What the chart shows is this: Our staff has found the average relationship between capacity utilization and corporate income after taxes for the 20-year period, 1929 through 1949, but omitting the war years, 1942–46. The heavy black line represents the computed cash income.

The broken line, on the other hand, is actual corporate cash income.

You will notice that beginning in 1946 for the first time, actual corporate cash income has been higher than what it would have been on the basis of past relationships; and indeed, in 1959, 1960, and 1961, the excesses have been widening very rapidly.

Now, Mr. Secretary, my question is this: whether or not the Treasury has any studies which throw light on these propositions: First, that recent cash flow to the corporations is adequate to support a much higher rate of expansion and modernization; and, second, that corporations have in the past expanded and modernized at a rapid rate when they were operating at a rate considerably below existing capacity?

If so, may we have them for our record?

(The material referred to follows:)

Treasury analyses indicate that, in general, corporate expansion and modernization of productive facilities have not been restricted by any inadequacy in the availability of funds. For most individual businesses and industries there has been a steady growth of funds available from internal sources, particularly from rising depreciation allowances. As a result of the rise in economic activity, moreover, undistributed profits in the first half of 1962 were substantially greater than in the first half of 1961. Long-term external funds for corporate expansion and modernization have also continued to be readily available. This is evidenced by the moderate downward trend in yields on new corporate bonds since about the middle of 1961. Yields are now lower than in 1959, 1960, or 1961. The ready availability of short-term bank credit is also evidenced by the continued high level of free reserves in the banking system.

On the whole, therefore, it appears that fluctuations in the level of investment in plant and equipment and the relatively unsatisfactory rate of investment at the present time mainly result from deficient investment incentives. These have been reflected in the relatively low level of profits and retained earnings during the past several years. The program of tax reform, including the investment credit, the revision of depreciable lives, and the major reform and tax reduction proposals to be forthcoming next year, are part of an effort to provide necessary incentives to stimulate the expansion and modernization of productive facilities.

The Department of Commerce is the main source of data on corporate sources and uses of funds. The table below showing corporate sources and uses from 1956 to 1961 was reproduced from the July 1962 Survey of Current Business.