US Corporate Profits: Increasingly Government-Driven

A Kalecki-Levy decomposition of US corporate profitability

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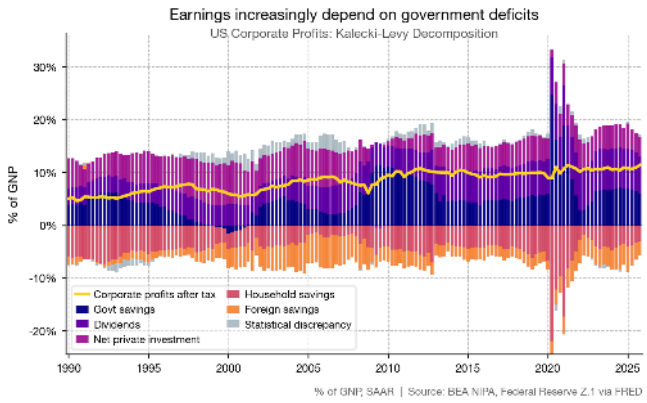
- Since 2024, large fiscal deficits have mechanically elevated corporate profits by 30% (conservative estimate) to 38% (baseline estimate) on average.
- The average level of US corporate profits since 2022 is 3.1 percentage points higher than in 2000-07, but that growth is explained by budget deficits rising by 3.3pp versus the same reference period.

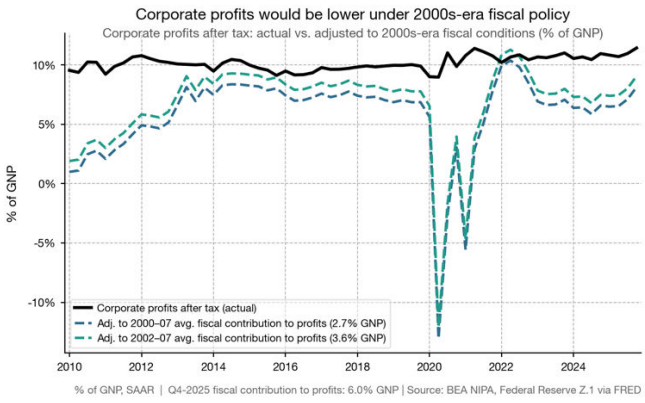
The Kalecki-Levy identity provides a tidy decomposition of US corporate profits and can be expressed as:

$$Corporate\ Profits = Investment + Dividends - Savings_{Gvt} - Savings_{HH} - Savings_{RoW}$$

Using quarterly BEA NIPA and Federal Reserve Flow of Funds data, I've decomposed US corporate profits into their five sectoral sources; the methodology is set out briefly at the end of this note. Net private investment and net dividends are additive to corporate earnings, whereas savings subtract from them. Hence the positive savings for US households and the rest of the world — as defined by the reverse of the US current account balance — act as a "drag" on corporate profits. As the difference between income and consumption, savings can be negative, as is usually the case with the US government, whose deficits boost corporate profits.

While profits as a share of output have risen in recent decades, fiscal profligacy is a significant driver (see dark blue bars in Chart 1). Comparing the recent post-pandemic years with fiscal policy in the 2000s reveals just how much US budget deficits are pushing earnings higher. Since 2022, corporate profits have stood at some 10.7% of GNP on average, which is 3.1 percentage points higher than the 2000-07 average. Meanwhile, post-pandemic government deficits average to 5.9% of GNP, representing a 3.3pp increase versus 2000-07. As such, the relative magnitudes of the increases in profits and deficits are sufficient to explain why corporate earnings are higher now than in the 2000s — even if other profit drivers also matter.





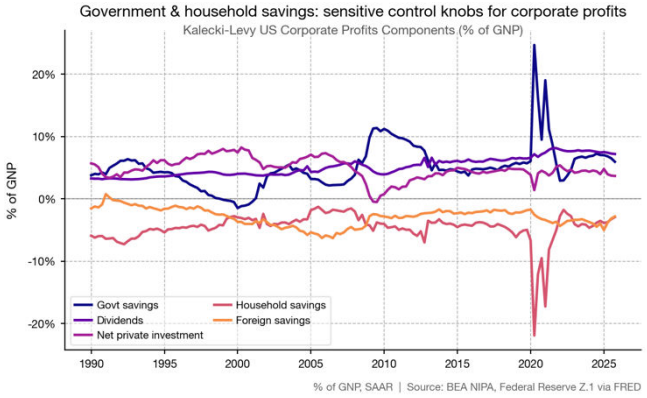
The data bear this out, with Chart 2 showing how fiscal policy ever since the global financial crisis has pushed profits higher than they would have been under 2000s-era budgets. Government emergency support was

crucial during the GFC and Covid, amid downward pressure on earnings. Yet even during the more normal 2013-19 era, we can see that government deficits and corporate earnings are higher than in a 2000s-era fiscal policy environment. After a brief decline of the deficit in early 2022, the gap between actual and "normalized" earnings has now widened beyond the divergence seen in the run-up to the pandemic. Using 2002-07 provides a more forgiving reference period, as it excludes Clinton's budget surpluses. Yet here, too, the story is the same. Profits are up by 2.5pp, and deficits have risen by nearly as much: 2.4pp.

The table below provides a snapshot of the last eight quarters, with actual corporate profits and the "normalized" profits shown in Chart 2 in relation to 2000-07 and 2002-07 reference period budget balances. The last two columns show the implied discount to corporate profit readings. For instance, U.S. corporate earnings in 2025-Q4 are overstated by some 29%, given the 3.3pp difference between the recent budget deficit (i.e. -6.0% of GNP) and the average deficit over 2000-07 (-2.7% of GNP). Since 2024, the average discounted profits adjustments versus 2000-07 and 2002-07 fiscal policy stand at 38% and 30%, respectively.

	Actual Profits (% GNP)	*Adj. Profits: 2000-07 (% GNP)*	*Adj. Profits: 2002-07 (% GNP)*	*Discount 2000-07 (%)*	*Discount 2002-07 (%)*
2024-Q1	10.5	6.4	7.3	-39.5	-30.8
2024-Q2	10.7	6.4	7.3	-39.8	-31.2
2024-Q3	10.4	5.9	6.8	-43.9	-35.1
2024-Q4	11.0	6.6	7.5	-39.9	-31.5
2025-Q1	10.8	6.5	7.4	-40.1	-31.6
2025-Q2	10.7	6.5	7.4	-38.9	-30.4
2025-Q3	11.0	7.1	8.0	-35.2	-26.8
2025-Q4	11.4	8.1	9.1	-28.8	-20.8

Chart 3 shows how savings by government and households appear to be the most flexible and volatile drivers of corporate profits. When household savings spiked (sharply reducing its contribution to profits) during the GFC and the pandemic, the government was able to step in with wider deficits to support the economy and earnings. Of note, net private investment has declined, while net dividends have risen. This suggests that corporates have increased dividends at the expense of retained earnings to be repurposed for investment, amid the rising importance of government spending.



Methodology

Decomposing corporate profits per the KL identity requires the correct left-hand and right-hand side indicators. The RHS components sum to the LHS, with residuals within ±5% for recent data, although the discrepancies are materially larger for historical data, reflecting the limitations of earlier vintage series. I selected the BEA's after-tax corporate profits adjusted for inventory valuation and capital consumption for the LHS and used the gross national product series for the denominator throughout. For net private investment, I subtracted private sector CCA from gross private investment. The savings indicators are available from the BEA, as personal savings, government lending / borrowing, and the US current account as the reverse of RoW savings. I also used the Fed's net dividends series.

I carried out cross-checks where possible, e.g. private / government / total CCA, and federal / state / total government lending / borrowing. Data gathered via FRED runs through Q4-2025. The formula for adjusting actual corporate profits to counterfactual profits is presented below:

$$Counterfactual\ Profits = Actual\ Profits - (Current\ Gvt\ Contribution - Baseline\ Gvt\ Contribution)$$