Rate of return on equity declined from an average 16.2 percent in 1947–51, to 13.2 percent in 1952–56, and to 11 percent in 1957–61. But that 11 percent during the last 5 years of profit squeeze is exactly the same as the average of 11 percent in the 5 years from 1925 through 1929, the previous high point of corporate profitability.

Basic emphasis must be given to rising depreciation charges. Data on this matter are shown on page 331. The dollar amount of depreciation and amortization charges, as measured in the Department of Commerce series on sources and uses of corporate funds, is shown in the second column. Depreciation charges have risen from $7.8 billion in 1950 to $19.1 billion in 1957, and $24.8 billion in 1961.

The sideways movement in total corporation profits during much of the last decade or so has resulted partly from this tremendous rise in depreciation allowances. This situation in terms of individual companies as well as the economy, has caused many financial analysts to devote a great deal of emphasis to the concept of "cash earnings," that is, the sum of reported earnings plus depreciation charges. It will be noted in the table on page 1 that cash earnings of all U.S. corporations have risen from $30.6 billion in 1950 to $48.1 billion in 1961.

The rise in depreciation charges and in so-called cash earnings has been due to two major factors. First, business enterprises have made substantial and continuing expenditures on plant and equipment.

I might interpolate that while some of those expenditures have been for increasing capacity, they have also been for modernization and cost cutting, and have been the effective medium by which many business enterprises have been able to achieve a substantial offset to higher employment costs, and thus hold down and restrain the increase in cost per unit of output, which otherwise would have occurred on a much bigger scale.

As the amount of depreciable property has risen, the depreciation charges related to that property have risen.

Second, accelerated amortization of defense facilities in connection with the Korean war and liberalized depreciation enacted in the Revenue Act of 1954 have increased depreciation charges. Ahead of us, of course, is the effect of a potential $4.7 billion increase in depreciation, of which $3.6 billion is for corporate businesses, under the new guidelines set forth by the Treasury Department in its recently announced basic reform in the standards and procedures used for the determination of depreciation for tax purposes.

The tremendous rise in depreciation charges during the postwar period is an essential element in appraisal of recent profit developments. Certainly the nature of depreciation accruals as noncash charges against sales is valid, as is the resultant concept of cash flow available for dividends on investment in business assets. A cash earnings concept may be necessary for comparability, given changes in the rate of depreciation and amortization allowances.

While depreciation accruals represent noncash costs, they are nevertheless true costs. Total costs, as Leonard Spacek has recently emphasized, are made up of (*a*) costs spent in prior years but used up today, (*b*) costs spent today, and (*c*) costs accrued today to be settled in future years, and reality prevents any one of these cost elements from disappearing. There are no real profits to a business enterprise