FOCUS ON PROFITS

July-August 1981

ECONOMIC NOTES

LABOR RESEARCH ASSOCIATION, INC.
80 EAST 11th STREET, NEW YORK, N.Y. 10003

Vol. 49, No. 7-8 Editor: Joseph Harris 60¢ a copy

The People vs. Reagan

"Corporate income taxes may soon be a relic, the lingering remnant of a once mighty revenue flow. President Reagan (with the help of Congress—Ed.) has won for business the largest tax reductions in memory, and as prodigious as they are, they are also a kind of culmination of a quieter trend, a decades-old ebbing of income taxes on business corporations. By the close of this decade, economists and tax specialists say, taxes on the profits of big business will have faded to a trickle." (*N.Y. Times*, 8/2)

Although the law states that profits (above $50,000) are to be taxed at a flat rate of 46% (down from 48% since 1979), the *N.Y. Times* goes on to report that "corporations pay, on average, only about 28% of their profits in Federal income taxes . . . Under the Reagan legislation, the effective rate is expected by 1986 to decline still further to only 14% or so . . ."

(continued on page 12)

Solidarity Day: Sept. 19

It may well be the largest demonstration in the history of the United States. Called by the AFL-CIO, Solidarity Day has been endorsed by major independent unions such as the National Education Association, major civil rights organizations such as the NAACP, leading senior citizen organizations such as the National Council of Senior Citizens, dozens of church, student, and other organizations.

What *is* Solidarity Day? It's a chance for an expression of opinion by all those Americans who believe the government should be of the people and for the people. They'll be marching for jobs, justice, human rights, and social equity—but they'll also be saying that if social security and education and jobs are cut so that defense contractors can expand armaments production (while the rich receive tax cuts), then public officials who support this program had better watch out when they run for reelection.

Marchers will gather first at 10 a.m. on the Mall of the Washington Monument. At about 12 noon the march begins to the Capitol. Everything will be over by 5 p.m. so that the marchers can begin their trips home.

You can help in two ways: 1) go to the march, and bring your sister/fellow members of your union, community group, church, etc.; 2) distribute at the march the new advertising brochure that will help bring *Economic Notes* to thousands of new readers. Send a note to *Economic Notes* or give us a call. See you in Washington.

Thanks very much.

CUT PROFITS, NOT SOCIAL PROGRAMS!

CONTENTS

SECOND CLASS POSTAGE PAID AT NY. NY. PUBLISHED MONTHLY EXCEPT FOR COMBINED JULY-AUGUST BY LABOR RESEARCH ASSOCIATION, INC. (LESS THAN 1% ADVERTISING) ISSN 0013-0184

Bargaining information

by Andrew Remes

I. Miners' Militancy Pays Off

It took the rejection of an initial tentative settlement and a 73-day strike of members of the United Mine Workers to wring new concessions from the Bituminous Coal Operators Association (BCOA). And when the miners did vote on June 6 to accept a new agreement, nearly 40% cast their ballots in favor of continuing the strike, reflecting the strong militancy of the rank and file.

With the rank and file rejection of the initial pact (see April issue, *Economic Notes*), the union's negotiating team presented the operators with a new set of demands, and agreement was reached on a tentative pact in the last week of May. The militancy of the miners, who closed most mines east of the Mississippi, paid off in new concessions from the BCOA.

The operators agreed to reinstate and actually raise, the penalty fee for buying non-union coal. They also dropped their demand for a 45-day probationary period, and agreed to partial elimination of the Arbitration Review Board which repeatedly favored the operators. The new contract restricted the companies' right to subcontract and sublease by forcing them to agree to hire union members wherever possible, or where this was the case in past practice.

Apart from fringe benefit increases, the miners won wage increases of $3.30 per hour over the life of the contract. Eight quarterly fixed cost-of-living increases of 15 cents per hour would also be given beginning in the second year of the contract.

The miners did not hesitate to take on the coal operators who spear-headed the anti-labor drive of the corporate interests and the Reagan Administration. They have shown again that militancy, unity and solidarity pay off!

Andrew Remes is a member-retiree, Local 6 ITU, AFL-CIO.

II. Tentative Postal Pact

Two unions, representing 500,000 of the nation's 667,000 postal employees, the American Postal Workers Union and the National Association of Letter Carriers, are now voting on a tentative agreement with the United States Postal Service.

According to press reports, the proposed contract includes these provisions: a $300 increase each year of the three-year contract in straight wages; an annual bonus of at least $350 for employees "who meet productivity standards"; inclusion of $3,600 in previous cost-of-living increases in the base for calculating pensions, shift differentials and other benefits.

In addition, the unions again kept their contract free of a limit on cost-of-living adjustments, but they did not win an improvement in the COLA Formula which results in increases only 2/3 of price increase. The unions kept a "no cap" provision regarding management's share of the Health Benefit premium. Progress was not made on health and safety demands. A special one-time additional bonus of $150 is included in the package if the contract is ratified within 45 days. According to the *N.Y. Times* (7/23), the new contract will mean a pay increase of 11 percent, or $2,100, over the contract 3-year period.

III. OCAW Bargaining Demands

Guarantees against layoffs and plant closing, employer contributions to a supplemental pension plan, and elimination of employee payments toward health insurance coverage head the list of bargaining demands set by the Oil, Chemical and Atomic Workers for next year's negotiations with the oil industry. Current contracts covering about 55,000 employees will expire in January 1982.

Union concern over job security is prompted by the impending shutdown of seven plants employing about 2,000 OCAW members. Current contracts call for six months' notice of a plant closing. Contract language proposed by OCAW, however, would prohibit layoffs or shutdowns for the term of the agreements.

IV. Phila. Transit Strike

A nineteen-day strike affecting 400,000 Philadelphia-area commuters ended when the Southeastern Pennsylvania Transportation Authority and the Transport Workers union negotiated a 2-year contract. Two major issues in the dispute were resolved by retaining provisions barring layoffs and the use of part-time employees. The Authority wanted to fill about 5 percent of the 5,000 jobs in the bargaining unit with part-time employees who would work during rush hours at lower pay and benefit levels than full-time employees. This would have resulted in the layoff of some full-time employees.

In exchange for these provisions the union agreed to somewhat smaller wage increases than it had been seeking. The contract calls for a 2-percent increase effective March 15, 1981, 4 percent on July 5, 1981 and 6.5 percent on March 14, 1982. The existing cost-of-living clause was retained, with a cap of 12¢ an hour in each of the two years. □

PROFITS

Where do profits come from?

by Thomas Kenny

Dozens of superficial explanations and justifications for private corporate profits are handed out by the powers that be: "profits are what makes the system go, profits grease the wheels of American industry", etc.

Establishment economists, who write most of the textbooks used in the schools, put forth "explanations" that claim that private profits are a reward for "risk-taking," a reward for "business acumen" or "thrift."

Journalists for business magazines and advertising agencies who write the copy for Mobil and W.R. Grace "institutional" ads describe profits as the "return on investment," the thing that "creates jobs," the indispensable part of the machine that makes the economy run.

Are Profits Necessary?

Yes. Profits are part and parcel of the economic process in modern society. They are a part of the value that labor creates. But *private* profits are not necessary, and the class that lives on profits alone is also unnecessary.

In capitalist countries, the role of the nationalized sector proves that industry can run without private profit-makers. In practically every Western European country industries or services like the postal service, telephone, telegraph, railroads, airlines, television and radio are government-owned. Other industries or services like banks, insurance, oil, steel, autos, etc. are owned *partly* by government and *partly* by private industry. Where the government-owned enterprise makes profits, those profits revert to the state. Where they do *not* make a profit, the government subsidizes the losses through general taxes and through profits made on other government-owned industries.

In our own country, thousands of municipal water systems, hundreds of gas and electric utilities and garbage disposal plants are government-owned and operated. So are the organizations

UE News Service

" Management regrets that it will be unable to meet with the Union today..."

which manage education, police and fire departments, subways and bus lines. Even on a federal level, the Tennessee Valley Authority (TVA), most of the national highway systems, and, until recently, the postal service, operate without private profits.

In socialist countries, profits also exist. But they are *not private*: enterprises keep a part of the profits they make and use it to expand and modernize production and to improve workers' living standards. The government collects part of the profits and uses it for social welfare, defense, and expansion of production.

So, any way we look at it, *private* profits are *not* inevitable, and they are *not* indispensable.

The Source of Profits

If profits (and sometimes losses) arise both under capitalism and socialism, where *do* they come from? The only theory that addresses and correctly answers the question says that profits (including dividends, interest, royalties, rent, capital gains, etc.) are part of the value created by workers' labor power—but in our system is taken by the capitalists for themselves. No employer will hire a worker unless he figures he can make a profit from that worker's labor power. □

Thomas Kenny is an economist.

Executive "compensation"

The top 10 executives in the U.S. in 1980 received $41.1 million in salaries, benefits, stock gains, contingency payments, bonuses, and perks, according to *Forbes,* (June 1981). That amounts to $4.1 million dollars per executive! And *that* is 300 times the wage of the average worker! The "compensation" the executives receive clearly is mostly profit, not employee compensation for labor expended.

TOP 10 EXECUTIVE COMPENSATIONS, 1980

Company	Person	$ Mil.
1. Mesa Petroleum	Thomas Pickens	7.8
2. City Investing	George Scharffenberger	5.1
3. Cabot Corp.	Robert Charpie	4.7
4. Advanced Micro Devices	Walter Sanders	4.2
5. Engelhard Minerals	Milton Rosenthal	4.0
6. Exxon	Clifton Garvin	3.3
7. Union Oil	Fred Hartley	3.1
8. NL Industries	Ray Adam	3.0
9. General Dynamics	David Lewis	3.0
10. Rockwell International	Robert Anderson	2.9

Source: Forbes, June 1981

PROFITS

"Perks"?

How important are perquisites ("perks" or non-salary benefits) for executives? Very important, according to a study by Thomas R. Conlon, an independent personnel consultant in Deer Park, Long Island. Perks include: "low-interest loans, payments to increase retirement income, financial planning services, company cars for personal use, club memberships, extra vacation time and the right to travel with their spouses on the expense account . . ." (*N.Y. Times,* 8/27/80)

Conlon surveyed 2,000 companies and found the following in responses from 234 companies with sales ranging from less than $100 million to more than $1 billion:

- "Twenty-four companies . . . paid an average of $12,414 last year (1979) into supplemental retirement plans for executives receiving an average of $92,452 in annual base salary. The premiums came to an unusually high 13% of salary."
- "Company-paid premiums for additional life insurance . . . the average value of insurance premiums paid was $2,633, or 7.9% of the recipients' $33,380 average base salary."
- "The average annual cost of cars supplied by 132 companies was $4,530, or 6% of the average salary of $74,954 for the 1,608 executives receiving cars."
- "The value of low-cost loans, with interest rates ranging from 4 to 7%, average $1,500, or 3.3% of the $45,000 average base salary of the participating executives."
- Company-paid parking: average value of $874 per executive.
- Vacation allowance in excess of company policy: $1,945 per exec.
- Club memberships: $2,107 per exec.
- Premium payments for comprehensive medical plans: $1,596 per exec.
- Spouses' travel expenses: $2,143 per exec.
- Financial planning, consulting services: $2,333 per exec. □

PROFITS

Fortune's 500

by Joe Harris

Corporate profits are one of the four kinds of unearned income listed by the government, along with net interest, proprietors' income, and rent. In recent years, net interest and stated corporate profits have been about equal, with net interest rising more rapidly due to very high interest rates.

The *Fortune* 500 listing of the largest U.S. industrial corporations suggests that even when the economy is in bad shape, most of big business is able to make huge profits. The *Fortune* 500 declared profits of $81.2 billion in 1980. In small print, the magazine mentions that these are after-tax profits!

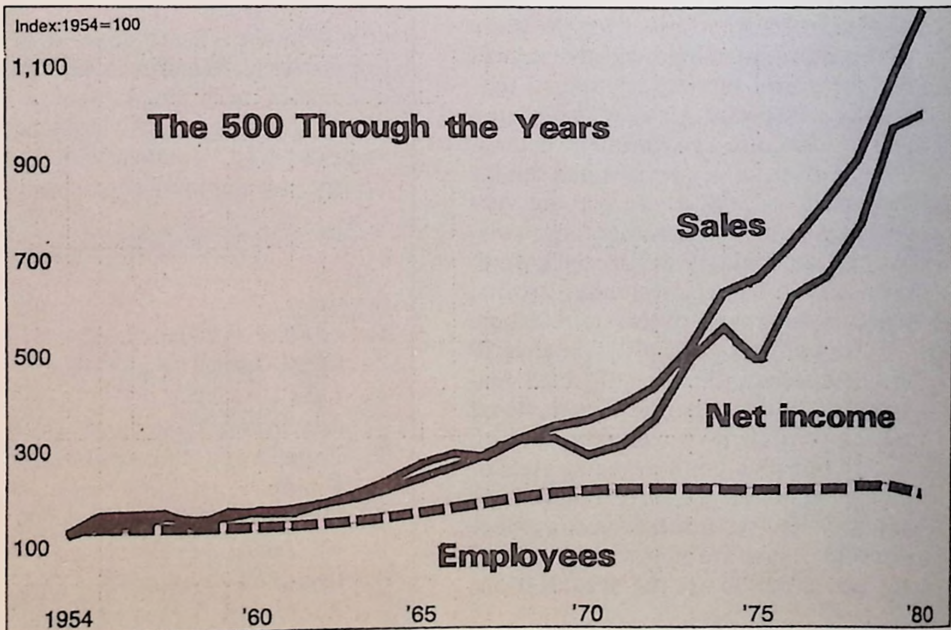
Before-tax profits totaled $113 billion, assuming that these corporations paid a 28% (*N.Y. Times,* 8/2) federal corporate income tax rate, as did the corporate sector as a whole in 1979. Due to understatement of income through use of depreciation allowances and other tax-avoidance devices, the actual profit more likely was at least $225 billion—a conservative estimate!

Profits per Worker

In 1980, the *Fortune* 500 employed 16.2 million workers. How much profits did they make per worker? At their pre-tax profit level, they made about $7,000 ($113 billion divided by 16.2 million workers). At their actual profit level (LRA estimate) of at least $225 billion, the profit per worker was about $14,000. This equalled or exceeded the income earned by the average full-time worker!

Fortune magazine tells the story of increasing profits per worker in these words accompanying its chart (see Chart): "Since the first *Fortune* 500 was tallied (for 1954) consumer prices have tripled, but the 500's sales have increased 12-fold and profits tenfold. Employment, now some 16 million, has merely doubled. It follows that average sales per employee leaped—from $17,408 in 1954 to $103,725 in 1980. Even in real terms, that's twice as many sales per worker (after adjustment for higher prices)." (*Fortune,* 5/4/81) □

Joseph Harris is editor of Economic Notes.



PROFITS

How corporations hide profits

by A.A. Paul

As large as reported profits may be, they are only the visible part of the iceberg. Business and government are happy partners in the game of profit concealment.

The government reports profits in two principal ways: (1) the annual report by the Internal Revenue Service (IRS) entitled *Corporation Income Tax Returns,* and (2) the *National Income and Product Accounts* (NIPA), published regularly by the Commerce Dept. Both are derived from a third source—corporate tax returns. To understand the methods of profit concealment, we must examine all three.

More than thirty years ago, Labor Research Association published *Trends in American Capitalism* (1948) which still remains a classic critique of IRS, NIPA and corporate statistics. In 122 pages, it exposed in theory and in numbers the shell game of profit concealment. In this brief FOCUS, it is neither possible nor appropriate to analyze these sources in detail. However, amid today's rising din of corporation and Administration propaganda against unions, the poor, and the unemployed, a fresh, even if brief, look is in order.

Corporate Tax Returns and Stockholder Statements

Corporate tax returns are the ultimate labyrinth in concealment of values. They combine the tricks of legal loopholes, the contrivings of the accounting profession, and the imagination of tax lawyers.

Because profit statistics are derived from corporate tax returns and statements to stockholders, we begin there.

1. Stock splits reduce the dollar return per share of stock, and stock dividends to shareholders reduce the profits held by corporations.

2. Cash reserves for "contingencies," "bad debts" and "future tax payments" magnify costs.

3. Inter-corporate dividends, payments to affiliates, subsidiaries, and other controlled business establishments are principal devices to spread profits thinly and hence avoid taxes.

4. Profits are diverted to related corporations through under- and over-pricing of commodities and services to affect the most favorable combination of local and foreign taxation.

5. "Interest expenses" are still another way of transferring profits from the right-hand to the left-hand pockets of owners so as to minimize corporate taxes.

6. "Rent" costs frequently serve the same role, which is why almost every corporation of any size owns a subsidiary realty company.

7. Inventory valuation, whether LIFO or FIFO, is used periodically to manipulate "profit" levels.

8. The lumping of executive salaries and bonuses (commonly in the several hundred thousand dollar class, and sometimes even a million or more) is used to inflate "payroll costs" and reduce "profits."

Who is number 1?

Exxon is! "Exxon became the 500's first 12-digit revenue collector in 1980, ringing up $103,142,834,000 . . . in sales." (*Fortune,* 5/4/81) That's $103 billion!

Exxon's performance in 1981 continued solid, with sales in the second quarter amounting to $27.5 billion. "Those revenues are roughly twice the total amount of economic and military aid the United States supplies to foreign countries, nearly double New York City's annual budget and bigger than the gross national product of more than 100 countries," according to the *N.Y. Times* (7/21). In the first half of 1981, Exxon's stated after-tax profits were $3.43 billion.

9. Non-cash fringe benefits for executives (from country club memberships to the fabled 3-martini lunch) add to the hidden income of owners and top managers, but also reduce profits and hence corporate taxes.

10. Advertising costs are legal business expense even when (as in the Mobil and Grace institutional ads) they are used to distort the actual profit picture under our "free enterprise economy."

Tax Loopholes

To continue, there is the whole host of "tax expenditures" or tax loopholes which permit corporations to reduce their tax bills by padding their costs:

11. Depreciation allowances often equal or exceed reported profits. These allowances accumulate interest and often are *not used to replace obsolete equipment.*

12. Research and Development (R&D) expenditures are often considered a cost of doing business, even when the government is paying for them.

13. Like R&D, the 10% investment tax credits (i.e., 10% of money invested can be deducted from taxes) are another tax dodge which makes a mockery of the term "risk capital."

14. International tax credits, favoring the multinationals, allow companies (i.e., oil) to reduce their U.S. taxes by the amount of foreign taxes which they pay.

15. Local government-sponsored industrial bonds are employed to raise capital for new or expanded private, corporate facilities.

16. Finally, there are all kinds of special government subsidies, such as those for the milk and maritime industries.

No brief catalogue can do justice to the intricate techniques by which the owners and top managers of corporate and private enterprise understate the profit picture—usually, but not always, within the law. □

PROFITS

Who gets what: the gov't. story

by A.A. Paul

The Internal Revenue Service (IRS) publishes annual reports called *Individual Income Tax Returns* and *Corporation Income Tax Returns.* The report on individual tax returns summarizes the distribution of individuals' taxable income, by size and by type: earned (salaries and wages) and unearned (dividends, rent, interest, capital gains, etc.). It reveals some, but not all, of the actual maldistribution of income in the United States.

The report on corporation income tax returns carries some major defects. The principal shortcoming is that it does not do more than summarize the many strategems of concealment contained in the separate corporate tax returns as received.

TABLE 1: UNREPORTED INDIVIDUAL INCOME AS A PERCENT OF AMOUNT REPORTABLE, BY TYPE OF INCOME, 1976

Type of Income	% Unreported
Wages and Salaries	2 - 3%
Dividends	8 - 16
Interest	10 - 16
Pensions, Annuities, Estates and Trusts	12 - 16
Capital Gains	17 - 24
Self-Employment	36 - 40
Rents and Royalties	35 - 50

Source: Treasury Dept., IRS, Estimates of Income Unreported on Individual Income Tax Returns, Publication 1104 (9-79)

The Underground Economy

An enormous defect of both IRS and Commerce Department (NIPA) reports is that they exclude the "underground economy": legal and illegal business *not* reported. Some estimates place this sum in 1980 at $300 billion: about 10% of the entire gross national product (GNP).

The significant aspect of this omission is that less than one-quarter of individual underground income goes to workers, thus distorting their share of the total pie, as reported by IRS.

The Treasury's own report of unreported income on *individual* income tax returns estimated that in 1976, five years ago, individuals failed to report about "$75 to $100 billion of . . . income from legal sources . . . and an additional $25 to $35 billion of unreported individual income from criminal activities." (Publication 1104-9-79) Although this IRS report does not cover unreported corporation income, it does make clear that workers' wages and salaries were reported far more accurately than other forms of income. (See Table 1.)

Classification Process

Some thousands of government business, banking, and academic economists spend their lives reporting, issuing, revising, re-revising, and interpreting the National Income and Product Accounts (NIPA) published by the Commerce Dept. They employ the most sophisticated statistical techniques. They faithfully revise estimates as new data become available. It is not the technique but the *premises* and *ideology* that are biased.

The very classification process begins the process of concealing who gets what.

TABLE 2: NATIONAL INCOME, 1980

Type of Income	Billions of $	% of Nat. Income
Employee Compensation	$1,596	75.2%
Proprietors' Income	131	6.2
Rental Income	32	1.5
Corporate Profits	183	8.6
Net Interest	180	8.5
TOTAL	$2,122	100.0%

Source: U.S. Dept. of Commerce, Economic Indicators, 6/81

Government Distortion

The Commerce Dept. divides the national income into five types of income. (*Note*: welfare, social security, unemployment insurance and similar types of income are excluded from "national income" since they are considered "transfers" of income previously produced and collected by the government through taxes.) The classification of income into five major categories reduces the importance of any of the four sources of income that are derived from ownership of property. The 1980 numbers illustrate this! (See Table 2.)

Corporate profits of $183 billion, after all, are not so great. Interest at $180 billion is about the same size. Proprietors' income of $131 billion is almost as large. Rental income is only $32 billion. Indeed, corporate profits make up only one-third of the $526 billion of income *not* received in the form of wages and salary, and only 8.6% of the national income. Compensation of employees (including employer payroll taxes and salaries of executives) accounts for 75.2% of national income.

By *government* classification, this table may be correct. But from *labor's* standpoint, Table 2 hides the truth! Labor's share is much less, and capital's share is much more! □

PROFITS

Who gets what: the real story

by A.A. Paul

From labor's point of view, there are only *two* types of income: *earned* and *unearned.*

Earned income is the wages and salaries of those who create the value in the first place, and those who work for commercial and financial corporations, circulating the values already produced.

Unearned income is profit, rent, interest, royalties, capital gains and all the other similar forms of income arising from workers' labor which workers do not receive.

In 1980, there were 105 million persons in the civilian labor force: 95 million employees (including 7.5 million unemployed) and 10 million employers and self-employed. (U.S. Dept. of Labor, *Employment and Earnings,* 3/81)

Who gets what?

Earned Income

Workers do not receive all of their compensation in cash. According to the National Income and Product Accounts (NIPA) of the Commerce Dept., the compensation that employees received in 1980 has three parts: wages and salaries, fringe benefits, and employer contributions to social insurance.

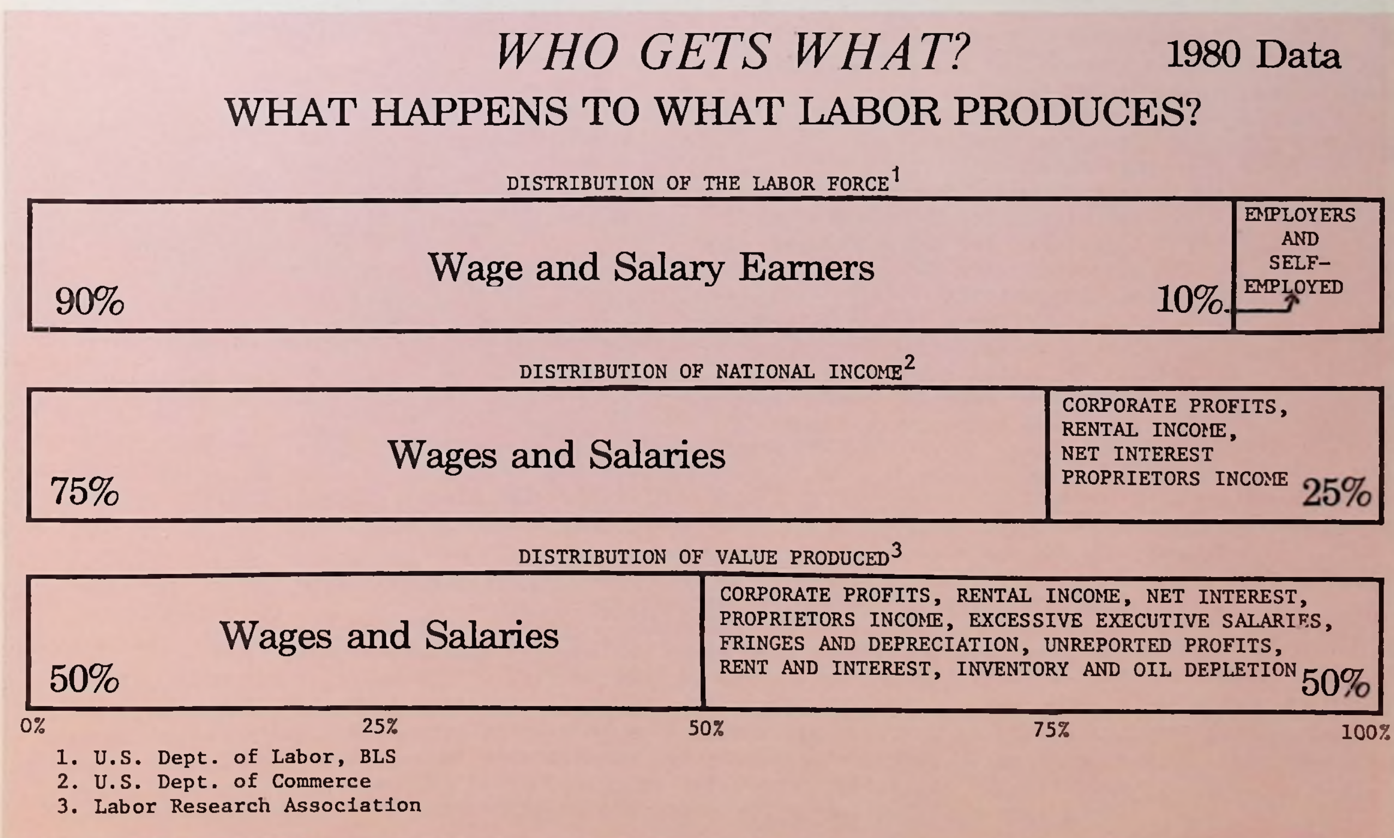
More than 8.5% is in the form of fringe benefits (as shown in Table 1.) Also, by NIPA logic, employer contributions for social insurance, $115 billion or 7.2% of the total, are included in "compensation of employees."

Moreover, outrageously high executive salaries and bonuses are lumped into "salaries and wages" and take an especially large portion of "fringe benefits." Executive salaries amount to at least 10% of wages and salaries and one third of fringe benefits. These sums should properly be *deducted* from workers' wages and salaries (earned income) and *added* to unearned income.

Unearned Income

Further additions should be made to the $526 billion of unearned income (profits, proprietors' income, interest, and rent) reported by the government in 1980: $175 billion for excessive depreciation allowances and $100 billion for phony inventory valuation reductions and oil depletion allowances (these are excluded from national income figures); $150 billion for unreported dividends, interest, and the rest of the legal and illegal underground economy; and $50 billion for corporate non-taxable income that does not show up in taxable income These figures are estimates, but they are conservative estimates—and they do *not* include such items as "contingency funds" and inflated expenses and government handouts, etc.

(continued on page 8)



Who gets what (cont'd)

Where the Value Goes

If we allow for all of these consequences of the manipulated definitions and classification, we find ourselves with the following conclusion:

An estimated 50% of the total value created in the entire economy in 1980 went to 95 million wage and salary earners. The other 50% went to the 10 million owners of income-earning property and the self-employed. After payment of federal, state, and local taxes, the share of value created shifted further, with the largest capitalists increasing their share at the expense of the rest of society. (See *Economic Notes,* 4/81.)

This has been going on for a long time. Small wonder that by now this process of accumulation has put more than 20% of all the wealth of the nation in the hands of the top 1% of wealth-holders, while more than 8% of all families (U.S. Dept. of Commerce, *Statistical Abstract of the United States,* p. 471 and p. 463) live below the government poverty level, *after* all government transfer payments such as social security, unemployment insurance, welfare, food stamps, medicaid, etc. These data apply *before* Reagan's cuts in social services and *before* his tax cuts which heavily favor the rich. ☐

Who gets what?

Types of Income	Gov't Estimate Distribution of Nat'l Income, 1980: Amount ($ bil)	% of Total	LRA Estimate Distribution of Value Created, 1980: Amount ($ bil)	% of Total
I. Earned Income (labor)				
Compensation of Employees				
Wages and Salaries	$1,344		$1,210	
Fringe Benefits	137		90	
Employer payments for social security	115		--	
Subtotal	1,596	75.2%	1,300	50%
II. Unearned Income (property)				
Government (official) Categories				
Proprietors	131		131	
Rental	32		32	
Corporate Profits	183		183	
Net Interest	180		180	
Earned Income Adjustments				
Adjustment for Exec. Salaries	—		134	
Adjustment for Exec. Fringes	--		47	
Adjustment for Employer S.S. Taxes	--		115	
Other Adjustments				
Excessive Depreciation Allowances	--		175	
Inventory Valuation Reductions	--		50	
Oil Depletion Allowances	--		50	
Unreported Profits, Rent, Interest	--		150	
Non-taxable Corporate Income	--		53	
Subtotal	526	24.8%	1,300	50.0%
TOTAL	$2,122	100.0%	$2,600	100.0%

Notes:

1) Data estimates are derived from the Survey of Current Business, March, 1981. Figures are before payment of taxes.
2) Government estimates for the component portions of National Income and its total are subject to wide error and various interpretations. For example, illegal activities are excluded entirely although they are widespread. Depreciation estimates vary widely, as do inventory valuations.
3) LRA estimates for the adjustments from government estimates utilize round figures due to the inexactness of available data. The overall result: 50% for labor and 50% for property owners is inexact--as is the government's estimate. However, the concepts used by LRA are accurate.

PROFITS

Sources of super profits

by A.A. Paul

Beyond the average levels of profits and the usual efforts to maximize them, six special circumstances yield super profits:

1. Special Case of Oil

It is not possible to discuss super profits without paying special attention to the oil industry. Not only oil workers but all American employees and consumers, in one way or another, contribute to the extraordinary profits.

What is peculiar about the top five industrial corporations in the U.S.? *Four of them are oil companies.* In fact, in the *Fortune* 500, thirteen of the top twenty U.S. industrial corporations are oil companies. With monopoly comes monopoly *prices,* familiar to all who have bought a gallon of gasoline or heating oil lately. With monopoly prices come *super profits.*

A recent study by the Oil, Chemical and Atomic Workers Union illustrates what has been shown in another article in this issue, namely, *reported profits understate the true profit picture:* (Union News, 5/81)

> In 1979, for example, the top 20 oil companies recorded $22.5 billion in profits, but the cash flow (profits plus depletion allowances) was actually $47.7 billion, or more than twice their reported profits . . .

2. Racial Discrimination

Discrimination against Blacks, Hispanics and other minorities is an ugly blot on American life.

The formula is simple. The lower the wages, the higher the profits. Discrimination increases profits in two ways: directly, by paying less to Blacks and other minorities; and indirectly, by depressing the wages of whites through the many ways that racism operates.

Our calculations update the classic study on the *Economics of Racism* (1975) by Victor Perlo. In 1980, the labor force consisted of about 92,500,000 white workers and 12,500,000 minority workers. Rounding the average income of the full-time white worker at $14,000 and that of minorities at $11,200, there is a *per worker* differential of $2,800. This multiplies out to almost $35 billion in extra profits.

In 1980, pre-tax corporate profits were $241.8 billion, income of unincorporated farm enterprises $107.2 billion, and of farmers, $23.4 billion or a total of $372.4 billion. Thus, super profits from *direct* discrimination amounted to about 9% of profits. *Indirect* extra profits made from the negative effect in the wages of white workers through racial discrimination are estimated to equal this amount. Thus total extra profits attributable to discrimination came to $70 billion in 1980 or 18% of business profits generally.

TABLE 1: LONG-RUN PROFIT RATE BY CORPORATE SIZE, 1956-75 (U.S. manufacturing corporations)

Size (by assets)	Profit Rate (profit before taxes divided by sales)
$0 - 1,000,000	3.7%
1,000,000 - 5,000,000	5.3
5,000,000 - 10,000,000	6.7
10,000,000 - 50,000,000	7.4
50,000,000 - 100,000,000	8.1
100,000,000 - 250,000,000	8.5
250,000,000 - 1,000,000,000	8.8
1,000,000,000 - and over	11.7

Source: U.S. Federal Trade Commission, Quarterly Reports of U.S. Manufacturing Corporations; Economics, E.K. Hunt and Howard Sherman.

3. Sex Discrimination

The campaigns for equal pay and opportunity for women too often fail to highlight the extra profits made by employers through sex discrimination. But the same type of formula used in racial discrimination applies: *super profits* result from extra low wages based upon employers' ability to exploit the disadvantaged position of practically all of the 45,000,000 women in the labor force.

4. Monopoly

It pays to be big, and a corporation can't get too large. Table 1 tells the story: the long-run profit rates (on sales) for billion dollar corporations were 11.7% from 1956-75; the rate steadily declined as the sizes of the corporations fell—down to 3.7% for corporations with assets below $1 million. The same story holds today.

5. Foreign Investment

Foreign investments in many areas are twice as profitable as domestic investment, due to lower wages, lack of trade union rights, etc. This can be seen clearly in Puerto Rico, the number one colony of the U.S.A. Manufacturing workers received only 24% of the value they created in 1977, whereas in the same year U.S. workers received 45%! This huge difference is the source of super profits. (*Statistical Abstract,* 1980)

6. Militarism

Military contractors make liberal use of their government ties to get free and cut-rate government research and development, government manufacturing facilities, and other advantages. Investing in war is "good business." □

PROFITS

How to take back profits

by A.A. Paul

Every form of market economy produces profits either private or for the public. Under American capitalism, most profits are peeled off legally by those who own income-producing property. How can workers, who create the profits (by all the names they go by) recover more of what they create? Not easily. But there is more than one way. Within the framework of the American economic system, workers can do it both as *organized* trade unionists and as *organized* citizens.

Strong Unions

The average weekly earnings of full time wage and salary organized workers range from 30 to 58% higher than those not represented by trade unions, depending on type of occupation, sex and race. (BLS, *Earnings and Other Characteristics of Organized Workers*, May 1977, 1979)

Together with fringe benefits and other features of a good contract, the organized trade unionist in any industry is about 40% better off than a worker without a union. Small wonder that corporations find unions "interfering" with their profits. But only 20% of the labor force is now organized. Workers can recapture some privately appropriated profits with militant trade union organization; i.e., unions that know where profits come from, how large they are, and are willing to go after the workers' fair share. (See *Economic Notes*, 6/81, for further details.)

Social Legislation

Government budgets act as partial redistribution points for the values created by labor. When labor elects liberal or progressive Senators and/or Representatives, or demonstrates, or writes to members of Congress, it acts to retain or recover part of the profits it produces.

Taxes

With a progressive tax structure, social legislation is largely paid for by employers out of profits. The April issue of *Economic Notes* described who pays the taxes in this country. In a word, workers pay most of them. We need to develop our own people's tax program—such as closing corporate tax loopholes, closing loopholes for the rich, reconstructing income tax tables to make those pay who are most able to bear the burden, requiring a withholding tax on all dividends and interest (just like withholding on wages), abolishing all sales taxes, revising property tax laws and gift taxes into a major source of revenue, and reducing military expenditures.

Nationalization

A more direct route to a larger share of profits is through nationalization. Employers scream bloody murder (or communism) and the thought. But when a particular segment of industry no longer is profitable, they gladly hand it over to government (i.e., defunct railways or subways).

Strong unions, social legislation, a progressive tax structure, and nationalization of particular industries are four ways for workers to recover a larger part of the profits they produce. Fighting for these measures will bring results—but the long-run result will be even more important: increased unity, a fighting spirit, confidence—and increased understanding that *private* profits are not a part of nature but an abuse by man, while *public* profits benefit everyone. □

What's Your Opinion?

What's your opinion of *Economic Notes?* What criticisms do you have? What do you like best about *Economic Notes?* If you were to suggest changes, what would be your top priority? Why do you subscribe to *Economic Notes?* Do you keep a file of *Economic Notes?* Do you feel that you can recommend it to your friends? If yes, why? If no, why not?

To refresh your memory recent FOCUS topics are listed below. On which topics should we focus in the future? We have also carried regular articles on contract negotiations, government policies, economic trends, and the steel industry. Are these okay? What should we add, or eliminate?

Nov.-Dec., 1980: "Politics and Economics" demonstrated the essential sameness of the "two-party syndrome" for the past 34 years.

Jan.-Feb., 1981: "The Reagan Administration" tied supply-side economics and the Republican cast of characters to the same types of corporate leaders who dominated previous Washington administrations.

March, 1981: "Reagan Budget" documented the new forms of pro-business and anti-labor bias incorporated in Reagan's expenditure plan.

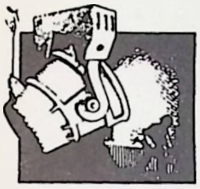
April, 1981: "Taxes" showed the other side of the budgetary corporate rip-off.

May, 1981: "Youth Unemployment" spotlighted the plight of youth entering the labor force as school was ending.

June, 1981: "The Service Economy" described the shift away from manufacturing toward non-union, low-paying service trades, partly due to export of manufacturing jobs.

LRA needs your advice. Please write to us. Thanks.

Joseph Harris, Editor□



Continuous casting is steel job threat

by Thomas Kenny

In 1980, the average level of steel production employment, narrowly defined, fell below the 400,000 mark for the first time since the 1930s. Production workers in iron and steel foundries amounted to an additional 164,000. Fabricated can and structural metal product production workers totaled 424,000.

A number of factors lie behind the employment decline. The demand for steel in the US has grown slowly in the last decade, owing to slower US economic growth as well as inroads made by competitive materials such as aluminum and plastics into traditional steel markets. Distorted US political and economic priorities also retard steel demand: big war budgets use little steel, contrary to the impression held by some; economic warfare against socialist and some developing countries rules them out as export markets; and the reluctance of big business to spend needed sums on social needs also means lost markets.

Another important factor reducing steel employment is that changing steelmaking technology used less labor. In the '60s and '70s, the basic oxygen process was widely introduced in the industry. This process requires roughly one-fifth the labor of the open hearth process. It mainly employs semiskilled operators rather than the many unskilled laborers needed for physical jobs in open hearth steelmaking.

Continuous Casting

Nearly all analysts agree that the major technological change impending in basic steel is the wider use of continuous casting. In this process, molten steel is tapped from the furnace and poured directly into the continuous caster from which it emerges as a solid semi-finished shape. By contrast, in the traditional method steel is poured into ingot molds; cooling, stripping, and reheating are required before the ingots can be rolled into semi-finished form. The effect of continuous casting is established:

> Manpower requirements have been estimated to be roughly 10-15 percent less with continous casting than with the ingot system for the same production . . . Unskilled and semiskilled workers, such as strippers and moulders, are not required. (*Technological Change and Manpower Trends in Five Industries,* Bureau of Labor Statistics, Bulletin 1856, 1975)

Continuous casting is being rapidly introduced in steel mills around the world, not to cut labor costs, but mainly to cut energy costs. Continuous casting cuts energy costs anywhere from 50 to 70%.

TABLE 1: CONTINUOUS CASTING AS % OF TOTAL STEEL OUTPUT

	1974	1979
Japan	25.1	52.0
U.S.	8.1	16.7
W. Germany	19.4	39.0
U.K.	5.0	16.8
S. Korea	-	30.4
Taiwan	-	44.9

Source: World Business Weekly, 11/3/80

The U.S. industry lags in introducing continuous casting; the knowhow has been around for two decades. As Table 1 shows, more than half of Japan's steel output in 1979 was done through the continuous casting method, in contrast to 17% for the U.S.

The biggest Japanese steel companies have even higher percentages of continuously cast steel. Kawaski Steel Corp., at 67%, is expected to be at 80% next year. Nippon Kokow K.K. is at 64%. Nippon Steel Corp. is as 62%. Sumitomo Metal Industries is at 58% and expects to be at 70% by October 1981. (*Japan Economic Journal,* 11/18/80)

U.S. Investment Grows

The U.S. industry is now investing heavily in continuous casters, which each can cost $100 to $165 million. "Continuous casting is where the action is in steelmaking-technology," declared U.S. Steel Chairman Roderick at the last annual stockholders meeting. U.S. Steel has announced installation of casters at the Lorain and Edgar Thomson works and the rebuilding of the caster at Gary. It plans to install casters at the South Chicago and Fairfield Works. U.S. Steel is at a 12% continuous casting ratio now; it plans to be at 45% by the late 1980s.

Republic Steel announced in May a $100 million continuous caster installation. LTV announced in late July that it would install a $165 million state-of-the-art caster at its Indiana Harbor works in East Chicago, Indiana.

Ahead of the pack, National Steel, which installed the first large continuous caster at its Weirton works in West Virginia, will be able to cast more than 50% of its steel continuously by 1982.

The threat to jobs posed by continuous casting gives special urgency to the demand to cut the work week. In any case, steelworkers are not about to be wiped out as a large group of basic industrial workers. But it will take a stubborn struggle to maintain current levels of employment and to cut the work week. The demand has been won elsewhere; it can be won here. □

PLEASE POST

Thomas Kenny is an economist.

Handy Reference Figures

	June[a] 1981	April-June[b] 1981 %	April-June[b] 1981 (mil)
UNEMPLOYMENT			
Total (Labor Dept.).......	7.3%	7.3%	7.8
Total (Urban League)[c]....	----	14.0	15.7
Minorities (Labor Dept.).	14.2	14.1	1.8
Minorities (Urban League)	----	26.4	3.8
Whites[d] (labor Dept)......	6.4	6.4	6.0
Whites (Urban League)...	----	12.2	12.0
Minority youth (16-19 yrs.)	38.6	60.0	0.9
White youth (16-19 yrs.)...	16.5	32.6	3.1
Women, 20 yrs. and older	6.5	10.8	4.6
Men, 20 yrs. and older....	6.1	12.0	7.1

	June 1981	April-June 1981
PRICES (1967 = 100)[b]		
Consumer Price Index......	271.4	269.1
% change from 1 yr. ago...	+9.5	+9.7
WAGES & SALARIES (Private Nonagri.)[b,e]		
Weekly take-home (Current dollars)......	$220.08	218.47
Real weekly take-home (1977 dollars)..........	147.21	147.35
% change in real pay from 1 yr. ago...........	-2.0	-2.0

a. Seasonally adjusted.
b. Not seasonally adjusted.
c. Based upon Urban League methodology which includes, in addition to Labor Dept. figures, all workers who "want a job now" but are not actively seeking work and also 46% of all part-time workers who want full time jobs.
d. Labor Dept. statistics include Spanish-surname people with whites.
e. Worker with three dependents. Only federal income and social security taxes are deducted.

People vs. Reagan (cont'd)

Corporations are scoring double: their profits are rising, and the taxes on those profits are falling. While the economy suffered a decline in production in the second quarter of 1981 (1.9% on an annual basis), profits skyrocketed above the 1980 recession levels. The *Wall St. Journal's* (7/30) survey of 516 major corporations showed a 23% increase over one year previous.

While the commercial press trumpets endless stories about Reagan's "victory" (the people's loss) and spreads stories about widespread public support for Reagan, an unprecedented mass movement in opposition to Reagan's and Congress' "made by big business" policies is developing.

The People Fight Back

Unless you read the newspapers published by the labor movement, progressive or left-wing periodicals, or newsletters of community and senior citizen groups, you would never guess the extent of the anger and determination to STOP REAGAN.

A few people have said, as an excuse to do nothing: "but we've already lost . . ." The fact is that the people may have lost the *first battle*. Reagan and Company will be in office for another three years. If you think the new budget is bad, just think what next year's budget will be . . . if the people do not act, and act now. "People before profits" must become our slogan. □