

***The Kaleckian Profit and Profit Rate and Post-WWII
U.S. Business Cycles***

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Abstract: This article studies the Kaleckian profit and profit rate in U.S. business cycles. Kalecki emphasized the critical role played by investment in the determination of profit. The alternative mechanisms that he operationalized in his discussion of profit generation usually played an insignificant role then. However, since Kalecki developed his framework for profit and its determinants, the U.S. economy has gone through some significant transformations, specifically with the neoliberal turn beginning in the early 1980s. We consider some of these changes under the new corporate governance system and shareholder-value ideology, and discuss the role they play in relation to Kaleckian profit generation. We also discuss the components of the profit, as distinct from its determinants, to discuss how the allocation of the profit within the capitalist class influences Kaleckian profit generation. Finally, we compute the determinants and the components of the Kaleckian profit rate in the post-WWII U.S. business cycles to empirically observe the influence of the neoliberal turn on the Kaleckian profit generation.

Keywords: Kalecki, business cycles, profit, profit rate

JEL Classification Codes: E11, E32, E01

In an earlier paper (Bakir and Campbell 2016), we computed the Kaleckian profit rate and its determinants in post-WWII U.S. business cycles. This earlier paper explained the procedure used to derive the Kaleckian profit rate in detail, and applied it to the 10 fully completed U.S. business cycles from 1949 Q4 to 2009 Q2. It also looked at the recovery that started after 2009 Q2 with the end of great recession and continued until 2014 Q4, when our data ended.

This current article contributes to and complements our earlier study in four different ways. First, the eleventh cycle that started in 2009 Q2 is now fully complete with the recession officially ending in 2020 Q2, and thus it can now also be considered. We examine if this cycle, often referred to as “lethargic,” shows any significant deviations from the earlier neoliberal cycles. Second, we examine the COVID-19 recession, that officially covers the period from 2019 Q4 to 2020 Q2, to see if this structurally different recession shows any substantial deviations from the earlier neoliberal recessions in terms of the Kaleckian profit rate. Third, we also examine the recovery that started after the COVID-19 recession ended in 2020 Q2. This, however, is an incomplete expansion, and will cover only the period from 2020 Q2 to 2021 Q2, when our data for this article ended. Fourth, and probably most importantly, this article analyzes the components of the Kaleckian profit, as distinct from

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its determinants. This is one of the understudied subjects in the empirical literature on the Kaleckian profit. The Kaleckian profit will be disaggregated into its components as in equation 7 below. This disaggregation allows us to see the heterogeneity of the capitalist class in terms of the differences in their propensities to consume and to invest. This, in turn, can influence Kaleckian profit generation, as we will discuss below.

First, we introduce Kalecki's own approach to profit and its determinants based on national income accounting. We then discuss some of the mechanisms Kalecki himself operationalized in his discussion of profit generation. We also discuss in this section if Neoliberalism, with its changes in the corporate governance system and its shareholder-value ideology, has altered or modified some of the earlier interpretations of the factors responsible for-profit generation. We also examine the components of the Kaleckian profit in this section, and how Neoliberalism introduced new elements that made the allocation of profit among different segments of the capitalist class an important consideration in profit generation.

Next, we empirically document the Kaleckian profit rate, its determinants and its components in the post-WWII U.S. business cycles. We briefly discuss in this section how some of the contributing factors to the generation of profit and its allocation within the capitalist class have fundamentally changed under neoliberal cycles. The final section concludes with brief remarks.

A Brief Sketch of Kaleckian Profit

Michal Kalecki ([1943] 2006 and [1954] 2006) begins his discussion of the profit and its determinants with the balance sheet of national income and expenditure. In a closed economy with negligible government expenditure and taxation, gross value added is

$$\text{Gross profit} + \text{Compensation} = \text{Gross private investment} + \text{Consumption} \quad (1)$$

Consumption in this identity is the sum of both capitalist consumption and workers' consumption.

If workers' compensation is fully spent, then equation 1 can be rewritten as follows:

$$\text{Gross profit} = \text{Gross private investment} + \text{Capitalist consumption} \quad (2)$$

Kalecki ([1968] 2006) uses Marxian schemes of reproduction to explain the proper meaning of equation 2 and, consequently, the determinants of profit. Given that the workers are paid less than the value of the product they produce since the rest is appropriated by the capitalists, Kalecki¹ points out that profit can only be realized by capitalist expenditure on investment and consumption goods.

Investment and capitalist consumption in the short period considered are the outcome of decisions taken in the past, and thus should be considered as given. With regard to investment, this follows directly from the time-lag dependent on the period of construction. But changes in capitalist

¹ Kalecki ([1939] 2007) argues that Marx did not pay attention to the important question of what will happen if the investment is inadequate. This issue, however, was later taken up by Rosa Luxemburg. Luxemburg "stressed the point that, if capitalists are saving, their profits can be 'realized' only if a corresponding amount is spent by them on investment" (Kalecki [1939] 2007, 255). Luxemburg, on the other hand, also saw limits to investment in a closed economy, specifically in the long-run. Thus, as Kalecki points out, she sees export to non-capitalist countries crucial for the expansion of the capitalist system. Even though Kalecki points out that her theory cannot be accepted as a whole, he still credits Luxemburg for outlining "the necessity of covering the 'saving gap' by home investment or exports . . . more clearly than anywhere else before the publication of Mr. Keynes's General Theory" (Kalecki [1939] 2007, 255).

consumption also follow those in profits with some delay. Now, sales and profits in a given period cannot be a direct outcome of past decisions: the capitalists can decide how much they will invest and consume next year, but they cannot decide how much they shall sell and profit. The independent variables in a given period are investment and capitalist consumption. It is these magnitudes that . . . determine the levels of national income and profits which can be realized. (Kalecki [1968] 2006, 461)

If we remove the closed economy assumption in equation 2 to allow for export to realize the profit, and if we also allow for government to collect taxes and engage in spending and for workers to save, then equation 2 can be rewritten to obtain final Kaleckian profit equation:

$$\text{Gross profit net of taxes} = \text{Gross private investment} + (\text{Capitalist consumption} - \text{Workers' saving}) + \text{Government deficit} + \text{Net export} \quad (3)$$

Equation 3 is based on the national income identity and must hold at all times by definition.

Finally, we express the components of gross profit net of taxes in the following equation:

$$\text{Gross profit net of taxes} = \text{Depreciation} + \text{Proprietor's income} + \text{Rental income} + \text{Net dividend payment} + \text{Net interest payment} + \text{Undistributed profit} \quad (4)$$

Interpretation of Kaleckian Profit

Even though Kalecki emphasized the critical role played by investment in the determination of profit, there are other significant mechanisms through which profit can be determined via equation 3, given the structural and organizational shifts in the economy.

Kalecki ([1939] 2007), for example, considered the effect of stock valuation on capitalist consumption via the wealth effect as a possible reason for capitalist consumption to be loosely connected to their income. He looked at the period of 1926–29 when the United States was experiencing a stock market boom and concluded that the data did not show support for any substantial influence of a stock market boom on capitalist consumption. He thus argued that “if the stock exchange did not greatly influence the capitalists’ propensity to consume even under such favorable circumstance, its influence cannot generally be very important” (Kalecki [1939] 2007, 263).

This, however, has changed as U.S. capitalism has gone through several important changes, specifically with the neoliberal restructuring roughly beginning in the early 1980s. The influence of asset markets on consumption via the wealth effect greatly increased during the neoliberal period, as has been documented in the recent literature (see, for example, Starr (2010)).

Changes in the corporate governance system under Neoliberalism that prioritized shareholder value directed funding towards dividend payments and share-buybacks in the expectation of boosting the asset prices. This, in turn, stimulated consumption via the wealth effect.

It was not only consumption by the capitalist class that increased due to the wealth effect. Financial innovations of the 2000s led to asset-price inflation in residential real estate,

which made it possible for a large group of U.S. households to engage in cash-out refinancing and increase their consumption independently of their income.²

Kalecki also recognized that the assumption that workers' income is fully spent is not reasonable. He thus separated managers, whose income changes in the same direction as the capitalists, from workers. Managers in his model could save, and the sum of their income and the capitalists' is determined by their combined consumption and investment (assuming negligible government and a closed economy) as follows:

$$\text{Capitalists' and managers' income} = \text{Investment} + \text{Capitalist and managers' consumption} \quad (5)$$

This is not only more realistic, but also has become more important than ever before, given the separation of ownership from management under the new corporate governance system. Managers, Kalecki argues, have a higher propensity to save than capitalists. Thus, the relative shift of income from capitalists to managers would increase their combined consumption, resulting in higher combined income. However, this shift, Kalecki maintains, would also cause lower investment due to lower corporate savings, since the capitalists' income includes corporate saving.

Neoliberalism, however, also introduced other changes where the distinction between managers and capitalists became much more nuanced than the one just introduced. One such change is the stock option to complement managerial salaries. Higher asset-price valuation can cause increased consumption by managers once these options are exercised. This would not necessarily cause any corresponding decline in investment, at least not in the very short period. In the not-very-short-period, however, managerial incentives to boost the asset prices can come at the cost of declining corporate savings, which would reduce investment. But lower investment could also be the result of monopolization rather than lower corporate savings, as we will discuss below. In that case, of course, the redistribution of income from capitalists to managers may not come at the cost of reduced investment, and the overall effect of this redistribution on effective demand will be positive.³

Constituents of the capitalist class are also not homogenous with respect to their propensity to consume. Both Michal Kalecki ([1939] 2007) and Joan Robinson (1974), for example, recognized the differences in the propensity to consume within the capitalist class in the case of rentiers and entrepreneurs. Rentiers have a higher propensity to consume than entrepreneurs, whose income also includes the savings of enterprises. Thus, Robinson (1974, 94), for example, argues that "a redistribution of real total profits unfavorable to rentiers may tend to restrict consumption." Kalecki ([1939] 2007, 282) also notes that the effect of the redistribution of capitalist income from enterprises to rentiers should not be exaggerated, as this very same redistribution would discourage investment due to lower savings of enterprises.

The same argument can also be made for dividend-earning shareholders. As the after-tax profits of the corporate sector in national income accounting is made up by the net dividend payments and retained earnings, any increase in the dividend payments would

² This single factor is specifically important for non-capitalist consumption via the wealth effect, since homeownership in the U.S. is relatively high (65.4% in 2021 Q3 according to the U.S. census bureau) compared to the highly concentrated stock ownership.

³ Two other changes occurred in the neoliberal period; productivity gains slowed (with the exception of the second half of 1990s), and hourly wages stagnated for most workers. Any gain in productivity went mostly to top managers and capitalists. This upward redistribution of income, along with the aforementioned shareholder-value ideology, could increase capitalist consumption as they can also result in reduced investment. To the extent that capitalist consumption increases more than the investment, these will contribute to the generation of profit.

reduce the retained earnings. To the extent that the consumption of shareholders due to higher dividend income exceeds the lower investment as a result of lower corporate savings, corporate income can go up. Even though this is a simple accounting relation between dividend payments and retained earnings, the decision how to allocate the after-tax profit between the two is not an arbitrary decision. Firms' investment decisions and the shareholder-value ideology together determine how the after-tax profit is allocated. According to Germán Gutiérrez and Thomas Philippon (2017), as firms have gained significant market power through concentration and are increasingly controlled by common ownership, they became more reluctant to invest and more encouraged to increase payouts in the form of dividends and share buy-backs. Since the slowdown of investment here is mainly the outcome of concentration, redistribution of income to shareholders can have positive effect on effective demand via capitalist consumption.⁴

The Kaleckian Profit Rate and its Application to U.S. Business Cycles

We now define the Kaleckian profit rate⁵ for the entire domestic private sector of the U.S. as follows:

$$\frac{P}{K} = \frac{I + C_c - W_s + GD + NX}{K} \quad (6)$$

where P is net profit, I is net private investment, C_c is capitalist consumption, W_s is workers' saving, GD is government deficit, NX is net export, and K is net capital stock.

We used the procedures explained in detail in Erdogan Bakir and Al Campbell (2016) to derive the variables in equation 6 from the national income accounting of the United States. Since data cannot be disaggregated into capitalist consumption and workers' consumption, we reported consumption-minus-compensation (instead of C_c and W_s) in the tables below.

Additionally, we disaggregated the profit into its components as follows, in order to better understand their dynamics:

$$P = PI + RI + NIP + NDP + UP \quad (7)$$

where PI is proprietor's income, RI is rental income, NIP is net interest payments, NDP is net dividend payments and UP is undistributed profit.

Table 1 below shows the average values of the variables in equations 6 and 7 in the post-WWII U.S. business cycles.⁶ Neoliberal cycles (Cycles VII–XI) show a somewhat substantial drop in the contribution of the net investment to the profit rate. The last two cycles, specifically, recorded the lowest contributions of net investment to the profit rate with 26.7% in cycle X and only 15.4% in now-fully-completed cycle XI. On average, net

⁴ Note also that a higher rentier income in the current period is the result of the decisions made by the enterprises in previous periods. The past decision to issue the debt to execute a large share buy-back (especially if the internal funds are insufficient), for example, can influence the past corporate income via the consumption of shareholders due to asset-price inflation, and current corporate income via the consumption of the rentiers due to the interest payment on the previous debt. Thus, if corporations issued debt to finance share-buybacks in the past, that could lead to lower investment in the current period as corporate income is redistributed away from the entrepreneurs towards rentiers, while it would not necessarily cause changes in the investment at the time when the debt was issued.

⁵ Jan Toporowski (1999) introduces what he calls the Kaleckian profit rate based on the Kaleckian profit above. In defining the profit rate, Toporowski uses the net capital stock since the depreciation is not in itself an addition to the capital stock. Our empirical analysis of the Kaleckian profit rate in business cycles follows Toporowski's definition of the Kaleckian profit rate, with one difference. Toporowski defines the net capital stock measured on a historical cost basis whereas we use the capital stock measured on a current cost basis. We also define both profit and private investment net of depreciation.

⁶ See Bakir and Campbell (2016) for the sources and the computation of variables in tables 1–4.

investment contributed 26.9% to the profit rate in the neoliberal period while it contributed 39.3% during the Golden Age cycles (Cycles I-IV) (see table 2).

Table 1. Profit Rate, its Determinants and Its Components (%): Post-WWII Cycles

CYCLES	Profit Rate	Determinants of the Profit Rate (Percentage contribution to the Profit Rate)					Components of the Profit Rate (Percentage Share in the Profit Rate)				
		Net Private Investment	Consumption-minus-compensation	Government Deficit	Net Export	Remainder	Proprietors' income	Rental income of persons	Net Interest Payment	Net Dividend Payment	Undistributed profits
I: 1949 Q4-1954 Q2	20.7	40.3	33.7	29.8	1.4	-5.2	56.2	14.3	5.1	10.8	13.7
II: 1954 Q2-1958 Q2	19.5	37.2	28.4	34.6	1.9	-2.2	50.7	15.2	7.2	10.6	16.2
III: 1958 Q2-1961 Q1	18.9	33.5	29.3	36.5	2.0	-1.3	48.6	15.2	9.3	11.1	15.8
IV: 1961 Q1-1970 Q4	20.6	40.3	19.3	40.3	2.8	-2.8	42.2	12.7	13.5	11.7	19.9
V: 1970 Q4-1975 Q1	17.5	44.9	14.7	44.6	0.4	-4.5	41.1	9.4	23.0	10.9	15.6
VI: 1975 Q1-1980 Q3	15.8	42.8	24.7	42.9	-2.5	-7.9	38.1	4.8	28.6	10.8	17.7
VII: 1980 Q3-1982 Q4	14.5	34.7	24.0	48.5	-2.2	-5.1	30.6	4.0	41.1	12.3	12.0
VIII: 1982 Q4-1991 Q1	16.6	34.5	38.5	47.4	-11.2	-9.2	30.7	2.6	42.7	13.0	11.0
IX: 1991 Q1-2001 Q4	18.4	32.0	48.4	35.6	-8.9	-7.0	35.2	8.1	31.0	17.3	8.4
X: 2001 Q4-2009 Q2	18.8	26.7	62.0	38.4	-23.9	-3.2	36.7	8.8	25.5	19.8	9.3
XI: 2009 Q2-2020 Q2	19.5	15.4	66.0	33.7	-13.7	-1.4	35	14.7	18.3	20.2	11.8

Table 2. Profit Rate, its Determinants and Its Components (%): Post-WWII periods

PERIODS	Profit Rate	Determinants of the Profit Rate (Percentage contribution to the Profit Rate)					Components of the Profit Rate (Percentage Share in the Profit Rate)				
		Net Private Investment	Consumption-minus-compensation	Government Deficit	Net Export	Remainder	Proprietors' income	Rental income of persons	Net Interest Payment	Net Dividend Payment	Undistributed profits
Full Period: 1949 Q4-2020 Q2	18.6	33.1	40.1	38.1	-6.9	-4.4	39.3	10.3	22.2	14.7	13.5
Cycle I-IV: 1949 Q4-1970 Q4	20.2	39.3	25.3	36.2	2.2	-3.0	47.6	13.8	10.0	11.2	17.4
Cycle V-VI: 1970 Q4-1980 Q3	16.6	44.2	20	43.4	-1.3	-6.3	39.5	6.9	25.9	10.9	16.9
Cycle VII-XI: 1980 Q3-2020 Q2	18.2	26.9	53.2	38.2	-13.4	-4.9	34.4	9	28.7	17.6	10.3

There was, however, a substantial increase in the contribution of consumption-minus-compensation to the profit rate under the neoliberal cycles, specifically in cycles X and XI where it contributed 62% and 66%, respectively. This dramatic increase in the contribution of consumption-minus-compensation to the profit rate was, in fact, more than enough to offset the declining contribution of net investment to the profit rate in Neoliberalism. This is important because net export contributed negatively to the profit rate in the neoliberal period. Thus, profit could be realized and maintained only if consumption-minus-compensation increased substantially, given that the contribution of net investment declined under Neoliberalism and government deficit increased only marginally from the Golden Age period to the neoliberal period. Consumption-minus-compensation contributed, on average, 53.2% to the profit rate in the neoliberal cycles, while its contribution was only 25.3 percent in the Golden Age cycles (see table 2).

Table 3 summarizes the same data for the expansionary phases of the cycles. This is broadly in line with the trends explained above for the full cycles. We will, however, note one point about the current incomplete expansion phase of cycle XII. The contribution of consumption-minus-compensation to the recovery of the profit rate in this expansion somewhat declined compared to the previous two expansions, even though it still is quite high by the Golden Age standard. The contribution of the government deficit to the profit rate, however, increased rather substantially in this cycle compared to the previous three cyclical expansions. Consumption-minus-compensation and government deficit contributed 54.2% and 45.9% to the profit rate in this current expansion, respectively.

Table 3. Profit Rate, Its Determinants and Its Components (%): Post-WWII Expansions

EXPANSIONS IN CYCLES	Profit Rate	Determinants of the Profit Rate (Percentage contribution to the Profit Rate)					Components of the Profit Rate (Percentage Share in the Profit Rate)				
		Net Private Investment	Consumption-minus-compensation	Government Deficit	Net Export	Remainder	Proprietors' income	Rental income of persons	Net Interest Payment	Net Dividend Payment	Undistributed profits
I: 1949 Q4–1953 Q2	21.0	42.3	35.5	25.4	1.8	-5.0	56.7	13.7	4.8	10.9	13.9
II: 1954 Q2–1957 Q3	19.9	39.5	27.8	32.9	2.0	-2.2	50.4	15.2	6.9	10.5	17.0
III: 1958 Q2–1960 Q1	18.9	34.7	29.7	37.0	0.7	-2.0	48.9	15.0	9.1	10.9	16.1
IV: 1961 Q1–1969 Q4	20.9	40.4	20.0	39.2	2.9	-2.6	42.3	12.9	12.8	11.6	20.5
V: 1970 Q4–1973 Q4	18.2	46.1	14.4	43.8	0.2	-4.5	41.0	9.7	21.4	10.9	16.9
VI: 1975 Q1–1980 Q1	16.0	43.3	24.9	42.2	-2.6	-7.7	38.3	4.9	27.8	10.6	18.4
VII: 1980 Q3–1981 Q3	14.6	40.1	23.3	45.2	-1.3	-7.3	33.1	4.1	38.4	12.0	12.4
VIII: 1982 Q4–1990 Q3	16.6	35.3	38.1	47.2	-11.5	-9.2	30.5	2.6	42.7	12.8	11.4
IX: 1991 Q1–2001 Q1	18.3	32.2	48.3	35.3	-8.3	-7.5	34.9	8.0	31.0	17.4	8.7
X: 2001 Q4–2007 Q4	19.4	29.5	59.9	36.2	-24.2	-1.3	37.2	8.3	24.4	19.2	10.8
XI: 2009 Q2–2019 Q4	19.5	15.6	66.6	33.1	-13.7	-1.5	35.0	14.6	18.3	20.1	12.0
XII: 2020 Q2–2021 Q2	20.0	14.0	54.2	45.9	-15.4	1.3	34.3	14.4	17.8	22.3	11.2

Table 4 shows data on the recessionary phase of the cycles. Data again reflect the broad trends discussed above. As for the COVID-19 recession, we note that the contribution of consumption-minus-compensation to the profit rate in this recession declined compared to the previous recession, but it was still above those of the other neoliberal recessions. Net export, however, became less negative in this recession compared to the previous two neoliberal recessions. Even though government deficit contributed less to the profit rate in this recession compared to the previous neoliberal recessions except for the one in cycle IX, this was an unusually short recession. This is why the contribution of government deficit to the profit rate in the current recovery period following the COVID-19 recession was so much higher than in previous recoveries.

Table 4. Profit Rate, Its Determinants and Its Components (%): Post-WWII Recessions

RECESSIONS IN CYCLES	Profit Rate	Determinants of the Profit Rate (Percentage contribution to the Profit Rate)					Components of the Profit Rate (Percentage Share in the Profit Rate)				
		Net Private Investment	Consumption-minus-compensation	Government Deficit	Net Export	Remainder	Proprietors' income	Rental income of persons	Net Interest Payment	Net Dividend Payment	Undistributed profits
I: 1953 Q2-1954 Q2	19.8	33.9	25.4	47.0	-0.6	-5.8	54.2	16.1	6.0	10.6	13.2
II: 1957 Q3-1958 Q2	18.0	28.5	30.0	41.4	2.4	-2.3	52.2	15.3	8.4	11.1	12.9
III: 1960 Q1-1961 Q1	18.9	34.2	27.8	34.0	4.2	-0.2	47.6	15.5	9.6	11.4	15.8
IV: 1969 Q4-1970 Q4	17.5	39.5	11.1	51.5	2.0	-4.2	41.9	11.1	21.0	12.9	13.2
V: 1973 Q4-1975 Q1	16.4	43.1	14.5	45.0	1.4	-4.0	41.6	8.4	26.6	10.7	12.6
VI: 1980 Q1-1980 Q3	13.8	41.5	23.8	50.2	-3.3	-12.1	35.6	3.7	37.7	12.5	10.6
VII: 1981 Q3-1982 Q4	14.5	31.7	24.1	50.3	-2.8	-3.3	28.4	3.9	43.3	12.5	11.9
VIII: 1990 Q3-1991 Q1	16.4	23.8	44.7	49.4	-6.3	-11.6	33.0	3.0	43.3	15.8	5.0
IX: 2001 Q1-2001 Q4	19.1	29.6	48.7	39.0	-17.9	0.6	39.4	9.6	31	16.9	3.0
X: 2007 Q4-2009 Q2	16.6	15.3	71.7	48.1	-23	-12	34.0	10.4	31.1	23.0	1.6
XI: 2019 Q4-2020 Q2	18.6	14.4	56.3	41.4	-11.8	-0.3	34.8	15.6	17.9	22.6	9.2

We can now make some broad observations about the components of the profit based on the tables above. Table 2 shows that the share of the proprietor's income in profit was, on average, 47.6% during the Golden Age and it dropped to 34.4% under Neoliberalism. The share of undistributed profits also dropped rather substantially from 17.4 during the Golden Age to 10.3% in the neoliberal period. The share of rental income also declined from 13.8% to 9% between these two periods. The share of net interest payments and net dividend payments in profit, however, increased substantially in the neoliberal period compared to the Golden Age: from 10% to 28.7% for net interest payments and 11.2% to 17.6% for net dividend payment. The business cycles, however, show some variations even though the broader trend is in line with the period averages. For example, table 1 shows that the share of net interest payments in profit in cycle XI was the lowest of all the neoliberal cycles,

even though it was still higher than in the Golden Age cycles. The share of rental income in profit in cycle XI, on the other hand, was the highest of all the neoliberal cycles, and similar to the values in the Golden Age cycles. One significant point here concerns the share of undistributed profits during the COVID-19 recession. Table 4 shows that it increased substantially to 9.2% after averaging 1.6% during the great recession and 3% during the recession of early 2000s.

Concluding Remarks

The data confirm that Neoliberalism has involved a substantial redistribution of income from enterprises to rentiers and shareholders. To the extent that this redistribution reduces the savings of enterprises, it discourages investment. Thus, profit generation requires the higher capitalist consumption from rentiers and shareholders to offset the reduced contribution of net investment to profit generation due to the lower savings of enterprises.

Consumption-minus-compensation, however, increased much more than can be explained by this redistribution. Consumption-minus-compensation and net investment together contributed 64.6% to the profit rate in the Golden Age while they contributed 80.1% in the neoliberal period. Given the stagnant wages during the neoliberal period for most workers, three important changes were driving consumption during this period; asset-price induced consumption, debt-financed consumption, and redistribution of income to high spending managers from low spending capitalists.

As we found in our earlier consideration of the Kaleckian profit framework, we find here again that this structure, including when decomposed into components as well as into determinants, gives different but complimentary insights from other more widely used approaches into effective demand and profit generation.

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