

## 4. The Tendency of the Surplus to Rise, 1963–1988

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### THE IRRATIONAL SOCIETY

In the increasingly universalised monopoly-capitalist economy and culture of the final decade of the twentieth century, people no longer need what they want or want what they need. Wants are artificially manufactured while the most desperate needs of innumerable individuals at the bottom of society remain unfulfilled. Although labour productivity has steadily risen, the total efficiency and rationality of society has in many ways declined. Indeed, it is almost impossible to arrive at any other conclusion if one considers the lavish office structures in cities like New York, Chicago, Atlanta and L.A., where employees use the most technologically advanced means available to 'develop' yet another brand of laundry detergent, television commercial or leveraged buyout, while not far away on the ground below people are living in slums and suffering from a lack of decent housing, food, clothing, medical care and education; or if one considers the automated assembly plants existing within the same social space as millions of unemployed, partially employed, 'discouraged' and poorly paid workers; or if one contemplates what it means to launch still another aircraft carrier the total costs of which are equal to half of the annual federal government budget for elementary and secondary education. All of these problems diminish in proportion, moreover, if one expands one's vision to encompass global conditions, comparing the situation of wealth-holders at the centre of the world-economy, where individual heads of corporations sometimes receive tens of millions of dollars in executive compensation, to the human degradation, squalor, misery and starvation that represent a commonplace reality for the majority of the

world's population living in the underdeveloped countries (Dowd, 1989: 66; Baran, 1969: 92-111).

Nor can we afford to close our eyes for a single moment when faced with the ultimate dilemma of the closing years of the twentieth century: the fact that the rapacious growth pattern of the global free-market in which we live has now reached such an extent that it is rapidly threatening—on a time-scale of decades rather than centuries—the very natural environment on which life on this planet depends. 'The throwaway society that has emerged during the late twentieth century', Lester Brown, Christopher Flavin and Sandra Postel have written in the May 1990 issue of *Natural History*,

uses so much energy, emits so much carbon and generates so much air pollution, toxic waste, and rubbish that it is strangling itself. Rooted in the concept of planned obsolescence and appeals to convenience, it will be seen by historians as an economic aberration. . . . If a throwaway culture leads inevitably to pollution and depletion of natural resources how can we build an environmentally stable future and still satisfy our material needs? Creating a sustainable life style requires vision. . . . If the world is not to fatally overtax its natural systems, we will need to achieve sustainability within the next forty years. If we have not succeeded by then, environmental deterioration and economic decline are likely to be feeding on each other, pulling us into a downward spiral of social disintegration. Our vision of the future therefore looks to the year 2030. (Brown, Flavin and Postel, 1990: 89)

The intensity with which these problems are pressing on the modern world can be traced primarily to the dominance of an economic system under advanced capitalism that derives its fundamental rationale from the insatiable drive to amass wealth. Such a system creates and recreates poverty alongside wealth. It builds waste into the very structure of production and consumption. And it requires steady increments in the size of the national economy. The richest 400 people in the United States, who saw their net worth triple between 1981 and 1988, have a combined wealth that not only greatly exceeds the federal deficit, but that also dwarfs the dollars spent on aiding the tens of millions of individuals among the nation's poor each year. From 1977-1988 the average family income of the poorest eight deciles of the population declined, while that of the richest two deciles rose. The change for the poorest income decile was -14.8 percent; for the wealthiest income decile it was (a positive) 16.5 percent. More significantly, the top 1 percent of the population in terms of income saw its average family income rise by 49.8 percent over the same period. In 1988 *Business Week* declared that the total compensation of the average CEO had risen to 93 times that of the average factory

worker. Meanwhile the United States witnessed the growing eclipse of manufacturing by finance. In 1948 the net capital stock in manufacturing was almost  $2\frac{1}{3}$  times larger than finance, real estate, insurance, and business services; by the end of the Reagan administration in 1988 the net capital stock in the former was 14 percent smaller than the latter (Packard, 1989: 313-19; Phillips, 1990: 14-23, 166, 180; Magdoff and Sweezy, 1990: 1-10).

In the *Communist Manifesto*, written in 1848, Marx and Engels claimed that the wealth of the system was in the hands of one-tenth of the population, while nine-tenths of the people were deprived of any access to wealth. Whatever the accuracy of Marx and Engels' estimates in their own time, in 1983 the Joint Economic Committee of the U.S. Congress estimated that 83.2 percent of all U.S. wealth, excluding the value of homes owned, was held by the richest 10 percent of families, while the top 0.5 percent of families owned 45.4 percent. Moreover the richest 10 percent of families owned 89.3 percent of corporate stock, 90.4 percent of bonds and 93.6 percent of business assets (Marx and Engels, 1968: 30; Kloby, 1987; U.S. Congress, 1986).

These vast disparities in wealth and income are tied to an economy in which waste is elevated over basic needs. Corporate advertising in the United States is now running at a level of over \$100 billion per year, about five times the size of the federal education budget. Medical costs and profits have skyrocketed over the last decade, while the availability of adequate health care has decreased. Approximately thirty-seven million Americans had no health care coverage in 1986, a rise of more than 40 percent since 1978. In 1988 U.S. cars were driven about  $1\frac{1}{4}$  trillion miles, as much as all of the rest of the world's cars put together, and constituted the single most important source of greenhouse gas emissions worldwide. The annual public subsidy to the private automobile has been estimated at \$300 billion. Los Angeles has given over two-thirds of its land area to the automobile. Yet, in a country that puts so much emphasis on the private mobility of its population, many simply have nowhere to go: an estimated 3 million people are homeless and many millions more throughout the country live in substandard housing (Woolhandler and Himmelstein, 1989: 54-60; Renner, 1988).

Reason would seem to dictate that to follow this same pattern of uneven development for much longer is to invite destruction for the world and the world's people. From the standpoint of human history and the ecological needs of the planet, a social formation and a civilisation must be judged by the way in which it utilises the human, natural and economic resources at its disposal. Very few researchers

in our society, however, conditioned as they are by the class environment in which they live—and hence brought up to believe implicitly in the ability of the free-market to solve all of society's problems—actually go so far as to evaluate advanced capitalist social formations in such rational and comprehensive terms.

Especially neglected, since it goes to the heart of the matter, is the connection between social irrationality and the allocation of the rapidly-expanding economic surplus of monopoly capitalism. The economic surplus of any society represents the range of economic freedom at its disposal, the extent to which it is able to engage in socially discretionary spending that satisfies more than the basic needs of its producers. It measures the resources that are immediately available to alleviate suffering and improve the quality of life.

Like all meaningful social concepts the economic surplus must be understood in relation to historically specific conditions. Its definition may vary depending on the range of historical considerations at issue and the concept itself is best approached in a step by step manner in terms of successive approximations. In its simplest, most general definition the economic surplus of a society can be seen as *the difference between its output and its essential costs of production*.

From a practical standpoint, *essential costs of production* (as reflected at the aggregate level in national income statistics) can be defined in a highly privatised system such as that of the United States as consisting of the after-tax wages of most employees engaged in private production. These essential (or prime production) costs represent the disposable income of the workers and lower managers whose labour constitutes the real source of the nation's surplus product. Excluded from essential costs in this conception is the profit element in the compensation of corporate officers, the wages of government workers and the compensation of employees in legal and financial services and advertising (since these expenses are a use of society's overhead or surplus). The net economic surplus in this accounting is then equal to profits + rent + interest + taxes + the profit in corporate officer compensation + advertising costs + the costs of financial and related services + legal costs. Depreciation costs can be added to this (as is common in national income accounting) in order to arrive at the gross (as opposed to net) economic surplus.<sup>1</sup> Over the years the gross surplus as we have defined it here has slowly but fairly steadily risen from \$302.9 billion (in current dollars) or 49.9 percent of GNP in 1963, to \$2,684.3 billion or 55.0% of GNP in 1988 (see the tables at the end of this essay).

The *actual* gross surplus in this sense therefore is far in excess of actual gross savings, which totaled \$642 billion in 1988. Yet it is *less*

than two interesting alternative conceptions of surplus: (a) the *potential* gross surplus, or the quantity of economic surplus that would be available to society at full employment (in 1988 5.4 percent of the labour force was officially unemployed, while millions more were 'discouraged' and underemployed); and (b) *planned* gross surplus, which can be defined as the gross surplus available if both production and consumption were reorganised so as to achieve socially optimal levels, particularly through the elimination of waste built into the business process (e.g., elaborate packaging, frequent model changes, planned obsolescence, etc. that have become intermingled with the costs of production). 'To say that "capitalism has been simultaneously the most efficient and the most wasteful productive system in history", ' Douglas Dowd has recently written in *The Waste of Nations*, 'is to point to the contrast between the great efficiency with which a particular modern factory produces and packages a product, such as toothpaste, and the contrived and massive inefficiency of an economic system that has people pay for toothpaste a price over 90 percent of which is owed to the marketing, not to the production, of the dentifrice'. The same criticism can of course be leveled at products throughout the economy: from soap, to automobiles, to computers (Dowd, 1989: 65-66).<sup>2</sup>

Such questioning of the structure of production, inherent in the very concept of planned gross surplus, requires of course that one 'step outside' present-day capitalist society in order to view it from the standpoint of a more optimal world order 'somewhere else'. Our goal in this essay (and in the calculations that follow) is not nearly so ambitious, however. We will be concerned almost entirely with actual gross surplus, and hence will confine ourselves to the type of criticism that is readily understood from within the conceptual boundaries of the present social order. None the less, it is essential to keep the concepts of potential gross surplus and planned gross surplus in mind—as further stages in a single line of argument—particularly since the shift to a more rational, democratic, humanistic and environmentally sustainable society (that is a free, socialist democracy) would necessitate a movement toward the kind of socially optimal production and consumption structure suggested by the concept of planned surplus.

'In a rich country like the United States', to quote Dowd again,

there is no need for further growth in real gross national product. What is needed is a substantial change in the composition of production, in what is produced and in what relative quantities. To put it simply for the moment, we need fewer guns and more butter, fewer autos and more public transportation, fewer financial services and more health services. For the capitalist system it is quantitative increase rather than qualitative improvement that is

vital; for the population, it is the reverse if they are to have quantitative improvement along with better lives. (Dowd, 1989: 78)

The underdeveloped economies of the Third World, in contrast, still need massive real economic growth to meet the needs of their people. Yet, in those societies too these objectives will be most readily reached if resources can be mobilised in a rational fashion and if the waste and inequality in society can be reduced. And this requires a shift from capitalist to socialist priorities in economic organisation. In our increasingly irrational, class-exploitative, globally-hierarchical and environmentally-destructive world it is essential for all nations to politicise the allocation of the economic surplus of their societies, and thereby to treat the whole of their national income as a *national budget*, and the whole of their national wealth as *the collective product of society*.

## ‘MONOPOLY CAPITAL’ AND THE SURPLUS

The research on the economic surplus conducted here is based on the previous work of Paul Baran in *The Political Economy of Growth* (1957), Paul Baran and Paul Sweezy in *Monopoly Capital* (1966), and Joseph Phillips in ‘Estimating the Economic Surplus’ (a long Appendix to *Monopoly Capital* and Chapter 3 in this volume). In *Monopoly Capital* Baran and Sweezy argued that Marx’s basic ‘law of the tendency of the rate of profit to fall’, associated with accumulation in the age of free competition, had been displaced under monopoly capitalism by a law of the tendency of the surplus to rise. In present-day capitalism a handful of giant firms typically determine the price, output and investment strategies of key industries. Under these circumstances, the critical problem is one of the absorption not the generation of surplus. Capitalist consumption fails to absorb sufficient surplus since it tends to account for a decreasing share of capitalist demand as income grows, while the surplus-absorbing capabilities of investment are hindered by the fact that it takes the form of new plant and equipment, which cannot be expanded for long periods of time independently of final, wage-based demand. In spite of the fact that there is always the possibility of new ‘epoch-making innovations’ emerging that could help absorb the surplus, all such innovations – resembling the steam engine, the railroad and the automobile in their overall effect – are few and far between. Hence, Baran and Sweezy conclude that the system has a powerful tendency toward stagnation (particularly within the realm of investment itself),

brought on by the failure to find markets for all of the potential surplus the system is capable of producing. This failure of monopoly capitalism is partly compensated through the promotion of various countervailing factors in the form of economic waste, such as the growing sales effort (including its penetration into the production process), military spending, and the expansion of financial services. All such factors, however, are either self-limiting or can be expected to lead to a doubling-over of economic contradictions in the not-too-distant future.

In the age of excess productive capacity, waste becomes increasingly functional for the system as a whole. Monopoly capitalist society is haunted by continuing surplus absorption problems, and finds its savior in the proliferation of an increasingly irrational world of polystyrene-foam packaging, plastic wrap, fast-food chains, 'new and improved' laundry detergents, billboards, commercials, automobile model changes, junk bonds and MX missiles. Still, none of this is enough and the economy, faced with vanishing investment outlets, tends to sink into a pattern of long-term slow growth.

By the early 1970s it was clear that the subterranean tendency toward stagnation that Baran and Sweezy had pointed to as the most likely result of the evolution of the monopoly capitalist economy was materializing. The response of the capitalist class to the declining secular growth trend of the world economy in the 1970s and '80s was not, however, to create a more equitable distribution structure or to turn to rational planning of resource use. Rather, the ruling elements chose to conduct a massive restructuring program – under the ideological mantles of Reaganomics, Thatcherism, supply-side economics and monetarism – designed to redistribute income and wealth from the poor to the rich, to accelerate military spending, and to give a boost to the financial sector through deregulation and tax reforms. The result by the 1990s was an economic order that was more irrational on a global scale than ever before, and that saw a massive relative shift away from production and toward finance and speculation. Thus, the capitalist order twenty-five years after the publication of *Monopoly Capital* remains caught, as the authors of that work anticipated, within the parameters of: (a) persistent problems of surplus absorption; (b) a tendency toward the stagnation of investment (and hence of growth); and (c) the proliferation of economic waste of all kinds.<sup>3</sup>

The imperative of finding solutions to the desperate needs of large sections of humanity, the objective of uncovering the laws of motion of monopoly capitalism, and the increasingly urgent task of creating an ecologically sustainable development pattern if the world's natural

environment is not to be destroyed irreparably, all therefore demand a more thoroughgoing scrutiny of the nature and composition of society's economic surplus than has hitherto been undertaken.

In any attempt to take up this issue today it is useful to return to the earlier calculations of economic surplus for the United States provided by Joseph Phillips. Baran and Sweezy wrote in their book that,

we have concentrated our efforts on the theoretical task [of identifying the economic surplus], introducing quantitative data mostly for explanatory or illustrative purposes. But it also seemed desirable to present systematic estimates of the surplus and its major components. Having a poor opinion of our own knowledge of statistical sources and skill at avoiding statistical pitfalls, we asked our friend Joseph D. Phillips, for whose knowledge and ability in these respects we have the highest regard, to prepare these estimates. After reading a draft of the relevant chapters and giving thought to the problem of sources, he concluded that the task was a feasible one and accepted our invitation. His estimates of the United States surplus and its major components for the period 1929-1963 are presented in the Appendix. . . . Though subject to qualifications and *caveats*, as Phillips makes clear, they are, we feel confident, reliable as indicators of the orders of magnitude involved.

Two findings in Phillips' estimates were particularly noteworthy, according to Baran and Sweezy. First, the magnitude of the surplus in Phillips' calculations had increased from 46.9 percent of Gross National Product in 1929 to 56.1 percent in 1963. Second, the portion of the surplus typically identified with surplus value had declined from 57.5 percent of GNP in 1929 to 31.9 percent in 1963. This means that more and more income to capital is hidden in the form of excess depreciation, corporate officer compensation, advertising, etc. (Baran and Sweezy, 1966: 10-11).

The Phillips calculations, although resting on what was in many ways a brilliant statistical exposition of the surplus, ran into a few difficulties – as might be expected of such pioneering work – related to the issue of double-counting. Nevertheless, Phillips' calculations continue to represent an indispensable starting point for research on the surplus. In what follows we have calculated the gross economic surplus for the United States for the years 1963-1988, following some of the guidelines that Phillips laid out, but departing from him in notable respects in light of important criticisms of his work.

Our own calculations for gross surplus (which cannot be compared directly with Phillips' somewhat different form of accounting) show not only that the *gross surplus* increased (as previously mentioned)



from 49.9 percent of GNP in 1963 to 55.0 percent in 1988, but also that before-tax profit + rent + interest declined from 35 percent of total gross surplus in 1963 to 29 percent in 1988. It is therefore evident, as Baran and Sweezy wrote in 1966, that 'not only the forces determining the total amount of surplus need to be analyzed but also those governing its differentiation and the varying rates of growth of the components' (Baran and Sweezy, 1966: 11).

Given the popularity of supply-side explanations for the troubles of the U.S. economy that place the blame for an alleged shortage of capital on high wages, low labour productivity and high government spending, it is significant that a surplus perspective tells a different story: the tale of a social order consigned by its own logic to what the leading economist of this century, John Maynard Keynes, once called 'the fate of Midas' (Keynes, 1973: 219).

## CALCULATING THE SURPLUS: 1963–1988

Updating Phillips' figures on the economic surplus is a formidable technical task. The amount of time required to locate, pore over, and double-check the relevant statistical tables is large indeed. Add to this the questionable basis of many official economic calculations and the fact that the U.S. government does not set up its tables to facilitate research done from a class perspective, and the job appears even more daunting.

Moreover, Phillips' tables have been the subject of scattered criticisms – some of which are quite important. Thus, the technical process of creating an up-to-date estimate of the surplus and its components requires both a large amount of detailed, painstaking work with the available series of statistics and a sensitivity to the minor pitfalls inherent in Phillips' original tables.

Of course, as the authors of *Monopoly Capital* themselves put it in their 'Introduction' to that work, there is another important side to the problem of compiling data on the economic surplus. This is the problem which stems from the fact that, 'in a highly developed monopoly capitalist society, the surplus assumes many forms and disguises. Part of the problem is to identify the most important of these theoretically, and the rest is to extract a reasonable estimate of their magnitudes' (Baran and Sweezy, 1966: 10).

In other words, the calculation of the surplus demands not only a great deal of technical labour, but also close attention to the nature and logic of monopoly capitalism. In this regard, familiarity with and

appreciation of the theory developed by Baran and Sweezy in the main body of *Monopoly Capital* is indispensable.

With these caveats in mind, we believe that the development of a reliable portrait of the course of the economic surplus between 1963 (the last year in Phillips' tables) and 1988 (the most recent year for which sufficient data are available) might serve to address important questions regarding the performance of monopoly capitalism in its latest phase of relative stagnation. Moreover, such a picture might shed light on the real social position of the vast majority of the population living under monopoly capitalism's crushing contradictions.

### Phillips' Approach to Calculating the Surplus

Phillips derived his estimates of the surplus by creating and explaining a series of tables. These consisted of one main table entitled 'Total Economic Surplus and its Major Components' and four supporting tables elucidating Phillips' treatment of government spending, forms of property income not paid out of profit, and profit income for both the corporate and unincorporated sector of the U.S. economy.<sup>4</sup> Phillips also provided sixteen pages of verbal clarification along with specific source citations in his appendix to *Monopoly Capital*. We suggest a careful reading of this appendix as a preliminary step for those concerned with understanding how our estimates compare with Phillips'.

Beyond reading Phillips' own explanation of his calculations, it is important to be aware of the fact that this work has been criticised for falling into the trap of double counting. Phillips, Baran and Sweezy are taken to task over the double counting issue by the liberal critic Raymond Lubitz:

If we had the data, we could calculate the 'national economic surplus' by two different methods: either as profits received (the income-surplus) or as expenditures out of profits (the output surplus). Because national income by definition equals national product, the two sums should give identical *measures* of the surplus. What we cannot do is *add* the two measures (or parts of them). . . . In effect, the authors have taken expenditures from the *product* side of the national income equation and added them on to the 'surplus' on the *income* side. (Lubitz, 1971: 169)

Phillips' approach has also engendered some confusion over the basic assumptions which underlie his calculations. One such criticism, posed by both Lubitz and by Robert Heilbroner, is that the relationship of taxes on the wages of the working class to the surplus is left unclear (Lubitz, 1971: 170; Heilbroner, 1970: 243). A second criti-

cism of the assumptions of *Monopoly Capital* and its appendix stems from the confusion over which operative definition one ought to adopt in order to estimate the surplus. Lubitz, Heilbroner, and Ron Stanfield have all expressed doubt or perplexity regarding this point (Lubitz, 1971: 168–9; Heilbroner, 1970: 243; Stanfield, 1973: 4–5).<sup>5</sup>

### General Reply to Phillips' Critics

The concern over the issue of double counting in Phillips' tables is important and relevant as a criticism. The figures derived by Phillips do indeed reflect some minor problems of double counting.

The difficulty lies in Phillips' inclusion of both the entirety of government expenditures and such elements as corporate profits in his estimates of the surplus. The dilemma encountered is that some portion of government expenditure does go directly into corporate profits, as when the Pentagon purchases a ballistic missile at a price which includes a hefty profit margin. By including both government expenditures and figures on corporate profits, some portion of the surplus may show up twice—once as profit income to the corporate sector and again as government spending. As one of the present authors has stated elsewhere with regards to Phillips' calculations,

it seems undeniable that a certain portion of government expenditures are counted as well in property income. Much of this has to do with the intrinsic difficulty of ascertaining the relevant Marxian categories and quantities in national income accounts designed for quite a different purpose. In any case, there can be little doubt about the sheer magnitude of the surplus, or about its tendency to rise in relation to income as a whole. (Foster, 1986: 44)

In addition, Phillips builds a small amount of double counting into his estimates by including *before-tax* surplus employee and corporate officer compensation, while also including government expenditures, some of which obviously derives from taxes on surplus employee and corporate officer income.

Our solution to this relatively minor double counting dilemma is to: (a) follow the traditional approach to handling the national accounts by sticking to the income side of the ledger as much as possible; and (b) adjust all appropriate figures for taxes.

Despite the admitted difficulty which Phillips encountered over double counting in certain respects, other elements of the double counting charges leveled against him are themselves mistaken. For instance, Lubitz' statement that it is never valid to add elements from both sides of the national income and product accounts ledger in cal-

culating the economic surplus is incorrect. It is possible to add, for example, the costs of corporate advertising costs – an expenditure – to an estimate of the surplus otherwise based on the income side of the ledger, so long as the income associated with such an expenditure has not already been counted. In the case of corporate advertising costs, this is clearly an element which is addable to state and private property income receipts. This is so because, while clearly constituting part of the surplus available to society, advertising overhead is nevertheless treated in the profit calculus as a cost deducted before traditional profit figures are derived and corporate income taxes are paid. Thus, keeping in mind the dynamics of the surplus and its allocation in the account books, we see that those parts of surplus charged as overhead expenses – which appear only on the expenditure side of the ledger – are in fact elements which can be added to profit revenue or derivatives thereof, without running into double counting.

The charge that Phillips was unclear about the relation of taxes on wages to the surplus merely stems from confusion on the part of Lubitz and Heilbroner themselves over the method Phillips adopted in making his estimates. Consistent with Baran and Sweezy's theory Phillips included taxes on wages in his surplus figures. He merely did so indirectly by counting them as they appear on the expenditure side as part of government spending.

The question surrounding which working definition of the surplus should form the basis for our estimates can be answered simply. Much confusion over the definition of the surplus intended by Baran and Sweezy has flowed from the fact that 'none of the critics of *Monopoly Capital* seem to have fully appreciated. . . that the method adopted in the book was one of successive approximations. . . . [T]he fully developed version of the surplus. . . was conceived as being an equivalent (or near equivalent) to total surplus value, deviating from the 'textbook version' of the latter as aggregate profits (profits + interest + rent)' (Foster, 1986: 44).<sup>6</sup> Thus, the whole point of the surplus concept developed by Baran and Sweezy was to refocus attention on the social accumulation fund as it actually operates in monopoly capitalist society, and this is the perspective from which surplus should be estimated. By recognising that the economic surplus is society's accumulation fund, we not only rehabilitate Marx's central concept of surplus value, returning it to its full critical vigor, but we thereby gain the ability to assess and compare alternative social orders in a rigorous and meaningful way. This is the true power and promise of the concept of the surplus elaborated in *Monopoly Capital*.

## **Explanation of Our Estimates of the Economic Surplus**

Our estimates of the surplus and its components appear in Table 1: 'Gross Surplus and its Major Components: 1963-1988' at the end of this text. Supporting tables are also included. Table 2: 'Estimates of Profit Income of Unincorporated Business' replicates Phillips' table covering the same phenomenon. Table 3: 'Adjusted Surplus Employee Compensation' provides the basis for column 5 of Table 1. Table 4: 'Adjusted Corporate Advertising' provides the basis for column 6 of Table 1.

As mentioned above, our general approach has been to stick with figures taken from the revenue side of the national income accounts – with a few important and justifiable exceptions – so as to lessen the potential for double counting. We believe that our estimates, which are designed to err – if at all – on the conservative side, capture as much of the surplus as it is possible to capture with certainty given the nature of available data.

### **Adjusted corporate profits**

These figures were taken straight from the national income accounts. They reflect before-tax corporate profits adjusted for the capital gains which appear as a result of inventory accounting practices.

### **Profits of unincorporated business**

We have followed Phillips' approach to the letter in making these estimates, with the exception that we employ before-tax figures for profits.

### **Rental income, net interest, business contributions to social insurance**

Figures are before-tax and were taken straight from the relevant national income accounts.

### **Surplus employee compensation**

Following Phillips, we add together compensation of employees in the financial (including finance, insurance and real estate) and legal sectors of the economy. After obtaining the raw figures for employee compensation in financial and legal services, we subtract from employee compensation in each industry half of the total corporate

officer compensation paid out in that sector (since this falls under the category of hidden profits in our estimates – see ‘profit in corporate officer compensation’ below). The resulting sum of the adjusted figures for financial and legal sector compensation is then finally adjusted for the taxes paid out of the compensation of employees in this sector of the economy. This allowance is necessitated by our inclusion of taxes on wages and salaries elsewhere in our estimates of the surplus (see below).

### **Advertising costs of corporations**

Overheads associated with advertising is an important part of the ‘sales effort’ required by monopoly capital, as well as an important absorber of surplus in its own right. For this reason, we include it in our estimates. We include only that portion of advertising expenditures carried out by active corporations, since this magnitude constitutes the great bulk of business advertising and because figures on unincorporated business advertising are not readily obtainable. Although this is another element of surplus which we take from the expenditure side of the ledger (as is surplus employee compensation), this does not represent double counting, since such items as advertising expenses are charged to surplus value before profits are calculated and taxes are paid.

Our estimates for corporate advertising are compiled as follows. First, we take the figure for total corporate advertising for a given year. Then we subtract from this number a percentage of the total which accords with our estimate of the relative share of traditional forms of property income in all business income. This is done so as to allow for that portion of advertising expenditures which goes into the profit, rental, and interest income of advertising agencies and other businesses, and which is already counted in our estimates of incorporated and unincorporated business profits. Following this step, we then reduce the resulting figure further by deducting an amount designed to capture the ‘profit element in corporate officer compensation’ (which we count elsewhere). The amount deducted is based on the relative size of total corporate advertising expenditures vis-à-vis total business income. The figure obtained after these two adjustments have been made constitutes what might be thought of as the labour income which exists because of corporate advertising expenditures. We then adjust this final number downward so as to account for the taxes paid out of this income (again, see below).

## Profit in corporate officer compensation

As Phillips pointed out, '[a] significant part of this income [the pay of corporate officers] represents a share of profits, although it is not explicitly treated as such' (Phillips, 1966: 379; 28 above). For this reason, we consider such income to be a disguised form of surplus.

In the interest of making a strictly conservative estimate of the surplus, we have elected to follow Phillips' assumption that one-half of corporate officer compensation represents a deduction from surplus value, with the other half representing 'labour income'. Nevertheless, it is important to note that this assumption appears to be wildly conservative in light of the recent startling rise in the average level of corporate officer compensation.<sup>9</sup>

## Gross business depreciation

In his appendix to *Monopoly Capital*, Phillips went through a fairly detailed elaboration of his approach to the issue of depreciation. In this discussion, Phillips argued that untangling the well-known problem of excess depreciation allowances (the difference between what the government allows businesses to deduct from their profit figures as 'depreciation' and the actual amount of depreciation of plant and equipment) was the key to incorporating depreciation into the surplus. Thus, the trick for Phillips was to arrive at a solid estimate of the actual magnitude of excessive depreciation allowances, so that this could be incorporated into his table.

Our approach differs from Phillips' by treating the whole of depreciation allowances as part of the economic surplus. As Phillips himself recognised, the very term 'depreciation reserves' has the tendency to obscure how these funds are actually deployed by monopoly capital.<sup>10</sup> In reality, depreciation reserves have very little to do with what is socially necessary to replace plant and equipment within monopoly capitalist societies. As Harry Magdoff and Paul Sweezy have argued:

In accounting theory. . . [depreciation] funds are supposed to be accumulated for the purpose of replacing plant and equipment worn out in the process of production. But in fact there is absolutely no reason to assume that funds accruing in the form of depreciation reserves will be used to duplicate the old machines and technology. Except in the case of irreparable breakdown, the need to scrap old productive capacity is rarely clear-cut. . . . [P]ure replacement rarely takes place: when depreciation reserves are used ostensibly for replacement they are, more often than not, invested in more advanced, more productive, and even enlarged capacity. Finally, there is no law that says depreciation reserves must be used to keep on manufacturing

the same products. These funds are in effect savings that are available for whatever management thinks will yield the best profits. (Magdoff and Sweezy, 1981: 193-4).

For this reason, we have incorporated the total amount of business depreciation into our estimates of the surplus, which should therefore be understood as gross (not net) surplus. Our approach in this respect conforms closely with standard national income accounting practices in which it is most common to refer to gross national product and gross savings in contrast to net national product and net savings.

### **Indirect business tax and nontax liabilities**

This is another form of government revenue which is paid out by business as expenses charged against surplus value before the calculation of profits. As such, it belongs in our estimate of the surplus.

This category includes such items as the windfall profit tax on crude oil production and fines and fees assessed by regulatory agencies.

### **Estimated taxes on wages and salaries**

Because taxes on wages and salaries go toward the funding of the state, they must be incorporated into our estimates.<sup>11</sup> This is not to deny that some part of this tax revenue will be returned to the working class in the form of what radical theorists now commonly refer to as 'the social wage'. But it does suggest that these revenues are more properly understood, in our view, as constituting part of the societally appropriated surplus rather than as 'wages' as such. In order to incorporate these amounts, we have taken the sum total of wages and salaries paid to individuals for each year in our table, deducted from this sum that share which represents disguised profit paid to corporate officers (see above), then estimated the size of the overall tax burden on this income for each year by assuming that 26 percent of this adjusted wage and salary figure was paid out in taxes of various sorts.

Our estimate of a 26 percent overall tax burden on wages and salaries is taken from the work of Joseph A. Pechman (already referred to above). Pechman's calculations reveal that if one makes the thoroughly reasonable assumption that corporations are successfully able to pass at least some of their tax burden along to consumers, then it is wise to conclude (since effective tax rates are flat or slightly regressive) that not only is the overall tax burden (including income,



excise, sales, and social insurance taxes, etc.) equal to approximately 26 percent of income for all individuals, regardless of the size or source of their income, but that this figure has remained virtually constant over the period that we are concerned with here. In fact, Pechman's figures show that, assuming corporations can pass along some of their tax bills, the effective rate of federal, state, and local taxation for all income deciles was 25.9 percent in 1966, 26.7 percent in 1970, 25.5 percent in 1975, 26.3 percent in 1980, and 25.3 percent in 1985. Moreover, the variance from these averages is extremely small across all income deciles (Pechman, 1985: 1-10, 68.)<sup>12</sup>

### **Elements left out of our estimates**

It is absolutely essential to recognize that the Phillips estimates, as well as our own, are conservative in several additional respects. Although Phillips did attempt to develop rough estimates for the penetration of the sales effort into the production process, which amounted to something like 10 percent of GNP, he was unable to compute year-by-year estimates and therefore left this component out of the economic surplus. Likewise, we also leave this element out. In addition, both sets of estimates leave out the further element of output lost through official unemployment. Finally, we have elected to exclude Phillips' category of 'waste in distribution' because of the extreme difficulty we would encounter in trying to replicate Phillips' method in this area, which relied heavily on one-of-a-kind sources of data.

Our final estimates of the surplus for the years 1963-1988 appear below.

## **CONCLUSIONS**

We would like to reiterate that these figures were calculated using a different method from that of Phillips, and are not strictly comparable with his figures. As we have mentioned, we believe that Phillips did encounter difficulties with double counting. We have shifted his approach slightly, so as to avoid these minor problems.

Despite our qualifications and the inevitable shortcomings in the data, it seems desirable to draw some tentative conclusions from our estimates.

The first such conclusion is derived from the sheer size of the surplus in relation to the stagnant levels of real productive investment. Thus in 1988 gross investment was only 24 percent of gross economic

surplus, or \$632.8 billion out of a total gross surplus of \$2,684.3 billion. Our estimates therefore strongly support the argument that we are in an age where capitalism is experiencing a disintegration of the last remaining vestiges of its own limited rationality as a social system. As Paul Sweezy stated in the October 1990 issue of *Monthly Review*, '[t]here's no way the capitalist class can now rationally manage the vast amount of surplus the economy is capable of producing' (Sweezy in Watanabe and Wakima, 1990: 14).

Second, our figures show an upward trend in the size of the surplus between 1963 and 1988. Thus the 'law of the tendency of the surplus to rise' has been found to be fairly consistent, with only minor interruption in the late 1960s and early 1970s. This suggests that the problem of surplus absorption continues to grow despite the declining secular trend-rate of growth in the system as a whole. In fact, our figures show that even in severe (supposedly 'corrective') downturns in the business cycle, the share of the surplus (in contrast to the share of profits as such) may not drop off by very much at all. For instance, the share of gross surplus in GNP dropped by only one-tenth of one point between 1981 and 1982, the breaking point at the beginning of the steepest post-war recession to date.

Third, the entire rise in surplus as a percentage of GNP over the quarter-century covered by our figures can be accounted for by the growth of the following four items: net interest, surplus employee compensation (i.e., finance, insurance, real estate and legal services), advertising costs, and the profit element in corporate officer compensation. Thus, if these four elements were subtracted from our estimates of the surplus, the general trend would be reversed, and gross surplus would fall as a percentage of GNP from 43.2 percent in 1963 to 40 percent in 1988 (rather than rising from 49.9 to 55 percent). Hence, the rise in gross economic surplus between the end of the Kennedy administration and the end of the Reagan administration can be accounted for entirely by factors reflecting the general shift away from production toward finance and marketing in the economy as a whole.

Finally, our estimates ought to give serious pause to those inclined toward supply-side explanations of the crisis of U.S. capitalism. Our figures, as we have seen, reveal that while traditionally defined profit figures have fluctuated, the rate of extraction of surplus product from the direct producers, as it is reflected at the aggregate level in surplus figures, has shown a far steadier upward trend. And what is true for the United States, in this respect, is obviously true in a much more heightened way for the capitalist world economy as a whole over the same period. It is only in this light that one can truly understand the

growing imperative for the creation of free socialist ecological democracies where society's economic surplus would be utilised rationally to meet the needs in common of humanity as a whole.

## NOTES

1. Gross economic surplus in our definition is meant to be equivalent to the gross social accumulation fund, or the range of freedom that society has at present both to maintain its existing infrastructure and to accomplish those tasks that go beyond the basic consumption needs of its employed population. Our definition of gross economic surplus is therefore meant to be equivalent to what, in Marx's terms, would be called gross surplus value—or total surplus value plus depreciation. This in turn reflects our view that most textbook definitions of surplus value, which typically identify it with profit, rent and interest and ignore such factors as surplus employee compensation, the profit element in corporate officer compensation, etc., are overly simplistic, downplaying precisely those elements of surplus product that are rising most rapidly in the current epoch.
2. On the concepts of potential surplus and planned surplus see Foster, 1986: 24–50.
3. In later years Sweezy has frequently noted that the authors of *Monopoly Capital* failed to place sufficient emphasis on the role of finance within the overall accumulation dynamic of monopoly capitalism. For example, see Magdoff and Sweezy, 1987: 100–1. In this context, it is significant to note that Harry Magdoff, who joined Sweezy as co-editor of *Monthly Review* in 1969, was placing strong emphasis on this aspect of the problem as early as 1965, the year before *Monopoly Capital* was released. See Sweezy and Magdoff, 1972: 7–27.
4. Recognizing 'the differences between the categories employed in the national income accounts and those implied in the concept of economic surplus', Phillips strove to build his estimates by working from 'the more commonly recognized elements of surplus (i.e. profits, interest, rent) to those less commonly included' (i.e. forms of waste in the business process, the compensation of corporate officers, etc.). Joseph Phillips, 1966: 369 (21 above).
5. Also, Edward Wolff has argued that the *Monopoly Capital* approach to unproductive labour is misguided. See Wolff, 1977: 87–8, 110–11. Wolff's argument that the kinds of unproductive labour generated by monopoly capitalism hurt the system by diverting surplus from 'productive capitalists' who would otherwise invest in more productive capacity, simply misses the central point of Baran and Sweezy's analysis: namely, that the main constraint of the system lies in the *absorption* not the *generation* of surplus.
6. Foster is here referring to clarifications issued by Sweezy himself in Sweezy, 1980: 12. One of the central themes of Baran and Sweezy's work has always been the insistence that the concept of surplus value be rehabilitated in the context of the changes surrounding the emergence of the monopoly stage of capitalism, so as to provide the needed perspective for subjecting the entirety

- of the social accumulation fund – and by extension, the social order of capitalism itself – to critical scrutiny.
7. Based on Joseph A. Pechman's authoritative study (Pechman, 1985), we assume that all U.S. individual taxpayers – regardless of income or wealth – have carried a roughly equal combined tax burden (including income, sales, property, excise, and other taxes) of about 26 percent of income throughout the period 1963–88.
  8. Here we apply precisely the same method of estimating the labour/traditional property income split of business income connected with advertising that Phillips employed in estimating labour income's share of unincorporated business income. See Phillips, 1966: 370–2 (22–3 above), and 386: Table 19 (Table 2 above), Column 2.
  9. For the last year in Phillips' table, 1963, corporate officer compensation represented slightly under 3 percent of GNP. By 1985, the share of corporate officer compensation in GNP had hit 4.25 percent, a remarkable jump given the small size of the population of corporate officers and the stagnating or declining fortunes of the vast majority of the population.
  10. Phillips quotes Robert Eisner, who states that '[m]any accountants will insist that depreciation accounting is merely a device for allocating original cost and is entirely unrelated to replacement requirements' (Phillips, 1966: 374).
  11. For a full explanation of how the taxation of wages and salaries constitutes part of the economic surplus, see Baran, 1957: 123–9. Here Baran points to 'the paradox that the larger the amount of surplus that the government must spend in order to maintain the desired level of income and employment, the larger it tends to make the surplus itself by seizing parts of income [taxes on wages and salaries] that otherwise would have been spent on consumption'.
  12. See especially pages 1-10 and Pechman's Table 5-2, page 68. Our figure of 26 percent is the rounded average of the estimates of the overall tax burden in various years between 1965 and 1985 provided by Pechman in that portion of his Table 5-2 (Pechman, 1985: 68) which is based on the assumption that corporations are able to pass along some of their tax burden to consumers.

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TABLE 1: GROSS SURPLUS AND ITS MAJOR COMPONENTS, 1963-88  
(columns 1-13: all figures current U.S. \$billions)

Year	Adj. profits	Est. Profits corp. unic. business	Rental income	Net interest	Surplus Employee comp.	Profit Advert. costs of corps.	Element in corp. off compens.	Gross business deprec.	Indirect tax & nontax liability	Estimated tax on wages & salaries	Business contrib. soc. ins.	Gross surplus	Gross National Product	surplus as % of GNP
1963	59.8	18.8	10.3	16.3	11.6	6.1	6.7	41.4	35.8	79.5	16.7	302.9	606.9	49.9
1964	66.2	19.9	10.5	18.2	12.8	6.7	7.1	44.0	38.6	85.3	17.5	326.8	649.8	50.3
1965	76.2	22.3	11.0	20.9	13.5	7.3	7.8	47.0	41.2	91.8	18.2	357.1	705.1	50.7
1966	81.2	23.1	11.4	24.3	14.7	8.0	8.4	50.6	42.7	101.1	22.8	388.4	772.0	50.3
1967	78.6	21.8	12.4	27.4	16.2	8.4	9.1	54.6	45.4	108.3	25.0	407.2	816.4	49.9
1968	85.4	22.1	12.4	29.8	18.3	9.1	9.8	58.7	52.3	119.3	27.6	444.8	892.7	49.8
1969	81.4	20.0	14.0	34.6	20.2	10.2	11.2	63.5	57.8	130.8	31.7	475.5	963.9	49.3
1970	69.5	16.1	14.7	41.2	22.3	10.7	12.1	67.9	62.1	139.1	34.3	490.1	1,015.5	48.3
1971	82.7	17.7	15.7	46.3	24.6	11.1	13.5	72.3	68.4	147.1	38.2	537.5	1,102.7	48.7
1972	94.9	19.5	17.3	51.0	27.5	12.4	15.3	80.1	73.5	160.7	44.6	596.8	1,212.8	49.2
1973	107.1	21.2	19.8	59.6	30.8	13.5	17.5	86.5	81.0	178.1	55.1	670.1	1,359.3	49.3
1974	99.4	15.4	21.9	75.5	34.1	14.8	19.6	94.2	86.2	194.0	62.6	717.7	1,472.8	48.7
1975	123.9	18.9	23.2	83.8	37.9	15.7	21.4	102.2	93.6	204.3	68.0	792.9	1,598.4	49.6
1976	155.3	21.3	25.5	88.8	42.7	18.0	23.7	109.8	101.3	225.5	79.0	890.9	1,782.8	50.0
1977	183.8	25.7	30.1	105.3	47.9	20.3	27.3	123.6	111.1	248.8	88.6	1,012.5	1,990.5	50.9
1978	208.2	28.7	35.5	126.3	55.0	23.5	31.5	138.7	121.2	280.0	101.9	1,150.4	2,249.7	51.1
1979	214.1	22.5	40.4	158.3	62.8	27.3	36.0	158.2	129.5	312.9	116.8	1,278.8	2,508.2	51.0
1980	194.0	10.9	47.6	200.9	72.6	31.3	40.3	180.3	147.2	342.6	127.9	1,395.6	2,732.0	51.1
1981	202.3	4.3	58.7	248.1	82.1	35.8	44.5	218.4	175.0	377.0	146.7	1,592.9	3,052.6	52.2
1982	159.2	-8.8	62.9	272.3	92.2	39.8	47.9	252.9	176.9	395.6	157.2	1,648.1	3,166.0	52.1
1983	196.7	2.6	67.4	281.0	103.6	42.9	52.2	296.9	194.1	417.6	171.0	1,826.0	3,405.7	53.6
1984	234.2	13.9	70.4	304.8	114.4	47.9	58.1	336.1	216.4	457.6	192.2	2,046.0	3,772.2	54.2
1985	222.6	12.9	75.1	319.0	127.3	53.7	63.2	387.8	231.9	491.4	204.8	2,189.7	4,014.9	54.5
1986	228.3	8.1	73.0	325.5	145.7	58.5	68.6	408.1	245.6	520.4	217.4	2,299.2	4,231.6	54.3
1987	247.8	20.1	75.2	351.7	163.6	64.5	75.0	417.3	259.6	558.3	227.8	2,460.9	4,524.3	54.4
1988	281.8	30.9	80.4	392.9	183.7	71.0	81.9	430.9	278.6	602.5	249.7	2,684.3	4,880.6	55.0

**TABLE 2: ESTIMATED PROFIT INCOME  
OF UNINCORPORATED BUSINESS**  
(columns 1, 3-6: all figures in current U.S. \$billions)

Year	Uninc. business income	% Corp. income going to employees	Est. lab. income- uninc. business	Non-labour income- uninc. business	Net interest- uninc. business	Est. profits uninc. business
1963	97.2	78.7	76.5	20.7	1.9	18.8
1964	102.5	78.2	80.2	22.3	2.4	19.9
1965	108.7	76.9	83.6	25.1	2.8	22.3
1966	116.2	77.3	89.8	26.4	3.3	23.1
1967	118.8	78.6	93.4	25.4	3.6	21.8
1968	125.4	79.2	99.3	26.1	4.0	22.1
1969	131.8	81.1	106.9	24.9	4.9	20.0
1970	135.0	83.6	112.9	22.1	6.0	16.1
1971	143.4	82.6	118.4	25.0	7.3	17.7
1972	157.9	82.3	130.0	27.9	8.4	19.5
1973	187.5	82.8	155.3	32.2	11.0	21.2
1974	194.1	85.0	165.0	29.1	13.7	15.4
1975	205.8	83.3	171.4	34.4	15.5	18.9
1976	225.8	82.8	187.0	38.8	17.5	21.3
1977	248.9	81.7	203.4	45.5	19.8	25.7
1978	284.9	81.8	233.0	51.9	23.2	28.7
1979	316.4	83.5	264.2	52.2	29.7	22.5
1980	318.0	85.1	270.6	47.4	36.5	10.9
1981	342.2	84.7	289.8	52.4	48.1	4.3
1982	340.6	87.1	296.7	43.9	52.7	- 8.8
1983	361.2	84.5	305.2	56.0	53.4	2.6
1984	421.7	83.2	350.9	70.8	57.6	13.2
1985	459.2	83.4	383.0	76.2	63.3	12.9
1986	502.9	84.4	424.4	78.5	70.4	8.1
1987	548.2	83.8	459.4	88.8	68.7	20.1
1988	580.4	82.9	481.2	99.2	68.3	30.9

TABLE 3: ADJUSTED SURPLUS EMPLOYEE COMPENSATION  
(all figures in current U.S. \$billions)

Year	Total employee compensation in finance insurance & real estate	Corp. officer compensation in finance insurance & real estate	Adjusted total employee compensation in finance insurance & real estate	Total employee compensation in 'legal services' sector	Estimated corporate officer compensation in 'legal services'	Adjusted total employee compensation in 'legal services' sector	Total after-tax surplus employee compensation
1963	16.3	3.1	14.8	0.9	0.01	0.9	11.6
1964	17.6	2.7	16.3	1.0	0.002	1.0	12.8
1965	18.9	3.4	17.2	1.0	0.01	1.0	13.5
1966	20.5	3.6	18.7	1.2	0.02	1.2	14.7
1967	22.5	3.9	20.6	1.3	0.03	1.3	16.2
1968	25.5	4.4	23.3	1.4	0.03	1.4	18.3
1969	28.2	5.0	25.7	1.7	0.1	1.7	20.2
1970	30.9	5.3	28.3	2.0	0.1	2.0	22.3
1971	34.0	6.0	31.0	2.3	0.1	2.3	24.6
1972	37.8	6.7	34.5	2.8	0.2	2.7	27.5
1973	42.0	7.3	38.4	3.4	0.3	3.3	30.8
1974	46.0	7.7	42.2	4.1	0.3	3.9	34.1
1975	50.9	8.5	46.7	4.8	0.5	4.6	37.9
1976	57.0	9.2	52.4	5.6	0.5	5.3	42.7
1977	63.9	10.6	58.6	6.5	0.6	6.2	47.9
1978	73.1	11.8	67.2	7.6	1.0	7.1	55.0
1979	83.2	13.6	76.4	9.1	1.2	8.5	62.8
1980	95.2	15.0	87.7	11.0	1.3	10.4	72.6
1981	106.6	16.4	98.4	13.3	1.6	12.5	82.1
1982	118.7	18.1	109.7	16.2	2.6	14.9	92.2
1983	133.1	20.7	122.8	18.7	2.9	17.2	103.6
1984	146.2	22.2	135.1	21.3	3.6	19.5	114.4
1985	162.5	25.7	149.7	24.3	3.7	22.4	127.3
1986	185.2	28.5	171.0	28.1	4.3	25.9	145.7
1987	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	163.6
1988	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	183.7



**TABLE 4: ADJUSTED CORPORATE ADVERTISING**  
 (all figures except column 2 in current U.S. \$billions)

Year	Total corp. advert.	General labour income share estimate from Table 2	Est. labour income from corp. adv.	Est. disguised profit in corp. officer comp., advertising	Estimated true labour income from corp. adv.	After-tax labour income from corp. adv.
1963	11.0	78.7	8.7	0.4	8.3	6.1
1964	12.1	78.2	9.5	0.4	9.1	6.7
1965	13.3	76.9	10.2	0.4	9.8	7.3
1966	14.5	77.3	11.2	0.4	10.8	8.0
1967	15.0	78.6	11.8	0.5	11.3	8.4
1968	16.2	79.2	12.8	0.5	12.3	9.1
1969	17.7	81.1	14.4	0.6	13.8	10.2
1970	18.1	83.6	15.1	0.6	14.5	10.7
1971	19.0	82.6	15.7	0.7	15.0	11.1
1972	21.4	82.3	17.6	0.8	16.8	12.4
1973	23.0	82.8	19.0	0.8	18.2	13.5
1974	24.6	85.0	20.9	0.9	20.0	14.8
1975	26.6	83.3	22.2	1.0	21.2	15.7
1976	30.8	82.8	25.5	1.2	24.3	18.0
1977	35.3	81.7	28.8	1.4	27.4	20.3
1978	40.8	81.8	33.4	1.6	31.8	23.5
1979	46.3	83.5	38.7	1.8	36.9	27.3
1980	52.3	85.1	44.5	2.2	42.3	31.3
1981	60.1	84.7	50.9	2.5	48.4	35.8
1982	65.0	87.1	56.6	2.8	53.8	39.8
1983	72.4	84.5	61.2	3.2	58.0	42.9
1984	82.0	83.2	68.2	3.5	64.7	47.9
1985	91.9	83.4	76.6	4.1	72.5	53.7
1986	99.0	84.4	83.6	4.5	79.1	58.5
1987	110.2	83.8	92.3	5.2	87.1	64.5
1988	122.7	82.9	101.7	5.8	95.9	71.0

## SOURCES FOR TABLES

For the years 1963-82, all figures except some of those related to surplus employee compensation, corporate officer compensation and corporate advertising were taken from *The National Income and Product Accounts of the United States: 1929-1982* (hereafter *N.I.P.A.*), (Washington, D.C.: U.S. Department of Commerce, 1986).

For the years 1983-88, all figures except some of those related to surplus employee compensation, corporate officer compensation and corporate advertising were taken from the *Survey of Current Business* (hereafter *S.C.B.*), (Washington, D.C.: U.S. Department of Commerce, monthly). For the years 1983-84, the July 1987 edition of *S.C.B.* was used. For 1985-88, the July 1990 edition was used. *S.C.B.* tables are the exact equivalents of identically-numbered *N.I.P.A.* tables.

Figures on corporate officer compensation and corporate advertising for the years 1987 and 1988 were estimated based on a projection of the average of their respective annual rates of growth during the years 1980-86. All figures relating to corporate advertising and corporate officer compensation, and some figures related to surplus employee compensation are drawn from: *Statistics of Income: Corporation Income Tax Returns* (hereafter *S.O.I.*), published yearly by the U.S. Treasury Department, Internal Revenue Service, Washington, D.C..

Note: For convenience and clarity of understanding, in Table 3 a few figures for the years 1987 and 1988 are treated as if they were not available, when in fact one could find them in the *S.C.B.* volumes. We simply treat them as not available because other figures in these years for Table 3 are in fact unavailable, leaving us with no choice but to project the final 1987 and 1988 numbers in this table from the end results of full estimations for the years 1980-86. See below.

Specific, column-by-column sources are as follows:

## Table 1:

- CL 1) 1963-82: *N.I.P.A.*, line 21, Table 1.14, pp. 47-8.  
 1983-84: *S.C.B.*, line 21, Table 1.14, p. 25.  
 1985-88: *S.C.B.*, line 21, Table 1.14, p. 45.
- CL 2) Figures taken from Table 2, Column 6 below.
- CL 3) 1963-82: *N.I.P.A.*, line 18, Table 1.14, pp. 47-8, minus line 49, Table 8.9, pp. 396-9.  
 1983-84: *S.C.B.*, line 18, Table 1.14, p. 25, minus line 49, Table 8.9, p. 81.  
 1985-88: *S.C.B.*, line 18, Table 1.14, p. 45, minus line 49, Table 8.9, p. 101.
- CL 4) 1963-82: *N.I.P.A.*, line 29, Table 1.14, pp. 47-8.  
 1983-84: *S.C.B.*, line 29, Table 1.14, p. 25.  
 1985-88: *S.C.B.*, line 29, Table 1.14, p. 45.
- CL 5) Figures taken from Table 3, Column 7 below.
- CL 6) Figures taken from Table 4, Column 6 below.
- CL 7) 1963-86: *S.O.I.*, table entitled 'Balance Sheets and Income Statements, by Major Industrial Group', line labelled 'Compensation of Officers' under 'Total Deductions' sub-heading for 'All Industries' sub-grouping, divided by 2. This figure then multiplied by .74 in order to adjust for taxes (see text above).

- 1987–88: Average annual growth rate from year to year calculated for years from 1980–86. Average of these growth rate figures then applied to figure for 1986, this column, in order to yield 1987 figure. Same average then applied to project a figure for 1988 based on 1987 figure.
- CL 8) *N.I.P.A.*, line 3, Table 1.9, p. 32, minus line 28, Table 8.9, pp. 396–399.  
1983–84: *S.C.B.*, line 3, Table 1.9, p. 23, minus line 28, Table 8.9, p. 81.  
1985–88: *S.C.B.*, line 3, Table 1.9, p. 43, minus line 28, Table 8.9, p. 101.
- CL 9) 1963–82: *N.I.P.A.*, line 4, Table 1.16, pp. 61–2.  
1983–84: *S.C.B.*, line 4, Table 1.16, p. 27.  
1985–88: *S.C.B.*, line 4, Table 1.16, p. 47.
- CL 10) 1963–82: *N.I.P.A.*, line 2, Table 2.1, pp. 89–90 minus the appropriate yearly figure in Column 7 of this table, multiplied by .26.  
1983–84: *S.C.B.*, line 2, Table 2.1, p. 37 minus the appropriate yearly figure in Column 7 of this table, multiplied by .26.  
1985–88: *S.C.B.*, line 2, Table 2.1, p. 50 minus appropriate yearly figure in Column 7 of this table, multiplied by .26.

See the text above under 'Estimated Income Tax on Wages' for the rationale behind these figures.

- CL 11) 1963–82: *N.I.P.A.*, line 4 plus line 15, Table 3.13, pp. 168–9.  
1983–84: *S.C.B.*, line 4 plus line 15, Table 3.13, p. 42.  
1985–88: *S.C.B.*, line 4 plus line 15, Table 3.13, p. 62
- CL 12) 1963–88: Sum of columns 1 through 11.
- CL 13) 1963–82: *N.I.P.A.*, line 1, Table 1.1, pp. 1–2.  
1983–84: *S.C.B.*, line 1, Table 1.1, p. 20.  
1985–88: *S.C.B.*, line 1, Table 1.1, p. 40.
- CL 14) 1963–88: Column 12 divided by column 13.

Table 2:

- CL 1) 1963–82: *N.I.P.A.*, Table 1.15, line 12, pp. 58–9.  
1983–84: *S.C.B.*, Table 1.15, line 12, p. 26.  
1985–88: *S.C.B.*, Table 1.15, line 12, p. 46.
- CL 2) 1963–82: *N.I.P.A.*, Table 1.15, line 4 divided by line 3, pp. 58–9.  
1983–84: *S.C.B.*, Table 1.15, line 4 divided by line 3, p. 26.  
1985–88: *S.C.B.*, Table 1.15, line 4 divided by line 3, p. 46.
- CL 3) Column 1 multiplied by Column 2.
- CL 4) Column 1 minus Column 3.
- CL 5) 1963–82: *N.I.P.A.*, Table 1.15, line 24, pp. 58–9.  
1983–84: *S.C.B.*, Table 1.15, line 24, p. 26.  
1985–88: *S.C.B.*, Table 1.15, line 24, p. 46.
- CL 6) Column 4 minus Column 5.

Table 3:

- CL 1) 1963-82: *N.I.P.A.*, Table 6.4B, line 52, pp. 263-4.  
 1983-84: *S.C.B.*, Table 6.4B, line 52, p. 59.  
 1985-86: *S.C.B.*, Table 6.4B, line 52, p. 79.  
 1987-88: Because of unavailability of data in crucial columns of this table for these years, these figures have been left out of the table, and the final figures shown in Column 7 of this table were estimated by projecting the overall annual rate of growth in our adjusted surplus employee compensation totals for the years 1980-86.
- CL 2) 1963-86: Figures taken from *S.O.I.*, years 1963-86, Table entitled 'Balance Sheets and Income Statements, by Major Industrial Group', line headed 'Compensation of Officers' under finance, insurance, and real estate sub-heading. Page numbers vary from year to year.  
 1987-88: See explanation, same years, Column 1 above.
- CL 3) 1963-86: Column 1 minus half of Column 2.  
 1987-88: See explanation, same years, Column 1 above.
- CL 4) 1963-82: *N.I.P.A.*, Table 6.4B, line 69, pp. 263-4.  
 1983-84: *S.C.B.*, Table 6.4B, line 69, p. 59.  
 1985-86: *S.C.B.*, Table 6.4B, line 69, p. 79.  
 1987-88: See explanation, same years, Column 1 above.
- CL 5) 1963-86: *S.O.I.*, same table as used for figures in Column 2 above, line entitled 'Compensation of Officers' under 'Other or Miscellaneous Services' sub-heading. This figure then adjusted by multiplying it by the dividend yielded after dividing total business receipts in the 'legal services' sector by the total business receipts for the entire 'other or miscellaneous' services sector. Figures for both of these sectors' business receipts taken from yearly *S.O.I.*, Table 1, entitled 'Number of Returns, Receipts, Cost of Sales and Operations, Net Income, Net Worth, Total Assets, Distributions to Stockholders, Income Subject to Tax, Income Tax and Investment Credit by Industrial Group'.  
 1987-88: See explanation, same years, Column 1 above.
- CL 6) Column 4 minus half of Column 5.
- CL 7) 1963-88: Sum of Column 3 and Column 6, multiplied by 0.74.  
 1987-88: Average annual growth rate from year to year calculated for years from 1980-86. Average of these growth rate figures then applied to figure for 1986, this column, in order to yield 1987 figure. Same average then applied to project a figure for 1988 based on 1987 figure.

Table 4:

- CL 1) 1963-86: *S.O.I.*, Table entitled 'Balance Sheets and Income Statements, by Major Industrial Group', line labelled 'Advertising' under 'Total Deductions' sub-heading.  
 1987-88: Same method of projecting figures used as in Table 3, Column 7 above.
- CL 2) Same figure as utilised in Table 2, Column 2.
- CL 3) Column 1 multiplied by Column 2.
- CL 4) 1963-88: Half of total corporate officer compensation (taken from 'All Industries' sub-heading in *S.O.I.* Table utilised above in Table 3,

Columns 2 and 5). This total then adjusted by multiplying it by an estimate of the share of the advertising sector in the overall corporate sector. This weighting factor derived by dividing total corporate advertising expenditures (Table 4, Column 1 above) by total corporate business income for each year in the table (*N.I.P.A./S.C.B.* Table 1.15, line 3).

CL 5) Column 3 minus Column 4.

CL 6) Column 5 multiplied by 0.74.