

WHEN BOTH SIDES ARE IN ERROR

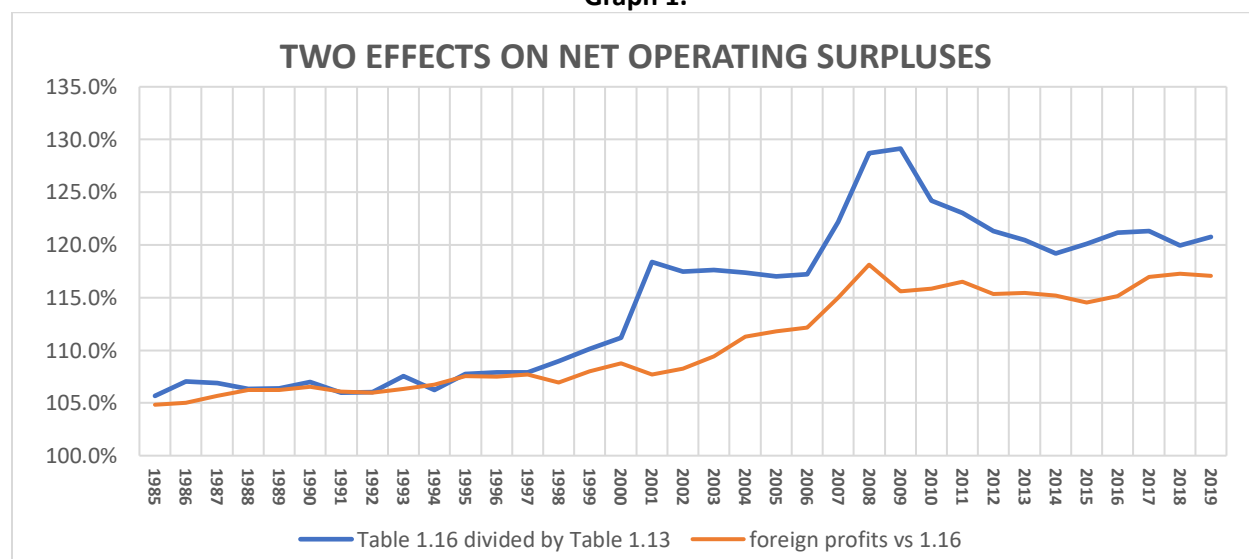
The System of National Accounts (SNA) is a minefield. While GDP should equal the market prices of commodities sold less net inventories, it is full of fiction. This can be seen when viewing NIPA Table 7.12 which deals with imputations (fictional sales). Between 1985 and 2019 the average amount of imputations was 15.5% of GDP. By 2019 this amounted to over \$3 trillion.

Now it is common knowledge that I challenged the author of the *Jacobin* article by accusing him of including foreign profits in his net operating figure. This was incorrect. The surplus found in Table 1.16 applies only to domestically produced surpluses. Be that as it may, I have not used this figure in any of my calculations because I think it is a flawed figure. Therefore all my calculations in the three articles are unaffected by the issue of foreign profits or any other issues thrown up by using the Table 1.16 net surplus.

This is because I have been using the surplus extracted from NIPA Table 1.13. This Table analyses the income earned by Domestic Business against the compensation paid out to employees. By deducting the latter from the former a more realistic net surplus is obtained which is less disturbed by imputations. To ensure that I have not over-deducted compensation, thus ending up with a reduced net surplus favouring my argument, I tested the data against NIPA Table 6.1D which covers compensation. They correlate.

I am therefore content to continue using Table 1.13 because it is the best out of a bad bunch as the graph below shows. In fact the difference is larger than that found when factoring for foreign profits. It is noteworthy that the difference between the two Tables is greatest during recessions when imputations are at their highest. Yet another reason to turn to NIPA Table 1.13 and avoid 1.16 and 1.10.

Graph 1.



Thus although the author of the *Jacobin* article is not guilty of amalgamating foreign profits into the domestic net surplus, we can see that by using NIPA Table 1.16 where wages masquerade as income and imputations abound, his calculation is even more disturbed, thereby significantly inflating his rate of return this century. For all these reasons, I will continue to confine my analyses to the largest sector of the economy which has any integrity, and that is the non-financial corporate sector.

Brian Green, 28th September 2023.