

and capital gains rates. As long as it is more profitable to find out ways to save on taxes, I think you are taking away some of the best moneymaking minds from the actual production of goods and services.

This is all I am trying to say.

Senator PROXMIRE. Thank you very much. My time is up.

Representative CURTIS. I do want to say this, Mr. Livingston: I read your paper with great interest and what you have just said I could not agree with more. It is a theme I have been trying to preach for years, unsuccessfully, I might say, apparently.

Mr. LIVINGSTON. We are common spirits in that.

Representative CURTIS. We certainly are.

I have described our tax structure as like these pinball machines. There is more time spent getting into the 25 slot or zero slot than in ringing the bell in solving economic problems. That is why I want tax reform.

Mr. Langum, I was really interested in some of your charts and figures and this approach. I am going to do a lot of thinking about what you have here.

One of the points on chart 4, rate of return on net worth, this is something I have been after for some time.

Let me ask you this: This is First National City Bank data. How did they go about getting their net worth, because it is a difficult thing to get? Do you know how they computed this?

Mr. LANGUM. Yes; I believe so. They are using, of course, the balance sheet figures in the annual reports to shareholders of the companies.

In net worth or what they call sometimes net book assets, they have common stock equity.

Representative CURTIS. At what value?

Mr. LANGUM. At book value.

In addition, preferred stock. So it is total equity including both the common equity and the preferred stock equity and then they take the ratio of net income as reported to that total net worth.

Representative CURTIS. Would this net worth, do you think, be realistic? Suppose one of these corporations were sold and the net worth on the book was \$10 million, would it be apt to get a price of \$15?

Mr. LANGUM. I think for many successful corporations in recent years that in such a transaction the market price would be above the book figures. One way of looking at that is that the market prices of common stock typically for successful firms are far, far above book value per share.

Another way of looking at this and understanding it is that given the inflation that we have had, the book figures are recorded in dollars of different value. In other words, the basic unit of measurement has changed. So that if we sort of repriced net worth and expressed it in current dollars, that statement of net worth would be higher than the book figures and the rate of return would be lower.

Representative CURTIS. The reason I am so glad to get this much is that I have always looked at the figures of corporate profits, and I have been disturbed about the fact that they seemed to have leveled off.