So it is a complex problem. There is no doubt that many firms, many utilities are in this situation, with heavy plant investment and low retained earnings.

There has been a real capital levy in effect.

Representative CURTIS. I appreciate that. There is one other point I wanted to make. I just want to throw it out. It seems to me there is an economic phenomenon occurring today and it has been gradually moving in, resulting from what I regard as very rapid technological advancement in our society which it seems to me is real growth.

There is where I differ with Mr. Livingston; this is not an economic situation. I refer to statistics which show that 25 percent of the goods and services on the market today available to the consumer were unknown 5 years ago, and things like that.

In this business of depreciation we set up our tax laws to relate to new machinery and equipment worn out. But the economic phenomena today is obsolescence rather than wearing out. This has been the underlying reason for these new schedules. We always used the term "useful life" in the tax law, but only a big company like the telephone company had the accountants and engineers who could come in to establish useful life that related to obsolescence.

The bulk of our industries never could get by the Bureau of Internal Revenue in getting their capital assets depreciated before they wore out.

The question I am coming to is this. I suspect that our capital assets turn over a lot more rapidly today than ever before.

Back in the 1920's or 1930's I suspect that when they built plants they could count on their being useful and available and not obsolete as compared to today—I was talking to Monsanto Chemical and I think my figures are right; they said that 90 percent of their sales today are of products that were not even in existence in 1950.

Knowing the kind of capital equipment necessary to produce chemicals the 1950 capital assets are largely junk. It is obsolete. Would you comment on that and also the general idea.

Are there studies being made into capital plant turnover today?

Mr. LANGUM. Yes; again that is an important point. We might look at it this way.

First of all, in terms of the key concepts. As I see it, the ultimate measurement of corporate profitability that encompasses all the factors is rate of return on total capital, total income available for capital in ratio to total debt and total preferred and total common equity.

That rate of return on total capital is determined in the first step by two other things. First, the overall profit margin. The ratio of that income available for capital to total corporate sales.

Second, by the turnover of that capital, by the ratio of sales to capital. In other words, a company could have and companies have had this, a lower profit margin but a higher turnover of capital in relation to sales with the two offsetting or more than offsetting so that the actual rate of return on invested capital is not impaired.

This matter of obsolescence, and more generally modernization and cost cutting in expenditures on plant and equipment by business is extremely important.

That is one of the reasons why I put in this little concept of net cash earnings and for other reasons as well, to point up the sheer financing of plant and equipment expenditures.