

have occurred so far in 1962. In the logic of our private enterprise system an adequate level of profits is essential to economic progress. Profits should be higher than they are today, and they will be higher when our productive capacity is more fully utilized. It can be estimated that if the economy were operating at a 4-percent unemployment level, corporate profits after taxes would be a healthy \$30 billion—compared to a \$25.6 billion annual rate in the first quarter of 1962.

Corporate profits after taxes reached a peak of \$22.8 billion in the inflationary year of 1950, a peak which they did not surpass until 1955, and which even today they surpass by only a modest margin despite the considerable growth in corporate sales and in the total investment in corporate assets since 1950.

Still, we cannot look at corporate profits in isolation. Since 1950, corporate depreciation and other capital consumption allowances have risen from \$9.4 billion in 1950 to \$28.7 billion (annual rate) in the first quarter of 1962. Together, corporate profits after taxes plus corporate capital consumption allowances—often called “corporate cash flow”—have risen from \$32.2 billion in 1950 to \$54.3 billion in the first quarter of 1962.

A comparison of business fixed investment with corporate cash flow can only be approximate since noncorporate investment is included in the investment figures, but it gives some indication of business attitudes toward investment in relation to the flow of depreciation and after-tax profits. Most of the time from 1951 to 1957, business fixed investment exceeded corporate cash flow; since mid-1958, the reverse has been true continuously, and the distance has widened in the current expansion; cash flow has grown about \$7 billion (annual rate) above the \$47 billion level of the first quarter of 1961; business fixed investment has meanwhile advanced \$5.4 billion from its \$44.7 billion rate in the trough quarter. Although investment for modernization and cost-cutting is rising moderately—and surveys suggest that about 70 percent of plant and equipment investment is for these purposes—the gains in profits during 1961 did not generate enthusiasm for a major expansion of plant and equipment. The overall willingness of business firms to invest has not kept pace with their overall ability to invest out of internal funds.

Inventory investment in the second quarter is estimated at the relatively low annual rate of \$3.4 billion. The working down of steel inventories was a factor in recent months, but even apart from steel, the general pattern of inventories reflects a cautious policy by business firms. Inventories were growing less rapidly than sales through most of 1961 and into the spring of 1962. Inventory-sales ratios which were declining from levels already relatively low by past standards would typically have heralded a speedup in inventory accumulation, but this has not occurred in 1962.

Business conservatism toward capital goods and inventories appears to be grounded in the experience of the past 5 years. The American economy since 1957 has had continuously slack labor markets, buyers' markets for materials, and persistent excess capacity. It has proved difficult for businessmen to work up much enthusiasm for buying or building ahead of minimal needs with that history still fresh in their memories. The Nation's businessmen have had their