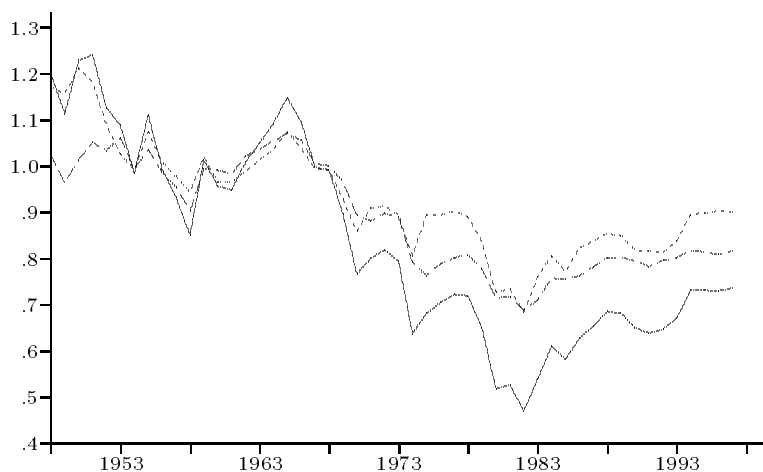
Current dollar measure of the productivity of capital (—); Constant dollar measure of the productivity of capital (---); Relative price of output to fixed capital (.....). Normalized to 1 for 1956-1965.

Figure 74 Hourly labor cost in constant dollars and labor productivity in the *NF-Core*



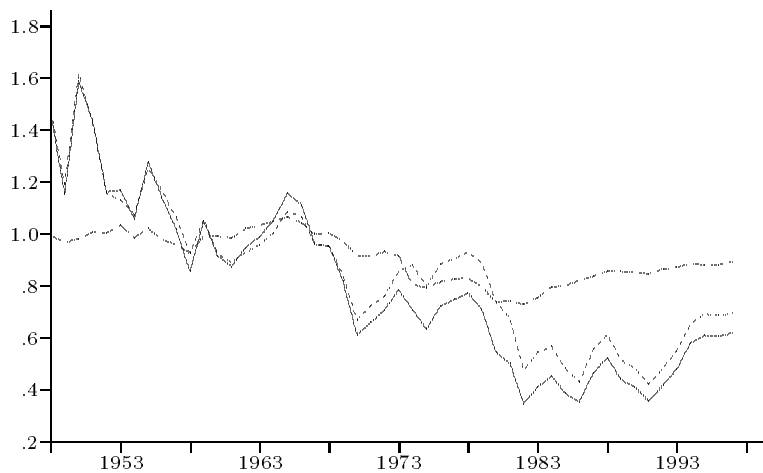
Hourly labor cost (—); Labor productivity (---). Normalized to 1 for 1956-1965.

Figure 75 Profit rate in the *Restricted corporate sector*: Productivity of capital and share of profits



Profit rate = (Net product - Labor compensation)/Fixed capital (—); Productivity of capital (---); Share of profits: (-----). Normalized to 1 for 1956-1965.

Figure 76 Profit rate in the *Restricted corporate sector*: Productivity of capital (fixed capital and inventories) and share of profits after indirect business tax and net interest



Profit rate = (Net product - Labor compensation - Indirect bus. taxes - Net interest)/(Fixed capital + Inventories) (—); Productivity of capital (fixed capital and inventories) (---); Share of profits after indirect business tax and net interest: (-----). Normalized to 1 for 1956-1965.

Figure 77 Productivity of capital in the *Restricted corporate sector*: Current and constant dollar measures and relative price



Current dollar measure of the productivity of capital (—); Constant dollar measure of the productivity of capital (---); Relative price of output to fixed capital (.....). Normalized to 1 for 1956-1965.

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