

The assumption that the volume of savings—corporate and personal—is inadequate to support a high level of investment is, of course, of quite recent origin, and an assumption which seems to me deserving of the most critical examination. If it is still true, as many experts have believed in the past, that our basic problem is one of excess savings relative to consumption expenditures, then the administration's suggestions for cutting corporate taxes and cutting individual income taxes in ways to give disproportionately large tax relief to the high-income families, who can be expected to save much of their added income, then the proposed tax reductions may prove ill-advised. Indeed, a tax cut which stimulates savings without also stimulating a very large expansion in consumption could worsen unemployment and worsen the other conditions which the tax cut is intended to remedy, once the period of a larger Federal deficit is ended.

I also wonder about the assumption that corporate profit margins are inadequate to draw a high volume of savings into investment. On the face of the data now available, the so-called profit squeeze appears to be a bookkeeping fiction, reflecting the fact that the postwar trend has been to count relatively more of corporate net income as "depreciation" and relatively less as "profits."

These changes in bookkeeping practices have been made possible, first, by the certificates of necessity granted in the earlier postwar years to permit "speed-up" writeoffs of new plant and equipment, and, later, by changes in the Internal Revenue Code of 1954 which tended to extend speedup writeoffs to all investment in new plant and equipment. Considering also that the rate of return on corporate investment is closely related to the rate at which capital equipment is utilized, it appears that corporate margins have actually been widening over the past decade rather than being squeezed.

Of course the foregoing does not suggest all of the important questions which need answers. In years past our Subcommittee on Economic Statistics has helped to initiate and bring about improvements in the Federal Reserve's flow-of-funds data, but while these data are intended to provide information that is central to the working of our economy, some of the experts tell me that the reporting system is only in the formative stage and needs much clarification and improvement.

If you feel that there is any merit to the above suggestions, I would appreciate it if you would give consideration to the possibility of a thoroughgoing investigation and hearings on the flow-of-funds data by your subcommittee, and, if such an investigation seems feasible, let me know what the staff and budget requirements of such an investigation would be.

I am,

Sincerely,

WRIGHT PATMAN.

Cc: Hon. Henry S. Reuss, Chairman, Subcommittee on International Exchange and Payments.

Chairman PATMAN. Are you ready to proceed?

Senator BUSH. I might say there was a letter which we all signed, in which we asked for open hearings.

Chairman PATMAN. You may proceed in your own way, Mr. Ellis. I notice you have a prepared statement. You may proceed.

STATEMENT OF IRA ELLIS, ECONOMIST, E. I. DU PONT DE NEMOURS & CO.

Mr. ELLIS. Mr. Chairman and members of the Joint Economic Committee, it is a pleasure to discuss with this group the current state of the economy and the outlook.

I like the statements that have been presented so far, which set up a very good basis for discussion. I have prepared a background statement of the current business situation, which I would like to read to the committee and to use as the basis for my subsequent discussion.