

P08-1  
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Fred Deming

Dr. Mannis' paper on corporate profit measurement, I think, is an excellent presentation on different concepts and differing measurements of profits. I would regard it as a very valuable addition to the record of this conference. In calm and objective fashion it provides useful perspective on profit measurement. Almost <sup>explicitly</sup> ~~explicitly~~, certainly implicitly, Dr. Mannis points out that precise measurement of profits is most difficult and that in a sense profits are what management, law, and varying accounting conventions say they are. His discussion and quick analysis of the several sources of information on profits and the various time series relating to profits are very well done and are both interesting and informative. I realize that it is decidedly inappropriate for a discussant to give unstinted praise to a paper, but I find nothing to criticize in Dr. Mannis' paper and can express nothing but admiration for a very good piece of work.

I can come somewhat closer to the normal discussant's role in commenting briefly on Mr. Tyson's paper. I think it is equally well done, of course, and is very closely reasoned, but it is designed to be more provocative than Dr. Mannis' report, ~~and~~ I should say at the outset that I am not in basic disagreement with the broad theme that is espoused by Mr. Tyson, but I can be a bit picky about certain of his concepts, perhaps I should say certain of his definitions. I have some question as to the usefulness of his concept of a "pure" or a "natural" rate of interest which applies to "relatively riskless investment," and consequently to the idea that this should be subtracted from reported profits so as to yield a "true" profit figure. I know that one can conceive intellectually of a "pure" rate of interest, but I simply don't know how to measure such a concept and I really don't know exactly what it means, and therefore I find this idea not particularly useful in trying to get at what profits really are. Since reported profits as given are partly the product of

judgment, partly the product of legal interpretation, and partly the product of accounting convention, and since the "pure" rate of interest is not only an elusive concept but a rate that may vary over time, I find myself somewhat less<sup>than</sup> satisfied with using either a currently accepted series on profits or one adjusted for that "pure" rate of interest. ~~I guess I should say~~ I am also not particularly happy with Mr. Tyson's definition of utility as that which brings momentary pleasure to the purchaser of a good or service. While I have a solid belief in the desirability of individual free market choice as the most efficient spur to economic efficiency, I cannot go as far as he seems to go with this idea, because I don't quite see how one can fit ~~in~~ schools, streets, and sewers, to mention three items, into that pattern.

And, finally, I have considerably less certainty as to what is economic growth. I think Mr. Tyson is quite right in putting leisure time into the growth concept, but I'd probably add<sup>a little</sup> more general welfare than he would. In a broad sense, I try to distinguish between two aspects of economic growth. One is the capacity of the economy, and the other is the output of the economy. After having said that, I must confess that I find it exceedingly difficult to define or measure either. Now having partly, at least, fulfilled the normal role of the discussant by being disagreeable, I want to turn to the larger area of agreement with Mr. Tyson and go on a bit beyond his paper.

Certainly there is no question that the profit system constitutes <sup>a</sup> the great driving force to economic growth. Certainly there is no question, as I noted earlier, that free choice on the part of consumers has led to the tremendous growth of the American economy, nor that this free choice economically is fully consonant with our entire political and social philosophy. Certainly there is no question, as the record clearly indicates, that the American economic system has done better than any other in providing the good things of life <sup>for</sup> to the great majority of the people. These points, it seems to me, are really beyond dispute. I

also think that the linkage between savings, investment, and economic growth can be seen reasonably clearly, even though the links may not be precisely determinable nor unchanging, and the gears turning the drive shaft may move at varying and indeterminate rates of speed over a span of time. But it is highly important to understand that there has to be saving if there is to be investment, and that there has to be investment if the capacity of the economy is to expand so as to permit economic growth. And it is equally important to understand that there must be incentive to save. There is little point in deferring consumption if there is no prospect of greater consumption in the future. I said earlier that I didn't know what a "pure" rate of interest is. I think, however, I know the function of the interest rate, in general. It serves the function of allocating resources, and therefore it must vary with conditions and with time. Since saving is important, the rate of interest should be high enough to stimulate saving. Since investment is necessary for growth, the rate of interest must be low enough to stimulate borrowers to use funds for investment. There isn't any good interest rate for all time. Sometimes high rates are necessary, sometimes low rates are. In a broad sense, I think the same thing can be said about profits. They need to be high enough to stimulate risk taking and new ventures, but what is "high" is relative to the conditions and the time. I wish we had some better measurements of profits so we might more clearly see over time and under different situations their varying roles in the processes of economic growth.

October 23, 1964

Mr. Harold W. Stevenson  
Professor of Finance  
School of Business Administration  
University of Minnesota  
Minneapolis 14, Minnesota

Dear Professor Stevenson:

Some time ago you sent me a transcript of my comments on the paper which I gave at the Conference on Understanding Profits. The transcript is substantially accurate, but I thought it might be more useful to you to have the typed transcript of my remarks as I wrote them out. I suspect I departed once or twice from the exact wording, but not enough to make any significant difference.

Very truly yours,

Frederick L. Deming

Encl.

July 22, 1964

Dr. Frederick L. Deming, President  
Federal Reserve Bank of Minneapolis  
Minneapolis, Minnesota 55402

Dear Dr. Deming:

After some unfortunate delays, we are now embarking on preparation of a publication of papers of the "Conference on Understanding Profits."

I am enclosing the transcript of your comments on the paper by Dr. Mennis and the paper by Mr. Tyson. We have made no attempt to edit the transcript at this time, and we wonder whether you may wish to make modifications or additions to these remarks. We can certainly remember that the luncheon program was pressed for time, in view of two major papers as well as introductory remarks.

Although we have not selected a publisher, it is likely to be either the University of Minnesota Press or a commercial press located in the Twin Cities. We anticipate actual publication early in 1965.

Although the April Conference is now history, we would certainly appreciate your attention to this project. Your comments are certainly a high light of that portion of the conference.

Yours very truly,

*Harold W. Stevenson / ih*

Harold W. Stevenson  
Professor of Finance

HWS:ih

Enclosure