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STATEMENT BY HAROLD C. PASSER, ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS, ON REVISED GROSS NATIONAL PRODUCT FIGURES FOR THE SECOND QUARTER AND CORPORATE PROFITS.

Revised figures show that the real rate of growth in the second quarter was even larger than previously reported (9.4 percent vs. 8.9 percent). This was partly because of higher figures on current-dollar Gross National Product and partly due to a lower rate of inflation than anticipated (1.8 percent vs. 2.1 percent). The 9.4 percent rate of real growth in the second quarter has not been surpassed during the past 13 years -- although it was equaled in the fourth quarter of 1965. The 7.4 percent rate of growth over the past three quarters is the highest for a nine-month period in six years.

The rise of only 1.8 percent in the GNP deflator, the broadest measure of prices, compares with 1.5 percent in the fourth quarter of 1971, when prices were held back by the freeze. Except for that quarter, the 1.8 percent rate was the lowest inflation figure since the fourth quarter of 1965.

As expected in a rapidly expanding economy, corporate profits continued to rise in the second quarter. After-tax profits increased $2.9 billion and have now gone up for six quarters following a downtrend from 1966 to 1970.

Although total profits are permitted to rise under the Economic Stabilization Program, there are controls on the margin of profit per dollar of sales. Thus, total profits may increase if sales rise. This is somewhat comparable to the limits on the increases permitted in hourly wage rates, which do not prevent a worker's total earnings from increasing beyond those limits when he works more hours.

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There is a voluntary program to restrain dividends, however, and the amount of profits paid out to stockholders so far in 1972 has increased less than 3 percent over a year ago.

The uptrend in profits is encouraging for the economy as a whole because they provide both the incentive and part of the funds for expanding production and adding new facilities, which create more jobs and more income.

Profits fluctuate widely over the business cycle, rising strongly in the initial stages of an economic expansion and then stabilizing or declining while wages and other types of income continue to rise. Thus, profits were at a low level at the beginning of the current recovery because they had declined in the late 1960s even though the economy continued to expand.

In addition to this cyclical effect, profits have been in a long-term downtrend. In 1970 profits were at the lowest level since World War II by any of a number of measures -- percent of national income, rate of return on invested capital, percent of income originating in the corporate sector, and, for manufacturing, percent of sales.

Despite starting from a relatively low base, profits have not advanced as rapidly as in other recovery periods. Over the first six quarters of the current recovery, the dollar increase in profits amounts to less than 15 percent of the dollar increase in GNP compared to about 20 percent in the same time period of a typical recovery.

After-tax profits in the second quarter were only 5 percent higher than the 1966 level while hourly wages in the non-farm economy have advanced 41 percent.

Both corporate profits and weekly earnings of employees can be adjusted by deducting income tax payments and the effects of inflation. Real corporate after-tax profits declined more than 30 percent from 1966 to 1970 and are still 17 percent below 1966. On the other hand, real spendable weekly earnings in 1970 were only 1 percent below 1966. These earnings have risen 4 percent in the past year and now are 5 percent higher than in 1966.

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