10.5 percent. Why in the world do they need further tax cuts designed to increase cash flow? They certainly have plenty of cash available. The depreciation improvement which they have received only this year, only a few weeks ago, is going to add additional cash. So they have all the money in the world ready and available for investment. It certainly is not based on this apparently, is it?

Mr. GREENWALD. No, it is not. It is based on incentives and confidence. The incentive to the businessman. I think that is the only point that I would make about why we even should think about a tax cut now.

Senator PROXMIRE. You say an incentive to the businessman. You would agree that the profits were higher now than last year and the year before?

Mr. GREENWALD. In dollars but not in percentages of sales or return on equity.

Senator PROXMIRE. Yes, sir, Mr. Ellis showed that in percentage of investment they were the highest of any year since 1957 with the exception of 1959.

Mr. GREENWALD. If we look at ratios to sales, this is not the case. We did an editorial at McGraw-Hill not too long ago in which we talked about the squeeze on profits. If you take into consideration the long trend, I think we went back to 1946–50, the average profit on sales was 5 percent in 1951–55, 3.6 percent in 1956–60, 3.2 percent and in 1961 the profit percentage 3.1 percent. It came down substantially in those 5-year periods.

Senator PROXMIRE. Let us assume there is a relative squeeze on profits and you make a strong case that profits should be higher. Nevertheless, what would persuade business to invest when they have ample cash reserves to make the investment is an increase in consumer demand under these circumstances, isn't that correct? Even if the after-tax profit picture could be improved why in the world would a business invest if they don't have a specific reason in terms of satisfying a demand?

Mr. GREENWALD. I would agree with that, sir.

Senator PROXMIRE. So more important than a business tax cut under these circumstances with ample cash flow, the action already taken on the part of the administration with regard to depreciation, the investment credit which is likely to be passed this year——

Mr. GREENWALD. I would agree with that because this is the way to close the gap. This is the first step. I think you also have to make the other step, in combination, because in modernization terms industry is pretty far behind. I think we pointed that out in this testimony, too. A large percentage of our plant and equipment is obsolete. If we can improve that part of the economy, and this is what we are aiming at, with Revenue Procedure 62–21 and the tax credit, then I think we have a good chance of improving the situation. I would say this is the kind of thing that the businessman is waiting for. He wants to make a better profit margin. I think the level is not bad at this time, but improved margins are what he is aiming for. It is the profit margin that is being squeezed.

Senator PROXMIRE. Your position is that a tax cut is not necessary at the present time?

Mr. GREENWALD. Absolutely.