

first quarter of 1960 to \$2.3 billion in the first quarter of 1961. Similarly, in terms of recovery and expansion, there should be noted the sharp rises from 1946 to 1948, from 1949 to 1950, from 1954 to 1955, and from 1958 to 1959. The current recovery has carried total corporate profits after taxes from the \$20.3 billion annual rate seasonally adjusted in the first quarter of 1961, to \$26.3 billion in the fourth quarter of 1961, \$25.6 billion in the first quarter of 1962, and about \$26 billion in the second and third quarters of this year.

The problem of adequate profitability for business enterprise under present-day circumstances, however, is pointed up by the unsatisfactory performance in the second and third year of good times following recession. Thus, profits declined from 1951 to 1953, from 1955 to 1957, and from 1959 to 1960. Given this pattern, the decline in corporate profits from the fourth quarter of 1961 to the first quarter of 1962 was a most disheartening development.

Beyond the cyclical swings, however, something more fundamental has been occurring in the level of corporate profits. Over the last decade or so, the total dollar amount of reported earnings in peak years has moved sideways—\$22.8 billion in 1950, \$23 billion in 1955, \$23.5 billion in 1956, \$22.3 billion in 1957, \$23 billion in 1960, \$23.3 billion in 1961, with a temporary breakout to \$24.5 billion in 1959, on the basis of revised figures, and the \$26 billion figure in recent quarters. Meanwhile, gross national product rose from \$285 billion in 1950 to almost \$519 billion in 1961, corporate sales went up from \$432 billion in 1950 to \$783 billion in 1961, and invested capital rose in equally substantial measure. This combination of developments has resulted necessarily in continued decline in the ratio of corporate profits to gross national product, marked deterioration in profit margins, sharp drop in rate of return on stockholders' equity, and no return at all in reported earnings to the increment to invested capital during these years.

Herein lies the profit squeeze—in terms of reported figures without interpretation—which has been so widely discussed. Measures of the profit squeeze are shown on page 2 in terms of profit margins and rate of return on equity from 1947 through 1961 for all manufacturing corporations. Profit after taxes per dollar of sales dropped from 6.3 cents an average in 1947–51 to 4.8 cents in 1952–56, and to 4.5 cents in 1957–61. Annual rate of profit after taxes on stockholders' equity dropped from 14.1 percent on average in the first 5 years of the post-war period to 10.9 percent in 1952–56, and to 9.4 percent in the last 5 years.

Another measure of the profit squeeze is shown on page 332 in terms of the relationship of corporate profits after taxes to the corporate sales. This ratio dropped from 4.83 percent in 1947–51 to 3.54 percent in 1952–56, and to 3.10 percent in 1956–61.

These developments have been stated in terms of overall data as reported and without analysis of their underlying causes. They are the basis of deep concern in business circles. They mean to many a grinding down of profits to such low levels as to threaten the successful operation of our private enterprise economy and to impede attainment of adequate performance of the economy.

Close examination of the underlying data and analysis of the casual factors involved, however, point to a different conclusion. In my