Investment-profit nexus: Some observations and questions

J. W. Mason
John Jay College – City University of New York
jomason@jjay.cuny.edu

Özgür Orhangazi
Kadir Has University, Istanbul
ozgur.orhangazi@khas.edu.tr

Abstract: Historically there has been a high correlation between profits and investment for the US nonfinancial corporations. A whole series of heterodox macroeconomic models placed the link between profits and investment at the center. However, starting in the second half of 1980s and especially after 2000, the correlation between profits and investment has become weaker. Moreover, the correlation between debt and investment has also become weaker. This weakening of the profit-investment link is sometimes referred to as the profit-investment puzzle. There are potentially two sets of explanations for the weakening correlation: Explanations focusing on nonfinancial channels and explanations focusing on financial channels. The former includes increased industrial concentration, globalization of production and relative productivity/price movements in investment and consumption goods producing sectors. The latter includes the rising shareholder value and increasing financialization of nonfinancial corporations. In this paper, we present some observations on the profit-investment link using aggregate, sectoral and firm-level data and questions as to what extent these alternative channels help us understand the weakening of the profit-investment link.

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"Accumulate, accumulate! That is Moses and the prophets! (…) Therefore, save, save, i.e. reconvert the greatest possible portion of surplus-value or surplus product into capital! Accumulation for the sake of accumulation, production for the sake of production …"[1]

1. Introduction

Historically there has been a high correlation between profits and investment for the US nonfinancial corporations. A whole series of heterodox macroeconomic models placed the link between profits and investment at the center. However, starting in the second half of 1980s and especially after 2000, the correlation between profits and investment has become weaker. For example, van Treeck (2008) notes that "[s]ince the early 1980s, we can observe a remarkable phenomenon in a number of important OECD countries: while accumulation rates have generally been declining, profit shares and rates have shown a tendency to rise" (p. 371). Stockhammer (2005) sees this as an "investment-profit puzzle," while Cordonnier and Van de Velde (2014) frame it as the "glass ceiling of profit without investment." Recently, Durand and Gueuder (2016) also notes that "during the past decades, the link between profits and domestic investment has weakened in the biggest high-income economies" (p. 1). Moreover, the correlation between debt and investment has also become weaker. There are potentially two sets of explanations for the weakening correlation: Explanations focusing on nonfinancial channels and explanations focusing on financial channels. The former includes increased industrial concentration, globalization of production and

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[1] Marx, K. 1990 [1867]. *Capital*. Volume 1, p. 752. London: Penguin Books