

12. While the index of labor cost per unit in manufacturing declined, profits per unit increased.

As of 1965, profits before taxes per unit were approximately 25 percent higher than in 1960. As of the second quarter of 1966, profits per unit were approximately 20 percent higher than in the second quarter of 1960—the peak of the last business cycle. (These figures are given as approximations because erratic fluctuations in corporate profits per unit suggest that the available data do not permit precision.)

13. The increased ratio of profits to sales confirms the fact shown by estimated profits per unit that costs other than labor costs did not justify the increases that had been made in the prices of manufactured goods.

	Profits as percent of sales ¹	
	Before taxes	After taxes
Year:		
1960.....	8.0	4.4
1965.....	9.4	5.6
Second quarter:		
1960.....	8.4	4.6
1966.....	9.9	5.9

¹ FTC-SEC data.

14. Manufacturing corporations' rates of profits on net worth showed, similarly, that their price increases were not necessitated by higher costs but rather were designed to increase profits.

	Profits as percent of net worth ¹	
	Before taxes	After taxes
Year:		
1960.....	17.2	9.5
1965.....	22.8	13.5
Second quarter (annual rates):		
1960.....	18.5	10.2
1966.....	25.7	15.3

¹ FTC-SEC data; profits divided by net worth as of end of preceding year.

The rate of profit on net worth, after taxes, increased 50 percent from the second quarter of 1960 to the same quarter of 1966.

15. If manufacturing wage and salary earners had been compensated (in addition to their actual gains in wages and fringe benefits) for the increase in the cost of living from the second quarter of 1960 to the second quarter of 1966, manufacturing corporations would still have had a rate of return on net worth significantly higher than in the earlier period.

The Consumer Price Index increased by 9.4 percent from the second quarter of 1960 to the same quarter of 1966. Compensation of manufacturing employees in the latter quarter was at the rate of \$143 billion per year. Adjustment for the 9.4 percent increase in living costs would therefore have cost \$13.4 billion. Manufacturing corporation profits before taxes in the second quarter of 1966 were \$14,014 million—equal to an annual rate of \$56.1 billion. The assumed cost-of-living wage increase would have reduced such before-tax profits to \$42.7 billion. Based upon the 40.2 percent effective tax rate implicit in the FTC-SEC data, profits after taxes would have been \$25.5 billion—56.4 percent higher than in the second quarter of 1960. Profits in that amount would represent a rate of return on net worth (as of the beginning of 1966) of 11.7 percent compared to the 10.2 percent actual rate in the second quarter of 1960.¹

¹ These calculations are subject to some error since the FTS-SEC profit data used are not seasonally adjusted and are not strictly comparable with the Commerce Department's employee compensation figures. (Quarterly Commerce Department data on manufacturing profits are not available without adjustment for inventory valuation and there are no Commerce Department data on the net worth of manufacturing corporations.) Nevertheless, the calculations undoubtedly present a reasonably good reflection of the facts.