Senator BUSH. So it would seem to me that the depreciated value is reflected in the surplus.

Mr. ELLIS. Not in that sense, any more than any other cost. The payroll cost in that sense would also be reflected.

Starting with the net profit of the corporation: now, whatever has been taken out before you arrive at that, of course, would affect the net profit; but depreciation would have no unusual effect or special effect.

Senator DOUGLAS. Mr. Ellis, I do not want to interfere with your argument, but I just want to mention one qualification that I think should be made.

Some of us have felt for a long time that with the management control of corporations there was a tendency to reinvest a larger proportion of the surplus in companies than was economically justifiable, and hence to diminish the cash distribution to stockholders.

Now, to the degree that this is done, this does give a high figure, some of us believe an uneconomic figure, in the denominator, and consequently decreases the ratio.

Mr. ELLIS. That is right.

Senator DOUGLAS. And the point that Senator Bush made I think is also true, that to the degree that the allowances or depreciation have been increased, and they certainly have been under the double declining balance method of 1954, this operates to reduce earnings as stated in the numerator of your fraction, and consequently the two together would naturally serve to have a redoubled effect in diminishing the ratio of earnings to equity.

Mr. ELLIS. That is right; diminishing below what it otherwise might be. But should you not also take into account whether the depreciation amount is adequate? If the depreciation is insufficient, as it obviously was before 1954, then to raise it, while it does raise the cost, does not necessarily make the depreciation excessive.

You have a good point. It has changed and does affect the ratio.

Senator PROXMIRE. May I just ask one other question, Mr. Ellis?

Is it not also true to say that the profits this year are the highest since 1957, with the exception of 1959?

Mr. ELLIS. Profits? Oh, I think the corporate profits will be at an all-time high this year.

Senator PROXMIRE. I am talking about the profit on stockholders' equity.

Mr. ELLIS. Oh, the rate, the rate of profit?

Senator PROXMIRE. Yes, the rate of profit is the highest in the past 5 years, with the single exception of 1959, according to your own figures, here.

Mr. ELLIS. That is true.

That is right, because this is a pretty good business year in total.