

until all costs are recovered, including full recovery of investment in assets in terms of book value, to say nothing of current value after inflation. Earnings computed after all costs are covered are still the only true earnings.

Nevertheless, the rise of depreciation accruals and cash earnings in absolute and relative amount has clearly changed the financial position of corporate enterprise. The rules of the game for recording costs have certainly been altered by changed depreciation standards and procedures of the Internal Revenue Service. The quality of reported earnings has been substantially strengthened and improved, as has been the stability and protection of dividend payments, by the rising levels of depreciation accruals and cash flows. Furthermore, the financing of new plant and equipment outlays is materially eased by rising cash earnings.

These developments may be observed from consideration of the data on page 331 concerning cash earnings and plant and equipment outlays. From some standpoints, a concept of "net cash earnings" might be meaningful as an alternative approach. "Net cash earnings" are defined as cash earnings less plant and equipment outlays. The table indicates that the level of "net cash earnings" in 1961 and in 1959 was far higher than in previous years. Year-to-year changes in net cash earnings are caused, of course, by short-run fluctuations in plant and equipment outlays as well as in reported earnings.

The data on page 332 relate corporate profits and cash earnings to corporate sales. The reported figures on corporate profits after taxes in relation to total corporate sales have declined substantially during the postwar period as a whole, as previously noted. But attention must also be given to the matter of rising depreciation and amortization charges. The ratio of these charges to total corporate sales rose from 1.77 percent in 1947-51 to 2.46 percent in 1952-56, and to 3.01 percent in 1957-61. The rise in this ratio is equivalent to all of the decline in the ratio of total corporate profits after taxes to total corporate sales during the last 10 years. Cash earnings averaged somewhat higher in relation to corporate sales in the last 5 years, 6.11 percent, than in the previous 5 years, 6 percent. The same is true of net cash earnings in relation to corporate sales.

Information as to cash flow in relation to sales in 1961 for manufacturing corporations by industry and by size is presented on page 333. Similarly, data on rate of return for manufacturing corporations by industry and size are presented on page 334.

Another set of basic relationships concerning cash earnings is shown on page 6. A reasonably close correspondence historically has existed between business capital outlays and cash earnings. This is shown in the column at the left on page 6.

Likewise, as shown in the two columns at the right, corporate dividends have been maintained in reasonably close relationship to cash earnings, although the payout ratio in terms of reported corporate profits after taxes has risen during the postwar period.

A third key factor accounting for the behavior of corporate profitability during recent years has been the inadequate growth in the economy generally from 1957 on. Particularly important in this respect has been the sideways movement of real output in the private durable sector. As an example, the steel industry needs more busi-