

What is the rate of return to the people who have invested their savings in corporate business?

The table below shows that for the past three years the rate of return on both sales and investment has been substantially below the return achieved in earlier postwar years. The rate of return on stockholders' investment is higher now than it was in 1939. But this is primarily because today's profits are reported in terms of today's prices, whereas much of the investment in plant facilities is still carried on the books at prewar prices, which are substantially below the cost of replacement. The current rate of return, measured as a percentage of total corporate sales, is below prewar levels.

	Corporate Profits After Taxes	
	Per Cent of Total Sales	Per Cent of Stockholders' Equity *
1929	6.1	NA
1939	4.1	4.0
1947	5.8	
1948	5.8	
1949	4.4	14.8 } average
1950	5.5	
1951	4.1	11.8
1952	3.6	10.3
1953 #	3.7	10.8

* Manufacturing corporations only
NA Not available
Annual rate, first six months

In considering these figures, it should be remembered that they are averages for all corporations. Some companies make more than the average, and many make no profit at all. In every year since 1915 at least 25% of all corporations have operated at a loss. In 1939, 58% of all corporations were losing money. This year the figure will probably be at least 30%. The improvement since 1939 shows a much healthier economy. But it does not indicate that profits are easy to make.

How Big a Share of the Pie?

The most important single fact about profits is that they now represent a *smaller* share of national income than they have in past years of normal prosperity. For the past three

years, profits have taken a smaller share of the pie than in 1939, and considerably smaller than in the early postwar years. Here, as the chart at the beginning shows, is the record.

	Corporate Profits After Taxes as a Percentage of National Income
1929	9.6
1939	6.9
1947	6.3
1948	9.3
1949	7.5
1950	9.4
1951	7.2
1952	6.4
1953 *	6.6

* Annual rate, first six months

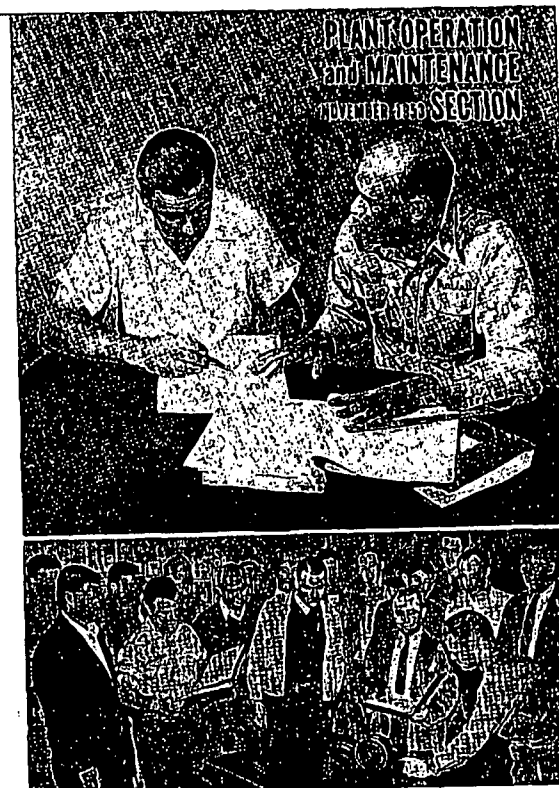
The main reason for the declining corporate share of national income is, of course, the increasing share taken by the federal government in the form of taxes. The wage earners' share is also higher than in 1939. But the really startling increase is in federal taxes. Taxes on profits now equal almost 8% of the national income, compared to only 2% in 1939.

Why This Is Important

It is important that these facts about profits and taxes be widely understood. At its next session, Congress must consider what to do about the emergency taxes on profits enacted after the outbreak of the Korean War. The so-called excess profits tax is scheduled to die on January 1, 1954. In the absence of new legislation, the rate of the corporate income tax will drop from 52% to 47% on April 1. Many factors, including the revenue needs of the government, must enter into the decision whether or not to reduce taxes. But one fact stands out clearly: By comparison either with past years or with the total national income, corporate profits today are relatively low.

The second article in this series will discuss what corporations do with their profits.

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