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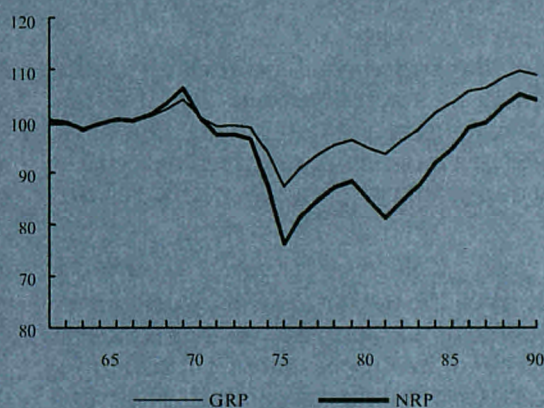


*In this number:
Profitability of fixed capital
in the Community*

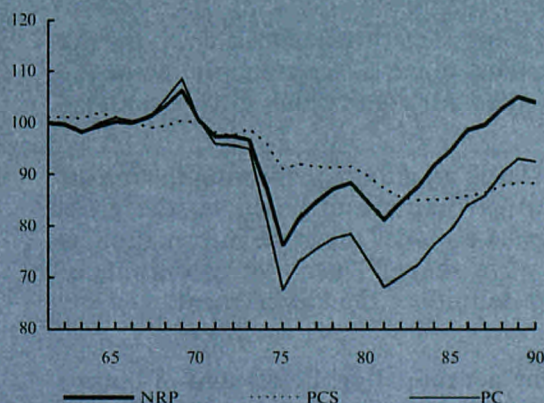
SUMMARY

- There was a cyclical slowdown in economic activity in the Community (and in the rest of the world) in 1990. According to the latest estimates, the slowdown could continue into the first half of 1991. The outlook for the end of 1991 and for 1992 is, however, brighter. This optimism is based mainly on the fact that the basic factors underlying medium-term growth have not been fundamentally affected by the 1990-91 slowdown. The recovery in the return on fixed capital investment in particular has not been jeopardized despite the sudden rise in unit wage costs in 1990. Nevertheless, this favourable conclusion would no longer be tenable if the rise in real wages were to continue to outstrip gains in labour productivity for a number of years, thereby transforming what is at present only a cyclical problem into a structural one. Control over unit wage costs must therefore remain at the forefront of economic policy considerations if the profitability conditions required for a resumption in growth are to be preserved.
- Given the importance of this latter factor, this paper aims to analyse the present and past trend in profitability on the basis of a new series of indicators for the Community and its member countries.
- The examination of these indicators at Community level supplements previous analyses by shedding more light on a major determinant of the trend of investment and the fixed capital stock and, through it, on the Community's growth potential.
- The trends at member country level also reflect not only differences in economic policies following the first oil shock but also the implications of the catching-up process in which the countries currently in the less-favoured category are, or should be, engaged.

GRAPH 1: Gross rate of profit (GRP) and net rate of profit (NRP) per unit of GDP, 1961-90, EUR 12
(Index: 1961-73 = 100)



GRAPH 2: Net rate of profit per unit of GDP (NRP), productivity of capital stock (PCS) and profitability of capital (PC), 1961-90, EUR 12
(Index: 1961-73 = 100)



1. Introduction

The concepts of profit and profitability play a key role in market economies. Macroeconomic analyses of the Community's past economic trends and future prospects have highlighted the important role which the rate of profit per unit of output and the profitability of investment have played in the slowdown in the trend rate of growth over the period 1973-81 and in the subsequent economic recovery ⁽¹⁾ through their impact on gross fixed capital formation. Similarly, the satisfactory performance of the profitability indicators and the other factors underpinning growth during the 1990-91 cyclical slowdown gives reasonable grounds for optimism as to the prospects for a sustained upturn in growth in 1992 and beyond, provided that the cyclical rise in unit wage costs observed in 1990 does not extend into the future.

It is therefore desirable to supplement the performance indicators generally used in assessing the economic situation in the Community and its member countries (growth, employment, inflation, wage costs, budget deficit, external balance, etc) with specific indicators for the rate of profit per unit of output and for fixed capital profitability. This paper thus provides a set of profit and profitability statistics for the economy as a whole for the period 1961-90.

2. Definitions and measurement problems

As indicated above, the concepts of profit and profitability will be defined at macroeconomic level for the economy as a whole. It goes without saying that they could also be applied at a more disaggregated level, either for manufacturing as a whole or even for specific sectors of activity.

At macroeconomic level, the indicators will be defined as the ratio of the operating surplus, net of depreciation, either to GDP (net rate of profit per unit of output) or to the fixed capital stock (profitability of capital). There are three reasons for choosing the net, as opposed to the gross, operating surplus:

- (i) conceptually, capital consumption represents a charge linked to the existing capital stock, which is not therefore available for the direct or indirect financing of net investment;
- (ii) from the viewpoint of statistical consistency, the net operating surplus alone is compatible with the definition adopted for the capital stock itself (see below);
- (iii) on a practical level, an indicator showing the rate of profit per unit of output and based on the gross operating surplus provides the same information as the adjusted wage share ⁽²⁾ per unit of output, of which it is, by definition, the complement.

Measurement of the net rate of profit per unit of output presents no problems in terms of the availability of statistics since all the constituent elements (gross operating surplus, fixed capital consumption and GDP)

appear in the national accounts. The only imprecise or uncertain factors derive therefore from the conventions adopted in the national accounts themselves for calculating the imputed share of the remuneration of the self-employed and fixed capital consumption ⁽³⁾.

The formal definition of the indicator is therefore as follows:

$$\text{Rate of profit per unit of output} = \frac{\text{Net operating surplus}}{\text{GDP}}$$

The concept of fixed capital profitability is more problematic statistically since it uses, as the denominator, the fixed capital stock, estimates of which, where they exist, are generally not published recurrently or else relate to a subsector of the economy (non-agricultural private sector, manufacturing, etc.).

As a result, the fixed capital series for the period 1961-90 used in this paper for the economy as a whole have had to be compiled using the perpetual inventory method, or in formal terms:

$$KN_t = KN_{t-1} + VB_t - A_t$$

where KN_t is the net fixed capital stock at the end of period t ,

VB_t is the gross fixed capital formation for the period, and

A_t is the fixed capital consumption for the period.

In order to apply this method, an estimate of the capital stock in the base year (i.e. 1960) must, of course be available. This estimate can be based either on an existing specific calculation or on a reasoned hypothesis as to the level of the coefficient ratio (fixed capital stock/GDP) during that same year that takes all available information into account. The latter method has been employed here. It should be pointed out that, even though this method makes the initial value of the capital stock somewhat arbitrary, the effect of that initial value (and of any related errors) diminishes over time since, at the end of the period, the capital stock is essentially determined by the accumulation of net investment, which is itself an observed datum. Furthermore, a sensitivity analysis using the data for the Community has shown that substantial changes in the initial capital coefficient do not modify the general pattern of the 1961-90 profitability series, even though they do affect its absolute level.

For that reason, profitability is given in the tables and graphs not as a percentage of the fixed capital stock but in the form of an index based on the average level calculated for the period 1961-73, which can be regarded as a period of full employment in the case of the member countries of the Community. This means that only variations in the index over time can be compared between countries, and not the index levels in a given year. This is especially true of the national series published in Table 2,

⁽¹⁾ See, for example, European Economy No 46, Analytical studies, Annual Economic Report 1990-91, pp. 79-103, December 1990

⁽²⁾ Actual wage share plus the imputed remuneration of the self-employed.

⁽³⁾ The main problem with this indicator is that calculation is based on conventional and constant vintages per type of fixed capital good. The assessment of fixed capital consumption does not therefore satisfactorily reflect economic depreciation, which varies during the course of the cycle.

which can only be analysed vertically, country by country, in terms of the chronological trend, and not in terms of an inter-country comparison of profitability levels.

Finally, it will be noted that the series showing the rate of profit per unit of output and profitability per unit of capital are connected through the apparent productivity of the capital stock, which is itself equal to the inverse of the capital coefficient. If KN is the capital stock and SN is the net operating surplus, then:

$$\frac{SN}{KN} = \frac{SN}{GDP} * \frac{GDP}{KN}$$

A sharp increase in the capital coefficient (and hence a fall in apparent productivity) can thus lead to a decline in the profitability of fixed capital even if the rate of profit per unit of output does not vary initially. The trend of the two series expressed in the form of indices can therefore diverge over time.

TABLE 2: Indicators of rate of profit per unit of output and fixed capital profitability, EUR 12
(Index: 1961-73 = 100, unless otherwise indicated)

	Gross rate of profit per unit of output (1)	Net rate of profit per unit of output (2)	Productivity of fixed capital (3)	Profitability of fixed capital (4)	Growth of fixed capital (5)	Capital coefficient (6)	Growth of real GDP (7)
1961	99,2	100,0	101,2	99,9	4,7	3,0	5,5
1962	99,1	99,7	101,2	99,6	4,8	3,0	4,7
1963	98,5	98,3	100,9	97,9	4,8	3,0	4,5
1964	99,3	99,3	101,9	99,9	5,1	3,0	5,8
1965	99,9	100,2	101,3	101,0	4,9	3,0	4,4
1966	99,8	99,9	100,3	100,4	4,9	3,0	3,9
1967	100,9	101,2	98,9	101,1	4,8	3,0	3,5
1968	102,2	103,4	99,4	104,6	4,9	3,0	5,3
1969	104,1	106,3	100,4	108,7	5,1	3,0	6,0
1970	100,6	100,4	100,0	100,4	5,1	3,0	4,7
1971	98,8	97,4	98,2	95,8	4,9	3,1	3,2
1972	99,0	97,3	97,6	95,6	4,8	3,1	4,3
1973	98,7	96,6	98,8	95,0	4,9	3,1	6,1
1974	93,9	87,4	96,0	81,6	4,4	3,1	1,9
1975	87,2	76,2	91,1	67,8	3,6	3,3	-1,0
1976	91,0	81,6	92,0	73,2	3,5	3,2	4,7
1977	93,5	84,7	91,5	75,6	3,3	3,2	3,0
1978	95,3	87,0	91,4	77,6	3,3	3,3	3,2
1979	96,4	88,3	91,6	78,5	3,3	3,2	3,5
1980	94,8	84,8	89,8	73,4	3,2	3,3	1,3
1981	93,5	81,3	87,2	68,2	2,7	3,4	0,2
1982	96,2	84,6	85,6	70,2	2,4	3,4	0,9
1983	98,3	87,4	85,0	72,4	2,2	3,5	1,6
1984	101,5	91,8	85,1	76,5	2,1	3,5	2,3
1985	103,4	94,6	85,3	79,3	2,1	3,4	2,5
1986	105,8	98,6	85,8	84,1	2,2	3,4	2,6
1987	106,3	99,6	86,4	85,8	2,3	3,4	2,9
1988	108,3	102,9	87,8	90,4	2,7	3,4	3,8
1989	109,6	105,1	88,3	93,1	2,9	3,4	3,3
1990	108,9	104,0	88,3	92,5	3,0	3,4	2,9

Notes:

- (1) = gross operating surplus per unit of GDP.
- (2) = net operating surplus per unit of GDP.
- (3) = GDP per unit of fixed capital stock.
- (4) = (2) × (3) = profitability of fixed capital.
- (5) = annual average rate of growth of real fixed capital stock, as %.
- (6) = capital coefficient (real capital stock/real GDP).
- (7) = annual average rate of growth of real GDP.

Sources: EUROSTAT and Commission services.

3. Profitability trend at Community level

Table 1 and Graphs 1 and 2 show the trend in capital profitability and in the rate of profit per unit of output over the period 1961-90 for the Community (EUR 12). As can be seen, there are three distinct sub-periods:

- (i) Over the period 1961-73, the capital profitability and productivity indicators and the growth in the real capital stock remained remarkably stable, except for a cyclical peak in 1968-69. In terms of a growth model, these conditions correspond to a situation of balanced, full-employment growth in which real GDP and the real capital stock are growing at virtually the same rate (4.8 to 4.9 % a year), underpinned by consistently high long-term levels of productivity and profitability. In the labour market, the unemployment rate remained virtually constant (in the region of 2 - 2.5 % of the labour force), this being regarded at the time as the hard core of frictional unemployment.
- (ii) Over the period 1974-81, the Community's economic situation deteriorated markedly in the wake of the two oil shocks of 1973/74 and 1979/80 and the inappropriate economic policies pursued in the member countries following the first shock (1). In the labour market, the initial lack of adjustment of real wages to the new productivity and employment conditions also led to a rise in unit wage costs and in the adjusted share of wages and salaries in GDP, with the Community unemployment rate rising from 2.6 % of the labour force in 1973 to 7.7 % in 1981.

Over the same sub-period, a gap of more than one percentage point opened up between the rate of growth of fixed capital (3.4 % a year) and the growth of real GDP (2.1 %) as the capital stock was restructured in response to the new energy situation and to the intensified substitution of capital for labour. At the same time, the relative cost of the factors of production shifted markedly in favour of capital as, among other factors, real long-term interest rates (adjusted for the GDP price deflator) remained at zero or at negative levels throughout the sub-period.

The capital-intensification process taking place in the economy led to a steady fall in average capital productivity and to a relative rise in fixed capital consumption as a percentage of GDP. This phenomenon emerges clearly from a comparison of the gross operating surplus per unit of output and the net operating surplus: given the inertia of the adjusted wage share, the gross operating surplus per unit of output fell by only 5 percentage points between 1973 and 1983, whereas the net rate of profit fell by 15 percentage points of GDP over the same period!

The average profitability of capital thus suffered a twofold setback (with both the net operating surplus and capital productivity falling) which took it to an absolute minimum of 68.2 in 1981 (1961-73 = 100). This factor, combined with the unfavourable prospects for growth of final demand, thus reduced the growth in the capital stock at the beginning of the 1980s to less than half its 1961-73 level.

- (iii) Over the period 1982-90, the redirection of economic policies, the modification of wage behaviour, the improvement in the external environment and the anticipatory effects of the major Community projects (2) all combined to bring about a marked recovery in the profitability indicators.

Thus, the wage moderation of the period 1982-89 took the gross rate of profit per unit of output back above its 1961-73 level from 1984 onwards. The net rate of profit also benefited from the relative reduction in fixed capital consumption (linked to the distinct slowdown in the growth of the capital stock at the beginning of the sub-period) and, in 1988, exceeded 100 - a level comparable with that recorded during the 1968-69 cyclical peak.

Although the growth in capital productivity too became positive again in 1984, it remained below its 1961-77 level in 1990, and this explains why the profitability of capital was itself still below 100 in 1990 (1961-73 = 100) despite an improvement of 25 points between 1981 and 1990.

The improvement in the economic outlook and profitability, together with a better balance in the relative cost of the factors of production, led not only to renewed growth of the capital stock but also to a restoration of the balance between the rate of growth of capital and the rate of growth of GDP that had characterized the period 1961-73, as evidenced by the stabilization of the capital/output ratio since 1985.

Although some effort has still to be made to restore capital profitability, the Community at the end of the 1980s thus experienced a return to conditions of profitability and growth in the capital stock compatible with the restoration of sound, sustained and sustainable growth as the new decade dawned.

It should also be emphasized that the expected slowdown in growth in 1990-91 does not seem likely to undermine these basic achievements. Even though the profitability indicators showed a slight decline in 1990 compared with 1989, this bore no comparison with the outright collapse in the same indicators in 1973-74 and 1979-81. The profitability conditions necessary to maintain the growth of the capital stock as a basic determinant of the Community's medium-term growth prospects are therefore secure and hold out the promise that the current slowdown in the rate of growth will only be temporary. This favourable conclusion could, however, be severely jeopardized if the cyclical trends discernible in 1990 were to extend into the medium term. Control over the growth in unit wage costs should therefore continue to be an economic policy priority so as to ensure that the profitability conditions essential to a recovery in growth are preserved.

(1) See Annual Economic Report 1990-91. Analytical studies, European Economy No 46, December 1990, pp. 109-120 and 147-151.

(2) See Annual Economic Report 1990-91. Analytical studies, European Economy No 46, December 1990, pp. 83-88.

4. Trend of capital profitability in member countries

Table 2 gives the capital profitability indices for member countries of the Community ⁽¹⁾ and for the United States and Japan.

At this level, account must be taken of the fact that the Community aggregates, like any aggregate, benefit by the law of large numbers in that any errors made in estimating components tend to cancel each other out. The data relating to the member countries of the Community, and in particular to those which are small in economic terms, should therefore be treated more cautiously than the Community aggregate ⁽²⁾.

The trend in the series relating to the countries with per capita incomes above the Community average (B, DK, D, F, I, NL, UK) is, *mutatis mutandis*, similar to that

indicated for the Community in Section 3, with differences which, especially in the period 1974-81, reflect the divergences in economic policy and wage behaviour observed following the first oil shock. It will be seen that the fall in the profitability indicators is least pronounced in the two countries which, from the outset, gave priority to combatting inflation and controlling wage costs, namely Germany and the Netherlands. Conversely, those countries which attempted to compensate for the income losses connected with the oil shocks by pursuing more expansionary monetary and fiscal policies and/or by maintaining full and automatic wage-indexation systems (UK, I, F, B) experienced a much more marked

⁽¹⁾ In this table, the 'Germany' column refers only to western Germany (formerly the FRG).

⁽²⁾ This factor explains the absence in the table of data for Luxembourg, for which the simplified approach employed here for determining the capital stock proved inappropriate.

TABLE 2: Profitability of fixed capital stock, economy as a whole, 1961-90
(Index: 1961-73 = 100)

	B	DK	D	GR	E	F	IR	I	NL	P	UK	EUR 12	USA	JAP
1961	109,21	102,32	115,69	53,03	92,45	89,85	93,69	107,95	107,76	104,79	96,11	99,91	88,02	69,47
1962	104,25	103,86	107,45	50,37	99,16	93,16	88,97	109,49	104,84	104,64	94,90	99,61	95,89	67,76
1963	100,09	100,78	101,08	80,59	98,78	92,86	93,17	100,04	99,33	105,17	96,65	97,61	100,21	72,31
1964	104,04	110,36	105,59	86,89	96,50	96,27	94,39	87,63	105,81	106,46	103,65	99,95	103,65	83,53
1965	102,02	102,65	103,94	101,58	106,00	97,58	99,29	92,25	105,38	110,72	104,74	100,98	110,63	78,56
1966	97,86	98,47	98,88	95,29	104,48	100,59	86,88	101,69	96,41	109,28	101,90	100,41	112,41	92,48
1967	96,14	97,03	97,79	92,21	93,72	102,09	94,92	107,62	100,30	97,41	104,63	101,14	107,31	107,11
1968	98,37	97,59	103,17	91,79	99,29	101,09	105,76	112,45	106,68	110,80	107,91	104,56	107,31	125,72
1969	102,32	102,54	107,23	116,41	104,10	107,61	112,40	116,84	103,87	110,34	107,48	108,67	98,55	134,25
1970	103,94	95,16	92,95	123,41	102,58	105,51	95,97	103,01	96,41	90,11	99,39	100,45	89,68	139,22
1971	94,42	89,43	88,67	129,71	98,15	103,90	95,44	88,95	89,82	80,46	99,17	95,80	93,67	114,50
1972	92,70	101,44	89,77	125,93	101,82	104,60	116,42	86,75	92,09	79,16	95,01	95,60	94,78	111,94
1973	94,62	98,36	87,79	152,79	102,96	104,90	122,71	85,33	91,33	90,65	88,45	95,01	97,89	103,14
1974	85,10	73,79	77,35	118,37	95,49	88,44	68,87	79,29	81,93	61,37	65,60	81,57	84,47	72,31
1975	71,42	68,07	74,16	114,45	78,65	72,78	69,05	52,60	71,55	17,11	57,40	67,75	80,81	53,84
1976	70,41	75,89	81,63	106,76	72,95	71,88	79,88	60,95	81,49	18,40	65,93	73,24	84,92	56,82
1977	65,95	74,46	82,40	80,17	74,09	69,37	97,19	62,05	81,06	31,48	77,08	75,62	86,58	57,25
1978	65,04	75,56	83,83	67,72	72,06	71,47	93,87	65,78	78,68	40,99	79,71	77,63	85,91	64,64
1979	63,22	76,22	84,93	62,96	66,99	71,88	71,84	69,40	72,74	44,64	80,58	78,54	79,59	64,35
1980	61,39	66,97	75,70	64,50	66,87	63,85	50,69	71,60	69,17	44,03	71,61	73,38	72,17	62,93
1981	56,23	64,76	70,98	41,28	58,76	60,63	69,15	60,07	70,25	37,95	69,97	68,23	75,60	59,95
1982	60,48	69,39	71,53	41,70	64,21	60,73	82,16	59,08	71,12	40,08	80,14	70,16	65,40	56,97
1983	60,79	72,80	77,13	28,68	62,56	61,64	80,93	59,08	74,58	41,06	87,58	72,38	75,60	53,84
1984	64,03	80,73	79,66	36,66	75,99	64,75	93,34	66,33	83,87	42,51	87,03	76,46	90,79	60,09
1985	68,08	84,04	80,87	27,98	84,47	68,76	102,43	68,09	87,33	44,94	91,08	79,33	95,11	67,48
1986	69,90	89,55	84,27	40,72	101,82	76,59	105,58	76,32	85,92	53,61	90,86	84,06	95,34	67,62
1987	75,27	80,95	84,60	49,25	108,53	78,20	110,47	79,40	79,01	53,00	96,00	85,81	99,44	67,34
1988	82,36	80,73	89,33	53,31	114,49	84,02	113,97	83,13	81,71	54,90	99,50	90,38	104,87	70,46
1989	90,06	83,82	92,95	41,84	124,74	87,74	135,47	85,22	85,92	60,00	95,12	93,08	110,30	71,31
1990	90,98	84,48	95,48	52,33	124,87	86,83	141,06	86,32	86,90	61,90	88,67	92,51	109,86	71,74

Source: EUROSTAT and Commission services.

deterioration in profitability. The case of the United Kingdom is somewhat atypical in that the low point occurs in 1975, whereas the period 1979-81 reflects the development of the oil sector in the economy, which cushioned the impact of the second oil shock in that country.

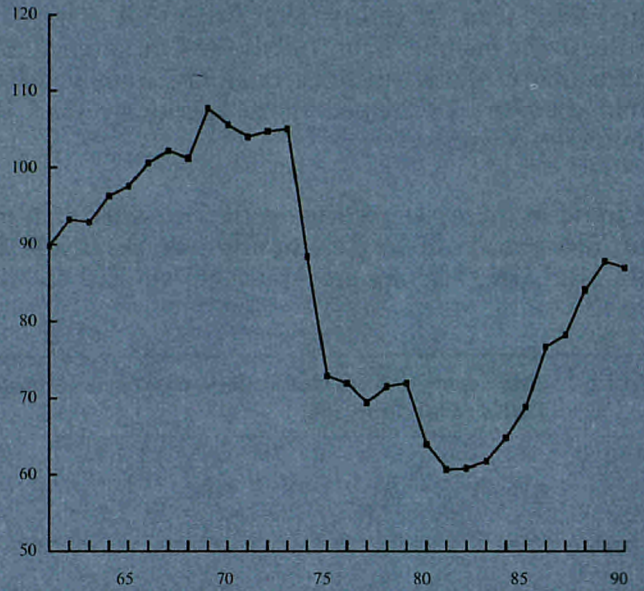
It will also be noted that, while the United Kingdom had virtually succeeded in 1988 in restoring its capital profitability to the level of the period 1961-73, the sharp rise in unit wage costs recorded in 1989-90 took the index back below the Community average in 1990 (88.7 as compared with 92.5).

For the less-favoured countries (GR, SP, IRL, PO), the results are more diverse. This stems from statistical problems linked in particular to the size of the imputed share of the remuneration of the self-employed in those countries, which is very difficult to determine accurately. Furthermore, profitability trends are influenced by the economic catching-up which has or has not occurred since 1961. The experience of these countries and of Japan in the 1960s shows that major and sustainable medium-term catching-up processes are founded, among other things, on a high investment ratio and a high return on capital (1).

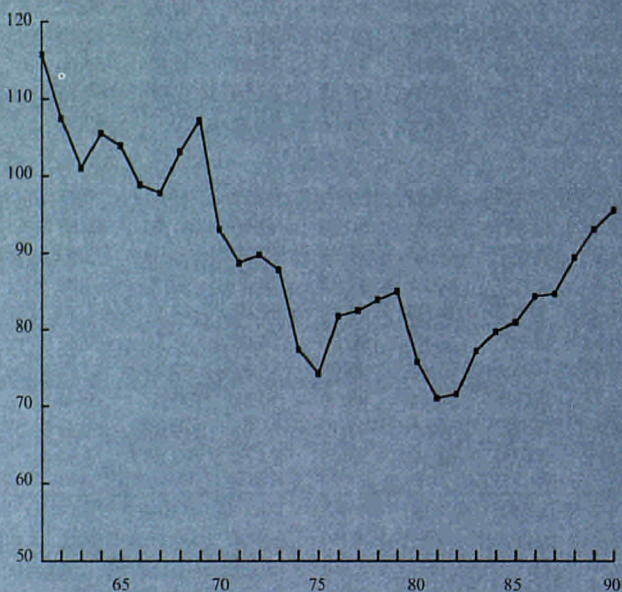
For three of these countries (GR, SP, PO), the period 1961-73 also coincides with a significant catching-up in terms of per capita GDP relative to the Community average and with high capital profitability. In the case of Ireland, by contrast, a sustainable catching-up process did not really get under way until the second half of the 1980s.

(1) For further details, see the Annual Economic Report 1990-91, Analytical study No 3, European Economy No 46, December 1990, pp. 125-129.

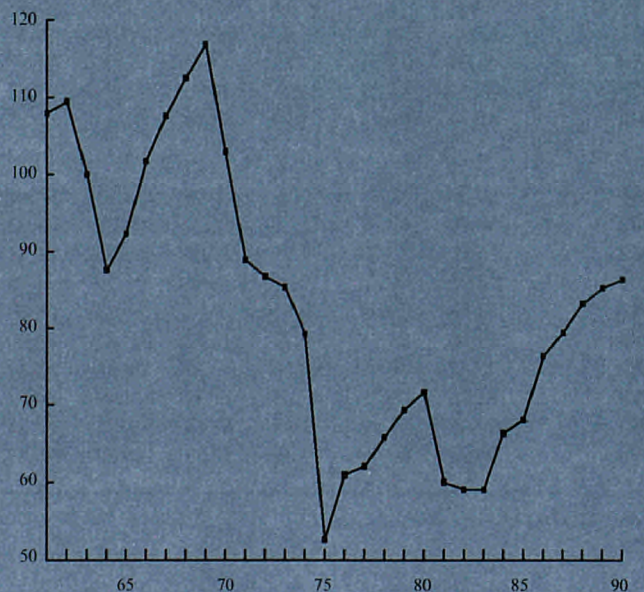
GRAPH 3b: Profitability of capital – 1961-90
France
(Index: 1961-73 = 100)



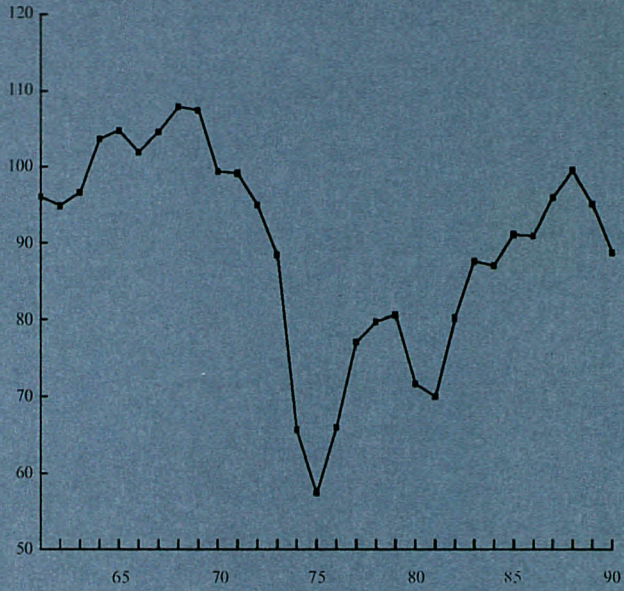
GRAPH 3a: Profitability of capital – 1961-90
Germany
(Index: 1961-73 = 100)



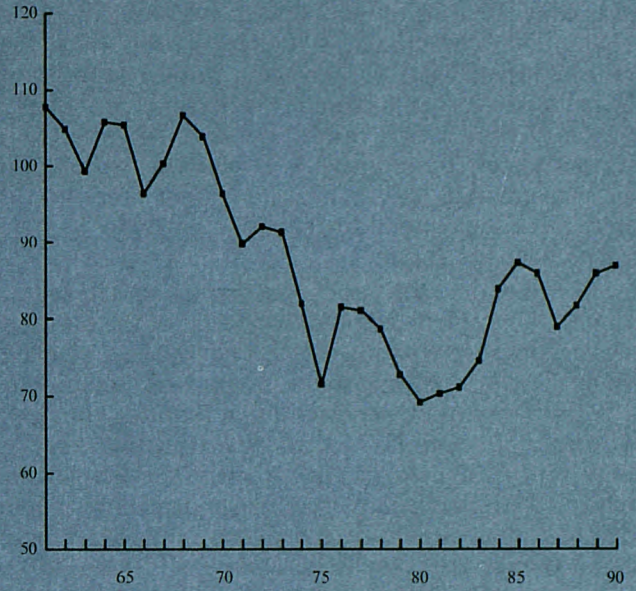
GRAPH 3c: Profitability of capital – 1961-90
Italie
(Index: 1961-73 = 100)



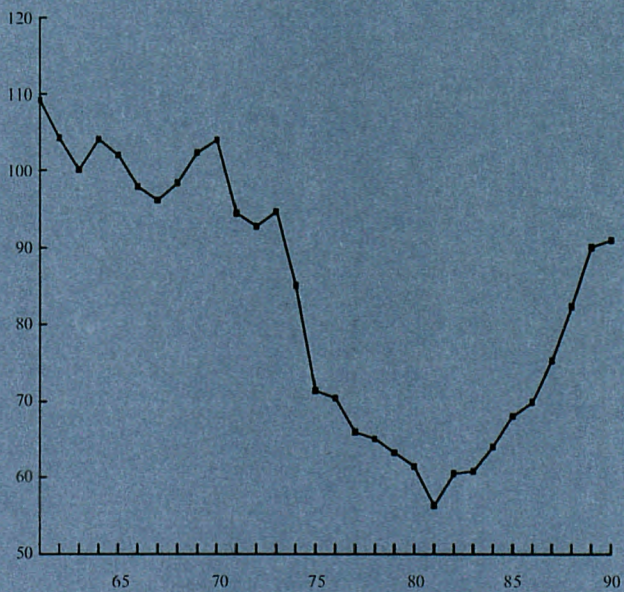
GRAPH 3d: Profitability of capital – 1961-90
United Kingdom
(Index: 1961-73 = 100)



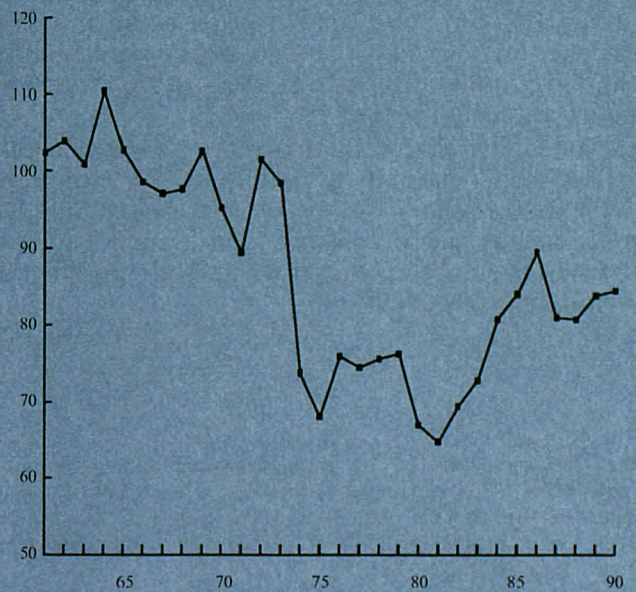
GRAPH 3f: Profitability of capital – 1961-90
Netherlands
(Index: 1961-73 = 100)



GRAPH 3e: Profitability of capital – 1961-90
Belgium
(Index: 1961-73 = 100)



GRAPH 3g: Profitability of capital – 1961-90
Denmark
(Index: 1961-73 = 100)



The fact that the years 1961-73 have been chosen as the reference period for the profitability index is therefore likely to exert an upward bias on this reference value in the case of the first three countries and to exert a downward bias in the case of Ireland. This phenomenon is particularly evident in the case of Japan, where, expressed in terms of purchasing power parities, per capita GDP rose from a level equivalent to 56 % of per capita GDP in the Community of Twelve in 1960 to 96 % in 1973. As Table 2 indicates, the profitability index showed a considerable rise during this period, from 69.5 in 1961 to 139.2 in 1970 (average for 1961-73 = 100). Since then, growth in Japan has returned to a more 'normal' level, both in terms of per capita GDP and in terms of profitability, which as a result, seems to have recovered less than in the Community of Twelve or in the United States. In fact, the situation immediately preceding the second oil shock would probably provide a better reference base for Japan.

A similar phenomenon seems to prevail in Greece and Portugal, where, furthermore, the impact of the oil shocks was especially severe owing to their heavy dependence on oil. In both cases, the trend in the profitability indices since 1981 is probably more representative than for the period as a whole. It will be noted, for instance, that the resumption of the catching-up process in Portugal since 1986 has led to an absolute gain in the profitability index similar to that recorded in the Community (23.9 points and 24.3 points respectively between 1981 and 1990). In Greece, however, where major macroeconomic imbalances appeared at the end of the 1980s, the variation in the profitability index has been both more limited and highly erratic and is currently at a very low level compared with the country's previous catching-up period (1961-73) (1).

In Ireland, by contrast, the beginning of the catching-up process in 1985-86 and the structural change in the capital stock stemming from the growing share of the investment activities of multinational companies aiming to achieve a high level of competitiveness and profitability in their operations were accompanied by a very sharp rise in the profitability index, which, while certainly reflecting the actual situation, was also due to a qualitative break in the capital stock series from the beginning of the 1980s.

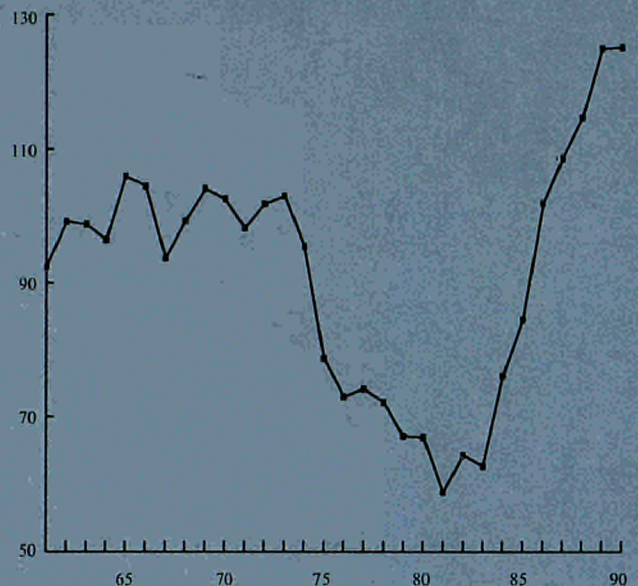
The trend in Spain is closest to that in the more-favoured countries, with a sharper fall in the profitability index over the period 1974-81 (also linked to the country's heavy dependence on oil) and with a very marked return to the profitability conditions typical of a period of rapid economic catching-up after 1982-83.

As for the United States, the general trend is very similar to that of the Community of Twelve, with a more rapid recovery in profitability after 1982, although this was accompanied at macroeconomic level by major internal and external imbalances necessitating considerable medium-term adjustments.

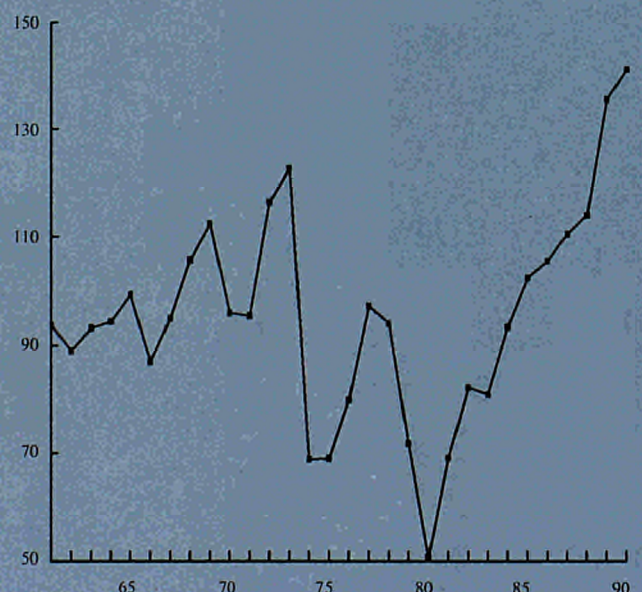
18 april 1991

(1) The arbitrary nature of the imputed remuneration of the self-employed also has a significant impact on the trend of the net operating surplus in Greece, where the self-employed account for a much higher proportion of total employment than in the Community as a whole.

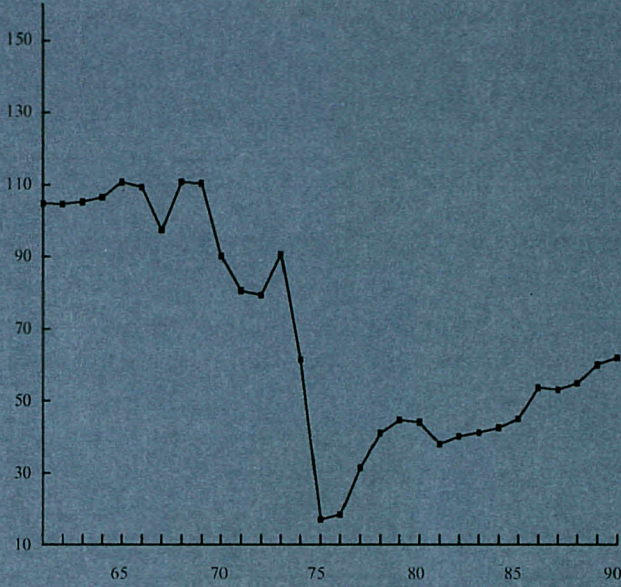
GRAPH 4a: Profitability of capital – 1961-90
Spain
(Index: 1961-73 = 100)



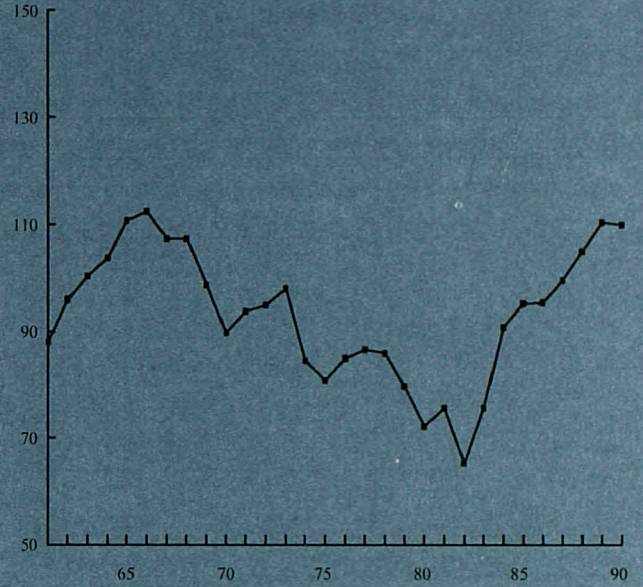
GRAPH 4b: Profitability of capital – 1961-90
Ireland
(Index: 1961-73 = 100)



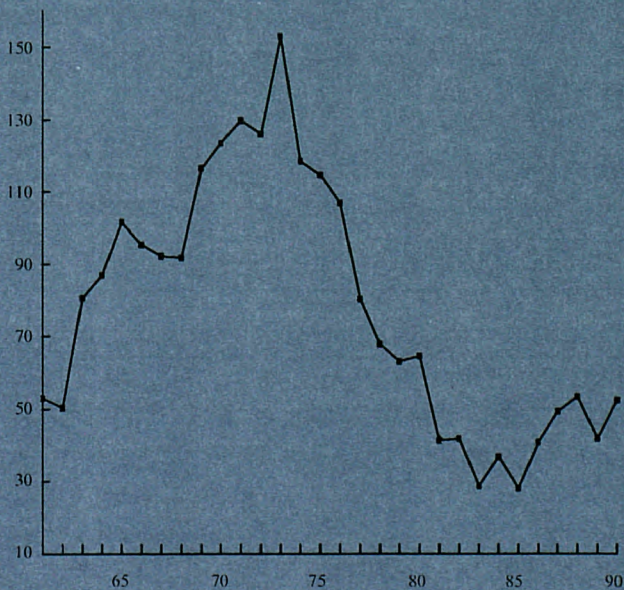
GRAPH 4c: Profitability of capital - 1961-90
Portugal
(Index: 1961-73 = 100)



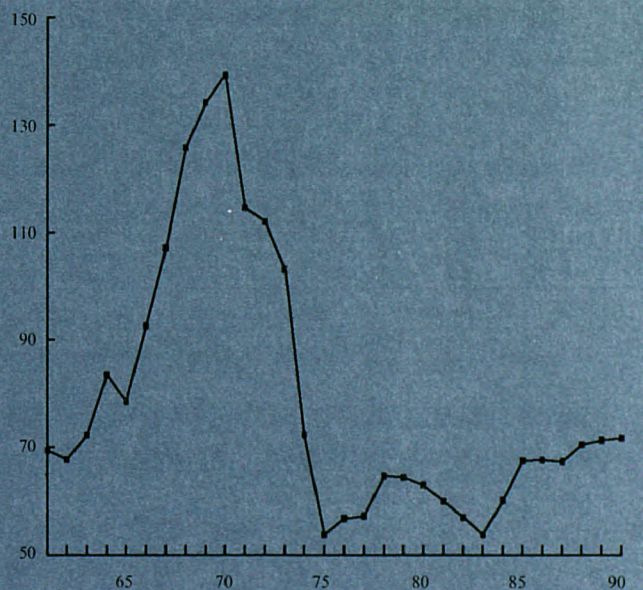
GRAPH 4e: Profitability of capital - 1961-90
United States
(Index: 1961-73 = 100)



GRAPH 4d: Profitability of capital - 1961-90
Greece
(Index: 1961-73 = 100)



GRAPH 4f: Profitability of capital - 1961-90
Japan
(Index: 1961-73 = 100)



Principal economic policy measures — February-March 1991

Community (EUR 12)

- 14.2 Commission submits a draft European charter on energy to the Council.
- 25.2 Council agrees on a loan to Greece for balance of payments support.
- 6.3 Council adopts a common position on the specific programme concerning telecommunications technologies.
- 8.3 MEDSPA programme for the protection of the environment in the Mediterranean becomes operational following its formal adoption by the Council.

Belgium (B)

- 1.2 In line with the reorganization of the money market on 29 January, the National Bank recasts its weekly balance sheet. The major change relates to the conversion of the National Bank's direct and indirect advances (via the Securities Stabilization Fund (Fonds des Rentes)) to the Belgian Government. Advances to the Government fall from over BFR 100 billion on 21 January to BFR 9,6 billion on 4 February, demonstrating the end of the monetary financing of the Government. The Bank's advances to the Treasury are replaced by claims on the market. An agreement between the central bank and the Minister of Finance limits the cash facility to BFR 15 billion. The balance sheet item 'Advances to the Securities Stabilization Fund' records the advances granted under a cash facility for which the upper limit will now be BFR 5 billion. The consolidation claims on the State (BFR 34 billion) resulting from the post-war monetary reform, are converted into a portfolio of freely negotiable securities. The Bank also takes the opportunity provided by the money market reform to model its method of recording foreign currency assets and liabilities on that used by other central banks. The main change concerns the revaluation of the gold reserves, which will now be entered in the accounts at the price of BFR 386 848 a kilo compared with the previous BFR 54 753. As a result the balance sheet total is increased by over BFR 300 billion.
- 6.2 The National Bank raises its rate for current account advances from 11 % to 11,50 %, in line with a similar decision by the Bundesbank and Nederlandsche Bank.
- 25.2 The Government adopts adjustments to the 1991 budget amounting to some BFR 30 billion. The Treasury's borrowing requirement is estimated at BFR 405 billion, or 5,8 % of GNP. The amount involved in the adjustment relates to savings for all departments (BFR 4,5 billion), a 70 centimes a litre increase in excise duties on leaded petrol (BFR 2 billion), additional corporation tax measures (BFR 14 billion) and a number of measures carrying forward and discarding various items of expenditure (BFR 10 million).

Denmark (DK)

- 19.3 Key central bank lending rate is lowered by 0,5 % to 10 %. Deposit rate unchanged at 9,5 %

Germany (D)

- 14.3 The Bundestag adopts a legislative package changing social security contributions. Unemployment insurance contributions will rise from 4,3 % to 6,8 % between 1 April and 31 December 1991, before being fixed at 6,3 %. Contributions to the statutory pension scheme will be reduced by 1 percentage point to 17,7 % of gross salaries as from 1 April 1991. While the contribution-increasing measure is expected to yield DM 18 billion in 1991 and DM 23 billion in 1992 the revenue loss as a result of a reduction of pension scheme contributions is expected to reach DM 8 billion in 1991 and DM 12 billion in 1992.
- 15.3 The Bundestag passes the government's new law on ownership in East Germany. Until the end of 1992 the original principle of restitution before compensation for former owners is qualified. However, property and land can be sold to new investors even against the will of the former owner if the latter's investment plan creates fewer jobs. Also until the end of 1992 new investment will be promoted by making it easier for employers to sack workers after a (bankrupt) company is taken over.

Greece (GR)

- 28.2 The interest rate on 12-month Treasury bills is decreased from 24 % to 23,5 %. The Treasury issues three series of ECU-linked bonds with a maturity of two, three and four years and an interest rate of 9,9 %, 10 % and 10,1 % p.a. respectively.
- 5.3 The Bank of Greece contracts on behalf of the government a bond issue for an amount of Yen 70 billion (USD 500 million). The duration is 9 years, the coupon 8 % and the issue price is fixed at 100,4 %.
- 13.3 The first loan agreements under the recent Community balance of payments loan to Greece are signed. The total amount of the first tranche is raised in two borrowing operations of ECU 500 million each. The first borrowing operation has a duration of 4 years and 11 months and a coupon of 9 3/4 %. The second operation bears an interest rate of 9 1/4 % and is contracted for a duration of 7 years.
- 14.3 The Ministry of Finance announces a simplified scheme aimed at clearing the pending tax cases for liberal professions as well as handicraft and trade, construction, engineering, real estate and bank enterprises. This scheme covers for the period 1979-1989 tax cases not yet assessed and cases pending before court. The standard amount of the tax liability will be calculated on the basis of gross revenue (up to a limit of DRA 3 billion per fiscal year) and will be payable in 10 monthly instalments. The deadline for submission of the relevant applications is fixed at 31 May.

Spain (E)

- 13.2 The Bank of Spain cuts its reference intervention rate by 0,2 of a point, taking it to 14,45 %. The interest rate on three-year public debt is also cut by 0,5 of a point, to 14 %.
- 20.2 The Bank of Spain liberalizes the quotation of non-convertible currencies on the Spanish market. Interest-rate swaps on foreign currencies and pesetas are also regulated and forward foreign currency and option operations are liberalized.
- 15.3 The Bank of Spain ends the requirement for Spanish firms to create an advance 30 % deposit on loans obtained abroad. It also cuts its official intervention rate by 1 point to 13,5 %.
- 26.3 The Treasury cuts the interest rate on 12-month Treasury bills by 0,64 point, to 12,59 %.
- 27.3 The Treasury cuts the interest rate on three-year public debt by 1,28 points, to 12,72 %.

France (F)

- 10.3 The Government adopts its programme of budget economies. Cuts will affect a total of FF 10,2 billion in payment appropriations and FF 5,5 billion in programme authorizations over several years. Two-thirds of the total relates to current expenditure and one-third to capital expenditure.

- 10.3 The special allowance paid by the State to employers whose workers have been put on short time and have therefore suffered loss of earnings is raised, for the period from 1 March to 31 December 1991, from FF 10,32 to FF 12,82 for each hour not worked. At the same time, the number of hours per year eligible for compensation is raised to 600 for all occupations, except those in the textile and clothing industries where it is set at 700.

Ireland (IRL)

None.

Italy (I)

None

Luxembourg (L)

- 19.3 Parliament adopts a draft law with sanctions for insider dealing in connection with stock market operations.

Netherlands (NL)

- 19.2 The government adopts a number of measures with the aim of saving HFL 17,5 billion between now and 1994. The plan is to cut expenditure by HFL 12,8 billion and to increase revenue by HFL 4,7 billion. The measures are intended to reduce the budget deficit to 3,8 % of NNI in 1994. The principal proposed expenditure cut relates to the social security funds (HFL 4,8 billion). Revenue will be increased chiefly by putting up transport costs (duty on petrol and public transport charges). The private sector is requested to limit rises in contractual wages to the inflation rate (in consideration of the 'link' with public sector wages).
- 1.3 Parliament amends, and then adopts, the draft law designed to cut costs by HFL 17,5 billion between now and 1994.
- 29.3 An agreement is concluded between the Minister for the Interior and the trade unions under which civil service pay will be increased by 3,4 % from 1 April 1991. At the same time, the early retirement scheme is extended for one year.

Portugal (P)

- 1.3 The Bank of Portugal announces that in future the counterpart of non-residents' escudo accounts will be the creation with the central bank of a non-remunerated deposit equivalent to 40 % of the amount in such accounts (90 % in certain cases). This measure is intended to reinforce those taken in June 1990 to limit inflows of capital.
- 4.3 The Bank of Portugal decides to change the system for remunerating bank reserves. In future, total bank reserves — and not only those for which the counterpart is repurchase agreements for Treasury bills and time deposits — will no longer be remunerated at a fixed rate but at one which is index-linked to the money market rate.
- 5.3 Following the end of the Gulf war, the government reduces the prices of certain petroleum products (petrol and gas oil) by about 2,5 %.

United Kingdom (UK)

- 1.2 The Treasury announces a revised estimate of the public expenditure 'planning total' for the 1990-91 financial year ending in March. The total is raised by UKL 0,6 billion to UKL 181,2 billion, the rise attributed mainly to the effects of the Gulf conflict on defence expenditure.
- 13.2 The government acts to cut banks' base rates by a half-percentage point to 13 1/2 %.
- 13.2 The government issues ECU-denominated bonds for the first time. The ECU 2 billion issue, ten-year maturity bonds is augmented by a second ECU 500 million tranche on 14 February 1991 to meet strong investment demand.
- 27.2 The government encourages the banks to cut their base rates by a further half-percentage point to 13 %. Most building societies decide to cut mortgage rates by 3/4 of a point.
- 5.3 The government announces a significant planned liberalization of the fixed link telecommunications industry. The present guaranteed duopoly of BT (British Telecom) and Mercury will give way to free entry, while domestic and international call charges will be cut in real terms.
- 6.3 The two electricity generating companies in England and Wales, National Power and Powergen, are privatized. The total value of the sale is UKL 2,16 billion, of which 49 % is allocated to non-institutional private investors.
- 6.3 The government announces a more competitive system for allocating landing slots at London's Heathrow airport, the world's busiest international airport.
- 19.3 The main points in the 1991 Budget (which in the UK is mainly concerned with taxation, with changes taking effect from the beginning of the financial year in April or, for specific taxes, immediately) are :
 - a 2 1/2 percentage point increase in VAT, broadly compensating increased central government transfers to local authorities in order to permit a major reduction in their poll tax ('community charge') levies, prior to replacement of the poll tax (see below);
 - indexation of most personal income tax allowances and alcohol taxes;
 - over-indexation as regards increases in tobacco and petrol taxes;
 - a 1 percentage point retrospective reduction in corporation tax to 34 % on profits earned in financial 1990, followed by a further reduction to 33 % from financial 1991;
 - the limitation of mortgage interest tax relief to the 25 % standard income tax rate (i.e. relief at the higher 40 % rate is to end);
 - announcement that part of the government's remaining 49 % share in BT (British Telecom) is to be sold;
 - publication of revised official short-term forecasts showing a 2 % GDP decline in 1991 but with recovery from mid-year, and a move back to public sector borrowing, of UKL 8 billion (1 1/4 % of GDP) in 1990-91 and UKL 12 billion (2 % of GDP) the following financial year;
 - a clearer reorientation of the Medium Term Financial Strategy to the monetary policy constraints of ERM membership.
- 21.3 The government announces the abolition of the poll tax ('community charge') levied by local authorities in Great Britain. It will be replaced from the 1993-94 financial year by a new tax based on property values but including a link with the number of residents in each household. At the same time it seems likely that the structure of local government will be changed. Both the new tax and local government reform are subject to a consultative process. In the meantime poll tax bills will be limited by extra transfers from central government, as announced in the Budget (see above).

Prices (excluding VAT) in Luxembourg

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