

Seventh Lecture**The Corporation and Business Organization****Accumulation**

- Backward looking fixed assets
- Reinvesting past profit
- Forward looking market value
- Discounting future earnings

Decomposing profit

- Markup
- Price
- Productivity
- Employment

Price competition

- Perfect competition over price?
- Oligopolistic strategy: calibrating price and quantity
- Interdependence
- Power: coordination and the end of price competition

Technical change

- New production techniques: mechanization, reorganization
- New commodities
- Greenfield investment: does it pay?
- Glut?
- Power: time, legal protection, “goodwill”

Redistribution – unit cost

- Markup: pushing cost down
- Squeezing workers, suppliers, creditors, tax collectors
- Power: vertical and horizontal

Redistribution – price

- Markup: pushing price up
- Power: price fixing, legal monopoly, regulation

Corporate size

- Concentration?
- Differential accumulation?

Capital Accumulation: Backward Looking Fixed Assets

$$K = \sum \text{past reinvested profit} - \text{depreciation}$$

$$\text{rate of accumulation} = \dot{K} = \frac{\text{reinvested } R}{K}$$

Capital Accumulation: Forward Looking Market Value

$$K = \frac{\text{expected profit}}{\text{normal rate of return}} = \frac{\text{expected } R}{i}$$

rate of accumulation \approx rate of growth of expected R – rate of growth of i

$$\dot{K} \approx \dot{R} - \dot{i}$$

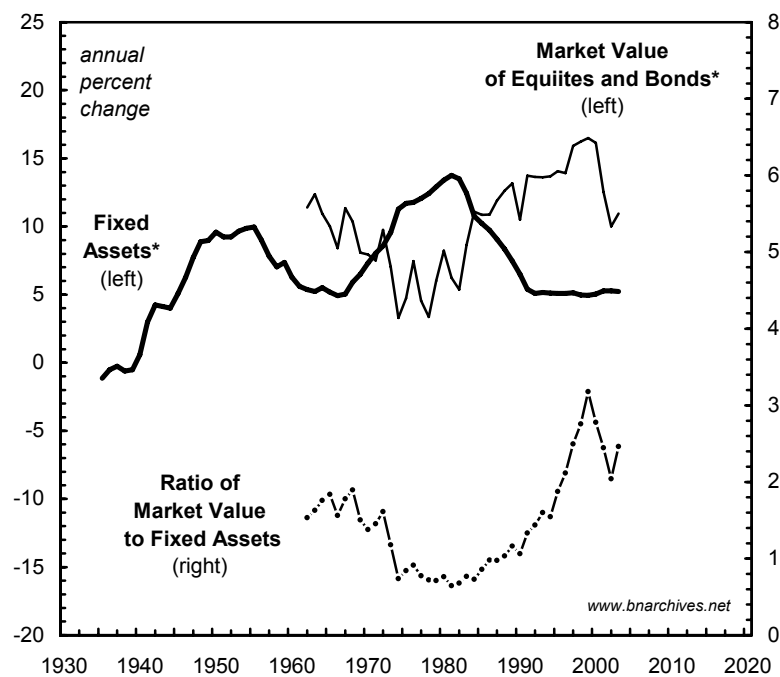


FIGURE 1 U.S.-Based Corporations: Market Value versus Fixed Assets

* Series are smoothed as 10-year moving averages.

SOURCE: U.S. Bureau of Economic Analysis and U.S. Federal Reserve Flow of Funds through Global Insight. (Series codes: FAPNREZVR for the current value of corporate fixed assets; FL893064105 for market value of corporate equities; FL893163005 for the market value of corporate and foreign bonds.)

Decomposing Profit

$$R = R$$

$$R = \frac{R}{E} \times E$$

$$R = \frac{R}{S} \times \frac{S}{E} \times E$$

$$R = \frac{R}{S} \times \frac{S}{Q} \times \frac{Q}{E} \times E$$

$$R = MU \times P \times A \times E$$

profit = markup × price × labour productivity × employment

$$\$50mn = 0.2 \times \$5 \times 50,000 \text{ units} \times 1,000 \text{ employees}$$

$$\dot{R} \approx \dot{MU} + \dot{P} + \dot{A} + \dot{E}$$

R = profit per year (\$)

E = employment (number of employees)

S = sales per year (\$)

Q = output per year (units)

MU = mark up (decimal)

P = price (\$)

A = labour productivity (units / employee)

Price Competition (reducing price to win market share)

(higher employment, lower price, lower markup)

$$\dot{M}U + \dot{E} + \dot{P} > 0$$

Technical Change (borrowing to invest in a more efficient production technology)

(lower markup due to interest cost and lower price; lower price; higher productivity; higher employment)

$$\dot{M}U + \dot{P} + \dot{A} + \dot{E} > 0$$

Technical Change (borrowing to invest in developing new commodities)

(lower markup due to interest cost; higher employment)

$$\dot{M}U + \dot{E} > 0$$

Redistribution – Unit Cost

$$MU = \frac{\text{sales} - \text{cost}}{\text{sales}} = 1 - \frac{\text{cost}}{\text{sales}} = 1 - \frac{\frac{\text{cost}}{Q}}{\frac{\text{sales}}{Q}} = 1 - \frac{\text{unit cost}}{\text{price}}$$

$$MU = 1 - \frac{UC}{P}$$

Redistribution – Price

(higher price; possibly lower employment; possibly higher markup)

$$\dot{M}U + \dot{P} + \dot{E} > 0$$

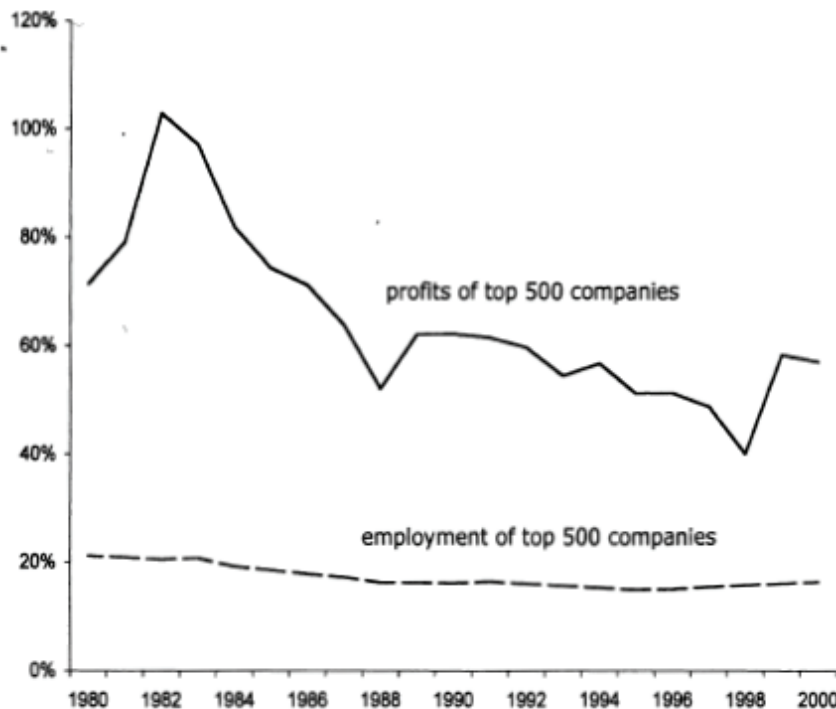


FIGURE 11.4 Declining concentration in the U.S. economy, 1980–2000. This figure shows that the relative importance of the top 500 U.S. corporations, whether measured in profitability or in employment, declined between 1980 and 2000. The data on the profit share is taken from *Forbes* magazine's annual list of the 500 most profitable U.S. companies, with the total profits made by these companies (not necessarily the same firms every year) expressed as a fraction of the total amount of profits made by all corporations in the same years. The fractions for each year are shown in the figure as percentages. These percentages are substantial because the *Forbes* profit data come (by definition) only from companies that are making huge amounts of profit, whereas the data on the profits of all corporations take into account the losses incurred by some corporations. Thus, in the recession year 1982 the total profit made by *Forbes*'s 500 most profitable firms actually exceeded the total profit of all corporations, many of which did not do well in that year; this explains the 103 percent data point for the 500 most profitable firms' share of corporate profits in 1982. The data on the employment share of the largest corporations are also taken from the *Forbes* annual lists and are similarly calculated as a percent of the total employment of all U.S. corporations (see the dotted line in the figure). Over the two decades represented in this figure there was some movement up and down in both sets of data (especially the one pertaining to the profit share), but both the profit share and the employment share of the top 500 companies were lower in 2000 than they had been in 1980.

Source: Lawrence J. White, "Trends in Aggregate Concentration in the United States," *Journal of Economic Perspectives*, vol. 16, no. 4, fall 2002, pp. 137–160.

FIGURE 2

SOURCE: Bowles, Samuel, Richard Edwards, and Frank Roosevelt. 2005. *Understanding Capitalism. Competition, Command, and Change*. New York and Oxford: Oxford University Press, p. 281

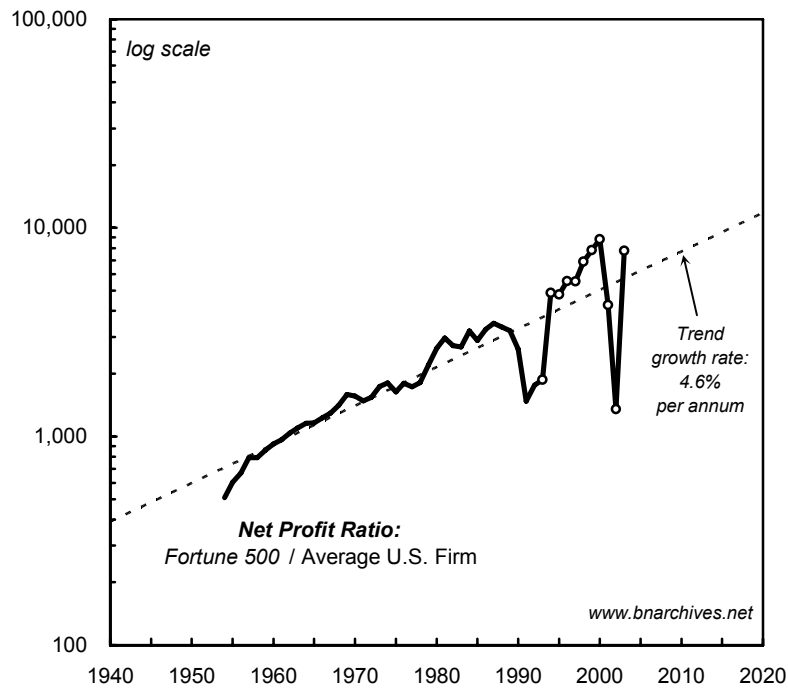


FIGURE 3 Differential Accumulation in the United States

NOTE: Net profit for the average U.S. firm is total after tax profit divided by the number of corporate tax return. Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing and/or mining). In 1994, the list was expanded to include all corporations. For 1992-3, data for Fortune 500 companies are reported without SFAS 106 special charges.

SOURCE: *Fortune*; U.S. Internal Revenue Service; U.S. Department of Commerce through Global Insight (series codes: ZA for profit after tax without IVA and CCADJ).