preceding year) in those years when the GNP itself is rising most rapidly. The reverse becomes true when the GNP is falling. In fact, when GNP is either stationary or rising only moderately, corporate profits tend to fall as a ratio to GNP. In brief, the record suggests that corporate profits are particularly sensitive to the speed with which the economy is moving and to the degree to which the economy's productive resources of labor and capital are currently being utilized. High employment and a rapid rate of growth is accompanied by high profits, and contrariwise, widespread idle labor and capital and a low rate of growth mean low profits. A test was made by standard least squares statistical procedures as to the relationship between the corporate cash flow and actual and potential gross national product. The data were fitted for the years 1929–41, and the years 1947, 1948, and 1949 inclusive, giving a total of 16 years in all. (Periods of price controls and the excess profits tax are omitted.) From this procedure was derived a formula as follows:

> Calculated corporate cash flow equals $1 billion, plus .0945 (potential GNP), plus .22 (actual GNP minus potential), plus .09 (GNP of the current year minus GNP of the previous year).

Using this formula, corporate cash flows were calculated for each of the years 1929 through 1961. This calculated corporate cash flow was then divided by the actual GNP for each year. The resulting ratios are plotted with a dashed line in the lower panel of the chart. It will be noted that the calculated and actual ratios of cash flow to GNP follow each other very closely for most of the years up through 1955, except for the years of World War II and the Korean rearmament when excess profit taxes were in force for corporations and various restrictions existed on prices, production, etc., which would limit the corporate cash flow to less than usual levels.

Toward the end of the period, after the tax code changes of 1954 began to be effective, the actual corporate cash flow tends to run somewhat above the computed level year after year. The fact that this gap is consistent rather than a random alternating pattern of pluses and minuses is significant. It tends to indicate that some new and consistent factor has entered into the situation, such as occurred during World War II and the Korean period. One factor that might account for this consistent excess of the actual over the computed corporate cash flow is the accelerated amortization procedures authorized for private businesses, including corporations, under the tax revisions of 1954.

The gap in recent years has amounted to about 0.9 percent of gross national product, or in dollars to about $4 billion at prevailing prices of these years. How much of this $4 billion, approximately, can be accounted for by the accelerated amortization procedures authorized in 1954? The Secretary of the Treasury has recently stated that the Treasury believes these provisions to have added about $2.5 billion to business charges for depreciation over and beyond what would have been taken under the code prevailing prior to 1954. Apparently this does not include depreciation for corporations which reported losses and it does include depreciation for both corporate and noncorporate business.

It may be estimated, therefore, that probably about $2 billion in additional depreciation charges have been claimed by corporate businesses as a result of the 1954 changes in the tax code. This would amount to about one-half of the $4 billion gap between actual and computed corporate cash flow for the last 3 years revealed by this analysis.

It may well be that the Treasury's estimates are too conservative and that more of the $4 billion is due to accelerated depreciation. It may also be that the formula is producing too low an estimate of the calculated cash flow and, hence, too large a gap between actual and computed. However, an inspection of the performance of the formula over the entire period casts severe doubts on this possibility—in fact, one might well have a suspicion that a formula of this type fitted over this particular span would tend to have an upward bias and would tend in recent years to overestimate rather than underestimate the calculated corporate cash flow. The formula tends to underestimate in 1929, then to overestimate slightly at the cyclical peak in 1937, in 1941, 1946, 1947, and again in 1954–55. In a word, it appears that, if anything, the formula seems to have a slight upward tilt.

Another possible explanation of part of this $4 billion gap would be that some industries have, under the pressure of competition and reduced business volume of recent years, managed to reduce their costs relative to their prices and hence to have improved modestly their profit margins. In any case, it will