AN INQUIRY INTO THE PURPOSE OF THE *Production of Wealth*

by

ROY A. FOULKE

Vice-President, DUN & BRADSTREET, INC.

DUN & BRADSTREET INC.

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Author's Note

This pamphlet consists of two parts, text entitled

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of the Production of Wealth

and a series of financial ratio tables based on

Financial Statements for the Years 1948-1952

for 78 Lines of Business Activity

I don't want a smug lot of experts to sit down behind closed doors in Washington and play Providence to me. There is a Providence to which I am perfectly willing to submit. But as for other men setting up as Providence over myself, I seriously object. I have never met a political saviour in the flesh, and I never expect to meet one . . . .

I am one of those who absolutely reject the trustee theory, the guardianship theory. I have never found a man who knew how to take care of me, and, reasoning from that point out, I conjecture that there isn't any man who knows how to take care of the people of the United States.

from THE NEW DEMOCRACY
by WOODROW WILSON

AN INQUIRY INTO THE PURPOSE OF THE *Production of Wealth*

CAN WE in our busy lives take time out to consider the purpose of the production of wealth? Many of us take time out each day to look at television, to listen to news broadcasts over the radio the first thing in the morning and the last thing at night, and to peruse the comic strips with unusual conscientiousness in our evening newspapers. To take time out to consider the purpose of the production of wealth should be at least as profitable, and might be quite as interesting.

In their consideration of significant problems, the truly great thinkers carefully defined their terms. Euclid followed that practice; so did Plato, Spinoza, and Descartes; and so has Einstein. In no other way, they early learned, was it possible to carry on exact reasoning. Perhaps we should follow such excellent examples. So, before starting our inquiry into the purpose of the production of wealth, perhaps we should first make sure of the meaning of wealth for indistinctness "must inevitably produce ambiquity and indeterminateness in reasoning."

Two years ago, we published a pamphlet entitled *A Study of the Concept of National Income.* In that pamphlet serious consideration was given to this very question of what is wealth. It was pointed out that there are really two kinds of wealth, personal wealth and national wealth. They are different concepts and, if we may use the term, quite different realities.

In 1896, Dr. Charles B. Spahr presented the first, overall coordinated study of contemporary data on national income in the volume, *The Present Distribution of Wealth in the United States.* In the introduction to this early study of wealth in the United States, the author touched briefly on the tremendous increase in the public debt of Great Britain to £860,000,000 in the time of William Pitt. In this discussion he pointed out the fact that this public debt was worth much to the holders of the securities, "but to the nation at large it was worth nil, and to the working classes it was a mortgage upon future wages."* Here is a truism put in a very few words, a truism which seems to have become lost and buried in recent years by the unfortunate emphasis which has been so widely placed on such overall monetary statistical compilations as Gross National Product and National Income with their more or less refined breakdowns, mass compilations which emphasize monetary aggregates at the expense of an understanding of the meaning of wealth.

Nineteen years later, Dr. Willford I. King elaborated a little further. "Individuals are said to be wealthy," he wrote, "when they possess bonds, notes, mortgages, or stock in corporations. These evidences of title are, however, no part of the riches of the nation. If every paper of the sort were destroyed, the country as a whole might be little, if any, poorer. Its factories, stores, residences, farms, and mines would still exist."†

Likewise, it is a simple economic fact that if all the paper currency and demand deposits along with all the bonds, notes, mortgages, and stocks in corporations were destroyed overnight in some strange manner, there would be no less national wealth in the United States. In that process, those who owned claims on wealth in the form of paper currency, demand deposits, bonds, notes, mortgages, and stocks would have those claims destroyed. Some individuals would become less wealthy, and some more so. As a result of that destruction, our method of exchanging wealth and services might well become cumbersome overnight, but exactly the same amount of national wealth would be in existence after as before that strange event. The same stockpile of things would be in existence.

* p. 13 (Thomas Y. Crowell & Co., New York, N. Y., 1896).
† King, Willford I., *The Wealth and Income of the People of the United States*, pp. 5-6 (The Macmillan Co., New York, N. Y., 1915).

In the economy of the individual, everything is "regarded" as wealth, the possession of which tends to give command of external things that satisfy desire to its individual possessor, even though it may involve the taking of such things from other individuals. In the national economy, however, nothing can be regarded as wealth that does not add to the wealthiness of the whole. What, therefore, may be "regarded" as wealth by the individual is not necessarily wealth from the viewpoint of the nation. An individual, for example, may be wealthy by virtue of obligations due to him from other individuals; but such obligations constitute no part of the wealth of a nation, which includes both debtor and creditor. An individual may be wealthy because he has substantial holdings of Federal securities but, as Dr. Spahr wrote, to a nation at large, a national debt is "worth nil." A nation never became rich by issuing debt obligations. Even primitive peoples realized they could not become wealthy by taxing themselves!

All things which have exchange value are, therefore, not national wealth. Only such things can be national wealth, the production of which increases and the destruction of which decreases the aggregate of material wealth. If we consider what these things are and what their nature is, we have no difficulty in defining national wealth. "When we speak of a community increasing in wealth—as when we say that England has increased in wealth since the accession of Victoria, or that California is a wealthier country than when it was a Mexican territory—we do not mean to say that there is more land, or that the natural powers of the land are greater, or that there are more people, for when we wish to express that idea we speak of increase of population; or that the debts or dues owing by some of these people to others of their number have increased; but we mean that there is an increase of certain tangible things, having an actual and not merely a relative value—such as buildings, cattle, tools, machinery, agricultural and mineral products, manufactured goods, ships, wagons, furniture, and the like. The increase of such things constitutes an increase of wealth; their decrease is a lessening of wealth; and the community that, in proportion to its numbers, has most of such things is the wealthiest community. The common character of these things is that they consist of natural substances or products which have been adapted by human labor to human use or gratification, their value depending on the amount of labor which, upon the average, would be required to produce things of like kind."*

Thus, wealth, as a term in economics, "consists of natural products that have been secured, moved, combined, separated or in other ways modified by human exertion, so as to fit them for the gratification of human desires. It is, in other words, labor impressed upon matter in such a way as to store up, as the heat of the sun is stored up in coal, the power of human labor to minister human desires. Wealth is not the sole object of labor, for labor is also expended in ministering directly to desire; but it is the object and result of what we call productive labor—that is, labor which gives value to material things. Nothing which nature supplies to man without his labor is wealth, nor yet does the expenditure of labor result in wealth unless there is a tangible product which has and retains the power of ministering to desire."†

We hope that our early indefiniteness and perplexity as to the meaning of wealth has now disappeared. There are two kinds of wealth, individual wealth and national wealth, and they are very different things. Paper currency, bank deposits, stocks, bonds, mortgages, government securities, promissory notes, accounts receivable, warehouse receipts, and trust receipts are wealth to the individual but no part of the wealth of a nation. Wealth to a nation represents only and solely all existing material things produced by man from land or the products of land, which have exchange value. In simple terms, it is one great big stockpile of things. National wealth is represented by aprons and airplanes, bread and bedsprings, balloons and bubble gum, diesel engines and drugs, fur and furniture, gasoline and gold, pickles and printing presses, shoes and steam shovels, cattle and wheat, butter and potatoes.

Potatoes and the Satisfaction of Demand

Now that we know what national wealth is in the economic sense of the term, let us consider for a moment the rôle of one little item of wealth, the lowly potato. During the years immedi-

* George, Henry, *Progress and Poverty*, p. 41, 1879 (reprinted by the Robert Schalkenbach Foundation, New York, N. Y., 1932).
† *Ibid*, pp. 41-42.

ately following the end of World War II the rôle of the potato might well epitomize our inquiry into the purpose for the production of what we now term "national wealth."

The potato, we are told, is a native product of South America. Early explorers in Peru and Chile learned its use, found it an agreeable addition to their diet and, returning home, took it with them. As E. Parmalee Prentice tells us in *Hunger and History,* "Apparently there were at least two independent introductions of the potato into Europe, one by the way of the British Isles and the other by way of Spain."* It is an indigenous American product, albeit a South American product.

Commodity Money

Our everyday domestic trade is carried on with copper coins, nickel coins, silver coins and paper money of many kinds and descriptions, Federal Reserve notes, Federal Reserve bank notes, United States notes, National Bank notes, and silver certificates. To support these various promises to pay, we have accumulated a rather imposing portion of the world's stock of gold bullion and a collateral supply of silver bullion. Our gold bullion finally became so large that the Treasury Department in 1936 constructed what has been described as an impregnable storage fortress to hold this precious metal at Fort Knox, Kentucky, and in 1938 one for silver at historic West Point, New York.

With such a variety of coins and paper money in daily use, with such tremendous reserves of gold and silver bullion as we have today, it is rather difficult to picture an early society on this continent consisting of a few hundred and then a few thousand Europeans who were attempting to carry on a growing commerce with the native Indians, among themselves, with Europe, and with the West Indies, with practically no metallic currency. In fact, the keynote of our entire colonial economic history is found in the scarcity of metallic currency, in the use of commodity money, and in the series of expedients and experiments by which the colonists attempted to solve this monetary dilemma.

Beginning about 1619, for example, and continuing for almost two centuries, tobacco was used as day to day currency in Vir-

* p. 128 (Harper & Bros., New York, N. Y., 1939; republished by The Caxton Printers, Ltd., Caldwell, Ido., 1951).

ginia. Houses, furniture, food, farm implements, farm lands, and cattle were actually valued and sold for so many pounds of tobacco. In the latter part of the seventeenth century, the personal estate of one Cornelius Lloyd was valued at 131,044 pounds of tobacco.* From July, 1943† to 1950, the potato, while not actually achieving the status of commodity currency as had leaf tobacco for almost two hundred years in the early history of Virginia; as had wampum in the New England colonies, New York, and New Jersey; as had corn, wheat, and cattle in New England; and as had wheat and rice in South Carolina; was just as good as money to the grower as he obtained a certain percentage of what had come to be known as "parity" in our new farm mythology, for his crop, no matter how much below that hypothetical figure his potatoes would bring in " the free and open market."

* "Bruce, Philip Alexander, *Economic History of Virginia in the Seventeenth Century,* vol, II, p. 157 (Peter Smith, New York, N. Y., 1935). On pages 495-496 of this volume Bruce gives a summary of the importance of tobacco as currency in the history of Virginia: "Tobacco was the standard of value at the very time that the whole community was engaged in planting it. It was the money in which all the supplies, both domestic and imported, were purchased; in which the tax imposed by the public levy was settled; in which the tithables of the minister, the fees of the attorney and the physician, the debts due the merchant, the remuneration of the free mechanic, the wages of the servant, the charges of the midwife and the grave-digger were paid. In no similar instance has an agricultural product entered so deeply and so extensively into the spirit and framework of any modern community. It was to the Colony what the potato has been to Ireland, the coffee-berry to Brazil, the grape to France, and corn to Egypt; and it was also something more. It was, as it were, at once an agricultural and a metallic commodity, which, owing to the perverse taste of mankind, was as valuable in itself as the potato, the coffee-berry, the grape, the grain of wheat, and at the same moment as precious as gold or silver and more precious than iron. It was as if men had substituted the barns in their yards for purses in their pockets."

† Section 12(b) of the Agricultural Adjustment Act of 1933 authorized the Secretary of Agriculture to use funds available to him "for expansion of markets and disposal of surplus agricultural products," which included potatoes. This program was permissive, not mandatory, and what items constituted surplus agricultural products depended upon the decision of the Secretary of Agriculture. Under this legislation, action was taken by the Secretary of Agriculture, from time to time, between 1933 and 1936 inclusive, to relieve different localities of "surplus" potatoes. The Federal Surplus Relief Corporation was created in October, 1933, to utilize funds from the Agricultural Adjustment Administration and from the Federal Emergency Relief Administration to purchase both storable and perishable farm products for distribution to people on relief rolls. Amendments to the Agricultural Adjustment Act which were made on August 24, 1935 included a "Section 32," which, as later amended, authorized the Secretary of Agriculture to use an amount equal to 30 per cent of the annual custom receipts, "to encourage the exportation of agricultural commodities and the products thereof, to encourage domestic consumption of such commodities by diverting them from the normal channels of trade or increasing their use among persons in low-income groups. . . ." Funds made available each year by this legislation became known as "Section 32 funds." Section 32 funds were used to purchase "surplus" potatoes from the fiscal year ending June 30, 1936 to the fiscal year ending June 30, 1950. At no time, however, until the fiscal year beginning July 1, 1943, was the Federal Government committed to support prices of potatoes at any particular level. When "surplus" potatoes arose in some section of the country, action was taken to relieve that condition. "Although the records at the present time do not indicate the controlling factors in the decisions regarding which perishable products to purchase and in what amounts, it is probable that after the drought relief period passed [1934], the following three were the most important: (1) effectiveness with which groups of producers organized and pressed their request for governmental assistance, (2) suitability of the product for meeting the food requirements of people on the relief rolls, (3) the ability of the purchase program (in the amount permitted with available funds) to make an observable improvement in the market-price situation." The dollar amounts involved in those years were moderate; expenditures to purchase "surplus" potatoes from the fiscal year of 1936 to the fiscal year of 1941 inclusive, amounted to $15,976,564. See *Price Supports for Perishable Products: A Review of Experience,* a pamphlet prepared by the Department of Agriculture in 1951 for the use of the Senate Committee on Agriculture and Forestry.

Price Support for Potatoes

In July, 1941, shortly after our entrance into World War II, price supports for certain perishable farm products became mandatory for the first time by the adoption of the so-called Steagall Amendment* (a measure which was said to be designed to assure adequate food supplies during the war) included in the act "To extend the life and increase the credit resources of the Commodity Credit Corporation, and for other purposes." This amendment directed that price support be made at not less than 85 per cent of the new mythology of "parity" for all nonbasic† commodities for which the Secretary of Agriculture by public announcement requested an increase in production to meet war needs. In October, 1942, this legislation was revised to require price supports on designated commodities at not less than 90 per cent of so-called parity.

The first purchases of potatoes by the Commodity Credit Corporation, the agency of the Federal Government through which this program was put into effect, was made in the fiscal year of the Government ending June 30, 1944. The new amendment also called for the continuation of price support at this level for two years following the date on which hostilities would be declared ended. Subsequently, hostilities were declared to be ended on December 31, 1946. Among the products covered by this legislation was the lowly potato. By December, 1948, however, the ball had been picked up by the Agricultural Act of 1948 which extended most of the mandatory price supports on perishables, including potatoes, for 1949. The Agricultural Act of 1948 required the Secretary of Agriculture to support, until January 1, 1950, all nonbasic commodities entitled to mandatory supports during the war, at not less than 60 per cent of parity and at not more than the level at which they were supported in 1948, which was 90 per cent of parity.

In the following table the expenditures of the Federal Government, in the early years to remove "surplus" potatoes, and then later to support the price of potatoes at the specified per cent of parity, are given in two supplemental columns of figures.

* Act of July 1, 1941, as amended, 55 Stat. 598 (1941), 56 Stat. 768 (1942), 15 U.S.C. sec. 713a-3 (a) (Supp. IV).

† For the purpose of this law, "commodities other than cotton, corn, wheat, tobacco, peanuts, and rice shall be deemed to be nonbasic commodities." That is, the potato within the meaning of this act was a nonbasic commodity.

The first column of dollar figures gives the expenditures of "Section 32 funds"* from the fiscal year of 1936 through the fiscal year of 1950, and the second gives the losses assumed by the Commodity Credit Corporation in its potato support program from the fiscal year of 1944 through the calendar year of 1950. A total for each year is given in the third column of dollar figures.

COST OF POTATO SUPPORT PROGRAM TO TAXPAYERS, 1936-1950

Year Ending June 30	*Section 32 Funds*	*Commodity Credit Corporation*	*Total*
1936	$ 207,823	None	$ 207,823
1937	677,369	None	677,369
1938	2,796,099	None	2,796,099
1939	1,417,929	None	1,417,929
1940	None	None	None
1941	10,877,344	None	10,877,344
1942	10,282,898	None	10,282,898
1943	5,261,538	None	5,261,538
1944	5,130,855	$ 3,467,589	8,598,444
1945	609,709	12,958,355	13,568,064
1946	7,511,083	8,771,278	16,282,361
1947	25,831,904	62,920,977	88,752,881
1948	19,917,846	47,405,542	67,323,388
1949	10,651,888	203,886,603	214,538,491
1950	4,842,726	75,090,315	79,933,041
1950†	None	16,719,190	16,719,190
Total	$106,017,011	$431,219,849	$537,236,860

From the fiscal year of 1936 through the fiscal year of 1950 the Federal Government spent $106,017,011 in the purchase of "surplus" potatoes with the use of Section 32 funds. This program started quite modestly with expenditures of only $207,823 in 1936. The annual expenditures then increased with some intermediate fluctuations to $10,877,344 in 1941. By 1945 the expenditures of Section 32 funds for surplus potatoes had dropped to $609,709. From this point they increased to a high of $25,831,904 in 1947 and then gradually decreased until the program was eliminated by Congressional action. No expenditures of these funds were made after the fiscal year of 1950.

Over a much shorter period of time, from the fiscal year of 1944 through the calendar year of 1950, the Commodity Credit

* The meaning of "Section 32 funds" is given in the second footnote on p. 12.
† Last six months of 1950.

Corporation, the instrumentality of the Federal Government through which the "parity" program was put into effect, assumed an aggregate loss of $431,219,849. This aggregate loss was over four times as large as the expenditures to remove surplus potatoes with the use of Section 32 funds over a period of fifteen years. The first purchases of potatoes under the parity program were made in the fiscal year of 1944 and losses on those purchases amounted only to $3,467,589. Yearly losses of the Commodity Credit Corporation on its potato program increased to $62,920,-977 in the fiscal year of 1947, dropped to $47,405,542 in 1948 and then skyrocketed to $203,886,603 in the fiscal year of 1949. During the fiscal year of 1950 the loss amounted to $75,090,315, and in the last six months of the calendar year of 1950 to $16,719,190.

The yearly totals of these two programs reached a high of $214,538,491 in 1949. Over the entire spread of fifteen and one-half years, the two programs together involved aggregate costs to the taxpayers of the country of the fairly substantial sum of $537,236,860.

Piecemeal Solutions to Problems

Wesley Clair Mitchell spent a full life studying the enigma of the business cycle, the ups and downs of business activity. He was the rare craftsman in the field of economics who was forever applying rules of "scientific" carefulness to the statistics of production, price, and the movement of goods. He believed in the quantitative approach, in the collection of aggregate figures and the most prudent interpretation of those figures. He was esteemed above all others in his profession for his open-mindedness, for his ever-seeking-for-the-truth, for his marvelous powers of disinterested thoroughness. In a concentrated, and one might almost say, a "consecrated" life, which resulted in elevating the school of quantitative economics to new importance, he had no cause that he was anxious to advance politically or militantly; he was a seeker only of the truth, whatever the truth might be.

In 1936, Dr. Mitchell read a fascinating paper at the Tercentenary Celebration of Harvard University entitled "Intelligence and the Guidance of Economic Evolution." In that paper he pointed out how "solutions" to immediate problems often bring greater problems in their wake, a disheartening implied forecast of the greater problems to come as a result of our political and economic piecemeal (and, at times, off-the-cuff) decisions of the 1930's, and 1940's. Here are his words, written with the frankness and sincerity for which he became so widely known and admired, and for which his ever-friendly and honest counsel was continually being sought:

In the life of the nation, planning plays the rôle that thinking plays in individual life. Both processes are resorted to typically to find ways of surmounting difficulties that occur in the course of routine behavior. And just as our individual thinking is commonly directed toward an immediate, specific difficulty, so most of our efforts at national planning have dealt with some single need that has been keenly felt by groups sufficiently numerous or sufficiently powerful to command attention. Let me call this "piecemeal planning." Examples are campaigns for federal aid to develop turnpikes and canals in our early days, for protective duties on imports, for the abolition of slavery, for free silver, for reduction of railroad rates, for curbing the "trusts," for "prohibition," for old-age pensions, and so on almost without end. The groups pushing these plans have been animated at times by philanthropic zeal and at times by sordid interests; some groups have relied upon fervid appeals to the moral conscience, some upon frank presentation of economic claims, some have resorted to bribery. What they have in common is advocacy of a measure designed to accomplish some one change in social organization, with slight regard to its collateral and long-run effects upon other social interests.

Of course, piecemeal planning is defective in principle, however high its aims and however generous the spirit that inspires it. Each of the social sciences has its own way of demonstrating that all social processes are inter-related. When we alter the conditions under which one process operates we are certain to affect other processes. Many of these unplanned effects are negligible, but some are important; among the latter effects some may be pleasant surprises but others are likely to be unpleasant. Also, we know when we stop to think, that the long-run effects of our reforms often differ widely from the immediate effects that we intended to produce. . . . No measure is so good in itself that its advocates are justified in thinking only of its direct and immediate effects. In short, we are not making the best use of what limited intelligence we possess when we plan on a piecemeal basis.*

Here is the tragedy of Sohrab and Rustum applied to economic problems of a particular group or of particular groups. In the classical economics of David Ricardo the interests of the owners of land were opposed to those of all other classes in the community. For centuries the controlling economic and political interest in Great Britain had been the landowner. It was traditional that the man of landed property was the type of person who should represent the nation and decide upon its policies; he used that control to legislate in his own behalf. In the early years of the nineteenth century, foreign competition in foodstuffs in Great Britain was restricted to keep up the rent of land. Since the days of Ricardo it has become more and more recognized that each pressure group exerts its influence to obtain piecemeal legis-

* This address is included in a volume, which contains a collection of Dr. W. C. Mitchell's essays, entitled *The Backward Art of Spending Money and other Essays*, pp. 129-130 (Augustus M. Kelly, Inc., New York, N. Y., 1950).

lation in its own behalf irrespective of the effect of such legislation on other groups, or even the long-run effect upon itself. As Wesley Clair Mitchell so truly wrote, "We know, when we stop to think, that the long-run effects of our reforms often differ widely from the immediate effects that we intended to produce.... No measure is so good in itself that its advocates are justified in thinking only of its direct immediate effects."

The ability of pressure groups to secure legislation in their own behalf is a formalized technique of obtaining title to individual wealth which rightly belongs to others. "Justice," which Francis Neilson so aptly defines in his brilliant study, *In Quest of Justice,* as "the law of Providence inherent in nature," is unconsciously relegated to the background; it receives not even implied consideration. "Is it just?" is not the basis of debate and the vote. "How will it help me?" has become the question, and the answer to that question must always result in a "piecemeal solution" and set the stage for ever greater problems.

The discussions at the Constitutional Convention in 1787 reverted over and over again to this basic and underlying essential, if justice were to prevail in the years ahead. Laws, they were called "levelling laws" in the discussions of the day, had been passed by many colonial legislatures, prior to the Revolutionary War, in favor of particular groups of individuals. It was with this knowledge in mind that the delegates to the Constitutional Convention expressed their views and attempted to frame a Constitution under which it would be difficult to legislate injustice simply by a majority vote. "The evils we experience" explained Elbridge Gerry, a delegate from Massachusetts, "flow from the excess of democracy. The people do not want virtue, but are the dupes of pretended patriots. In Massachusetts, it has been fully confirmed by experience, that they are daily misled into the most baneful measures and opinions, by the false reports circulated by designing men, and which no one on the spot can refute." Edmund Randolph of Virginia observed "that the general object [of the Constitution] was to provide a cure for the evils under which the United States labored; that in tracing these evils to their origin, every man had found it in the turbulence and follies of democracy; that some check therefore was to be sought for, against this tendency of our governments." A few days later James Madison said that it was necessary to provide "more effectively for the security of private rights, and the steady dispensation of justice. Interferences with these were evils,'' and Madison was referring to the levelling laws of the State legislatures, which ''produced this convention.''*

In March, 1830, Jared Sparks, who was writing a life of Gouveneur Morris of Pennsylvania, posted a letter to James Madison in which he sought information regarding the views which Morris had expressed in the Constitutional Convention. In reply Madison wrote that ''he [Morris] contended for certain articles, (a Senate for life, particularly,) which he held essential to the stability and energy of a Government capable of protecting the rights of property against the spirit of Democracy.''†

The body of delegates who comprised the Constitutional Convention was a most unusual group of business men, lawyers, politicians, statesmen and scholars. Seven had been governors of states and at least twenty-eight had served in the Congress of the union either during the Revolutionary War or under the Articles of Confederation. Eight had been signers of the Declaration of Independence. It included two future Presidents and one future Vice-President of the United States. It included five future members of the Supreme Court, two of whom were to become chief justices. With a rare exception such as Luther Martin of Maryland, intense concern was expressed by one delegate and another, over and over again, regarding the security of private rights, property, and the problem of the maintenance of justice in the years ahead.

As a relatively young scholar, Charles A. Beard had written *An Economic Interpretation of the Constitution,*‡ a volume which involved very considerable research into the lives, activities, inclinations, and wealth and the forms in which it existed, of each delegate to the Constitutional Convention. The volume indicated the materialistic outlook which most of the delegates presumably had had in protecting their individual wealth, immediate wealth and prospective future wealth, under a strong centralized government, in their deliberations. By the time Beard and wife, Mary R. Beard, wrote *The Rise of American Civilization* in 1927, his overall views of these men who performed the miracle of writing our Constitution under the most difficult and try-

* Madison, James, *Journal of the Federal Convention,* pp. 78, 81, 117 (Albert, Scott & Co., Chicago, Ill., 1894).

† *Letters and Other Writings of James Madison,* vol. IV, p. 168 (J. B. Lippincott & Co., Phila., Pa., 1867).

‡ Published by The Macmillan Company, New York, N. Y., 1913.

ing circumstances would seem to have been somewhat modified. "Among the many historic assemblies," Charles and Mary R. Beard wrote, "which have wrought revolutions in the affairs of mankind, it seems safe to say that there has never been one that commanded more political talent, practical experience, and sound substance than the Philadelphia convention in 1787."* This is truly a sweeping statement by two of the most enlightened and scholarly historians we have produced.

In 1936 Fred Rodell, at that time, a young man educated in the law and with a deep interest in the legal and economic background of historic trends, published *Fifty-five Men,* a popularized story of the Constitutional Convention in which he also emphasized the approach that the delegates were hard-headed men of affairs with personal interests of their own, as well as of their communities, at stake. But he also wrote, "Judged by their activities both before and after they met at Philadelphia, the Convention was made up of a remarkable group of public men."†

Our new myth of farm parity has been based on two theories. First, farmers should receive for selected products a price which would bear some definite mathematical relationship to the cost of the products they purchased during some arbitrary period of the past. Second, in the interest of a healthy national economy it is essential that the disposable income of farmers, as a class, be maintained at some relatively "high" level to support manufacturers and the consumption of the goods they produce. Neither theory gives the slightest consideration to "protecting the rights of property," which received such basic and underlying consideration in the Constitutional Convention, nor the slightest implication that justice or injustice might be involved in carrying them out. Moreover, neither theory gives consideration to the possibility that supply and demand, with the constant ebb and flow of economic forces might provide a permanent solution in contrast to a possible and all too temporarily unjust, and as Dr. Mitchell might say, "piecemeal solution."

Is not injustice incurred every time wealth is taken arbitrarily from one group of citizens and given to another group of citizens? We have become quite accustomed to the process, but even usage cannot turn injustice into justice. And the fact that supply and demand might have provided the basic solution to

* 1936 edition, p. 310 (The Macmillan Company, New York, N. Y.).
† p. 15 ((The Telegraph Press, New York, N. Y., 1936).

the disposition of potatoes over the years, would seem to be indicated by the results described in the following paragraphs and by the fact that eventually "supply and demand" were given a clear field after the experience of fifteen years and aggregate costs to taxpayers of $537,236,860.

Operation "Acreage Restriction"

In an attempt to use logic to forestall both the bounty of nature and the natural law by which man seeks to satisfy his desires with the least possible effort, acreage allotments were established by the Department of Agriculture for potato growers each year from 1942 to 1950. To be eligible for price support, individual growers could plant no more than their respective acreage allotments in potatoes. Prices were maintained by Federal Government purchases at the minimum mandatory level which was 90 per cent of so-called parity each year from 1943 to 1948, and 60 per cent in 1949 and 1950, from eligible growers, that is, from those growers who not only agreed to plant no more than their respective acreage allotment but actually did so.

In carrying out this Washington-directed planned program, allotments were reduced to a level, which it later was said seriously "would have balanced supply with demand if" all growers had planted within their allotments and "if" they had obtained average yields. That is like saying of the young boy who went to the free bazaar late one afternoon, "if he hadn't eaten three plates of strawberry ice cream, he would have had plenty of appetite for the roast beef served at dinner that evening." Naturally the growers who accepted acreage allotment would cultivate their fields more intensively, and for those who would not agree to acreage allotments, the sky was the limit. What more or what less could have been expected?

Under the stimulus of price support which was in excess of the free and open market price, the yield of potatoes was increased from an average of 111 bushels an acre for the years 1929-1938, to 253 bushels an acre in the crop year of 1950. From 1946 to 1949 the potato surplus had already become chronic. In the fiscal year of 1947 the Federal Government spent $25,831,904 of Section 32 funds to remove surplus potatoes from selected areas of the country and the Commodity Credit Corporation lost $62,920,977 in its potato parity support program. In the fiscal year of 1949, $10,651,888 of Section 32 funds were used and the loss of the Commodity Credit Corporation on its potato support program reached $203,886,603. At this point, Congress as well as the public, quite naturally began to clamor for a change.

In 1950, the production of potatoes was 100,000,000 bushels in excess of normal needs. In addition to more intensive cultivation on the part of those who agreed to restricted acreage allotments, many growers who would not agree to Government planning and interference, planted increased acreage even though they thereby became ineligible for price support.

The problem of surplus farm commodities, due to overproduction as a result of the high government support prices, reached the headlines in dramatic fashion during April, 1950, when Secretary of Agriculture Brannan announced that 25 to 40 million bushels of potatoes would be allowed to rot in the field or be sold back to growers for animal feed at one cent per 100 pounds. For these potatoes the Government paid, on the average $1.83 per 100 pounds. On October 19, 1950 the *New York Times* carried an announcement from Washington, "Congress ruled out potato price guarantees after this year because of widespread indignation over the Government's practice of buying up and destroying spuds to keep prices at a so-called fair level. While officials admitted the shortcomings of the program, which was required by Congressional action, they said it was the cheapest way to support prices."

The consumer who was not on a strict calorie diet and ate potatoes, was hit twice at the same time and in the same place. Through his taxes he provided funds which subsidized the potato growers who agreed to acreage restrictions, and simultaneously he paid an artificially high price for his potatoes when he went to market. In theory, acreage restriction had been supposed to keep supply and demand in balance at an arbitrary price. But the price was so attractive that farmers had planted their potato plants more closely, utilized more fertilizer and insecticides, and thus more than offset the lower acreage with higher and higher yields. The surpluses and the waste, all paid for out of the taxpayers' purse, followed.

Of course, the moral to this experience with the potato in the fairy land of a planned economy—and from the extensive records of history it cannot be strictly called an experiment—is, that to get increased production, all that is needed is a firm price above the free market price of any commodity, manufactured or grown. That will give increased production of wealth, but above a certain point, the wealth will be destroyed. The analogy would not be too far fetched if the market for automobiles became glutted, and an agency of the Federal Government agreed to buy all automobiles which would not be purchased by consumers, at a fixed price somewhat above the cost of production, and then destroyed them. Does one group have a better claim on that part of the wealth of a country which they do not produce, than all other groups?

The Shovelcrats

In 1934 a booklet entitled *The Shovelcrats** by Craig Ralston was published. The writing was in the form of a report by Commissioner John Williams Jones to the Directors of the hypothetical Dry Lake Excavation Company. Jones had been sent to the scene of operation to ascertain what extraordinary engineering difficulties had been encountered in completing a particular contract, and it was his job to analyze these difficulties and to make recommendations to the Directors for solving them. The booklet describes what he found.

Dry Lake City, it was explained, lies in the Nevada desert at the head of the Dry Lake Valley. The valley, an arid wasteland populated only by a few sheep, stretched westward, eighty miles long by thirty miles wide. The Dry Lake City Excavation Company had the contract to provide a reservoir system to irrigate the territory. It had been estimated that it would take fourteen thousand men fifteen years to complete the excavation of the lake bed, and the diversion of the Colorado River to the lake would require three years additional with half of the force. All work would be manual labor, that is, each worker would use a shovel and nothing but a shovel. The full quota of fourteen thousand men had been in the camp eight years but progress had been far short of the original estimates.

The first individual whom John Williams Jones saw when he arrived in Dry Lake City to make his investigation was a dis-

* Published by the Robert Schalkenbach Foundation, New York, N. Y.

consolate figure huddled on a large flat rock by the roadside. The disconsolate individual spoke up defiantly:

"A shovel is made to shovel with!"

"Any argument about it?" Jones asked.

"Argument? It's all we do—argue about it."

"Just who argues?" inquired Jones.

"Everybody" replied the man on the flat rock.

When the first consignment of ten thousand shovels had reached Dry Lake City, the orders of the Salt Lake City office of the Dry Lake City Excavation Company stipulated that they were to be sold to the workmen at cost, namely $1.00 per shovel. That left four thousand men without shovels and unable to work. Since no one knew when another shipment was due, some of the surplus workmen went to the trenches and offered as high as $5.00 for shovels which had cost the owners one dollar. The purchasers estimated that they could recover their investment with the wages for their first day's work and that they would thereafter be able to have their full pay.

One of the workers named Martin digested this phenomenon.

"I wish I had bought a hundred shovels five days ago," he said to a fellow shoveler in the trench where he worked. "It would be $400 clear velvet."

"Do you know," continued Martin, "that the camp is getting richer every day—getting richer without anyone doing any work? Four days ago there were ten thousand shovels worth ten thousand dollars. Today they are worth fifty thousand dollars."

Martin had $4,000 cash. Together with a few friends he organized a pool and two days later they purchased outright the second consignment of four thousand shovels. A few days later when the unemployed workmen assembled, Martin explained, "Boys, I've got your shovels. As you know, shovels are worth $5.00 each. I don't care to sell all the shovels I have, but I'll sell one thousand of them today for $7.00 each to first up." Then he benignly continued, "This is not a holdup. It's a benefaction. Dry Lake City is about to enter upon a most remarkable era of prosperity—the greatest period of business expansion any construction camp has ever experienced. Our wealth in shovels is $98,000—$7.00 per shovel! If I hadn't stepped up and purchased these shovels, shovels would have dropped to one dollar and our community would have lost $84,000!"

"Not only have I safeguarded the honestly-earned wealth of every man in this camp who owns a shovel, I'm adding to it. I am about to increase the wealth of those who own the ten thousand shovels already in use by $20,000. I shall do this by increasing the price of one thousand new shovels I am about to sell from $5.00 to $7.00. By prompt action, my friends and myself have shielded Dry Lake City from disaster. Moreover, in four days we have increased the financial resources of this community from $14,000 to $98,000! Can you beat that?"

The purchasers of the thousand shovels quickly spread the story of the era of wealth and prosperity that Martin had predicted. Martin, in turn, decided he would sell no more shovels; he would rent them to workers for one-fifth of their wages.

"Like Hell!" now replied the workers. "We're entitled to a shovel and full wages, the same as you."

"Very well," Martin said, "they are my shovels!"

The upshot was that two thousand shovels were rented with much grumbling by workmen who felt they had better work for four-fifths pay than none at all. But this arrangement still left one thousand men without shovels.

Martin went home to take a nap. He deserved it. He had worked hard to increase the wealth of the community. While he dozed the thousand workers without shovels had purchased them from workers, but at a price. The more eagerly they tried to buy, the more the owners asked. So shovels changed hands for $15, $20, $50 and then $100. Some who possessed foresight and financial means, purchased shovels to hold for future advances. An additional stimulus was the knowledge that Martin had shrewdly leased two thousand shovels at one-fifth of wages. When Martin awoke, he found shovels quoted at a thousand dollars each!

That night Martin made a speech to the citizens which thronged the public square. "Fellow citizens," he said, "Dry Lake City is about to attain the zenith of modern civilization. We have fourteen thousand shovels worth one thousand dollars per shovel. That is a total of $14,000,000. I dare say no construction camp has ever witnessed so rapid a development of its material resources."

Thus was the Shovelcratic regime launched. The camp was delighted when it found how swiftly and how easily it had grown rich. But the camp was going to grow even richer!

Among the workmen were many, who had bought shovels for one dollar with never a thought that shovels would be worth more, who now flattered themselves on the possession of superior foresight and unusual financial ability. On the other hand, there were still one thousand men without shovels. These men roved here and there, bargaining for shovels. With cash, some tempted an owner to part with a shovel. Others rented shovels. In the great era which followed, many workers became owners of more than one shovel. These sought others with whom to make tenancy or purchase contracts. A workmen, who owned, say, five shovels, did no work. Instead, he collected the rental of one-fifth their wages from each of five workmen to whom he had leased shovels. It can readily be seen that this beat sweating in a trench!

By the end of the year shovels had become so well established as the camp's chief asset, and their value was so generally recognized, that every business transaction was thought out with the shovel as the basis. It was established that a shovel should bring a rental equal to one-fourth of what the tenant earned. One-fourth of a daily wage of $5.00 was $1.25, so the rent was $375 annually on a three-hundred-day work year basis.

As shovels could not be reproduced, financiers felt safe in estimating the value of shovels by taking this figure at 5 per cent on the investment. At this rate of calculation, a shovel was now worth $7,500. According to the same figures, the wealth of the community, as represented by shovels, had pyramided to the astounding total of $105,000,000! When citizens reflected that this vast wealth had been created by Martin's simple experiment of withholding a thousand shovels from use, it is not remarkable that they considered him a statesman of enormous capacity.

The Consumer Pays

The first individual with whom John Williams Jones carried on a conversation when he arrived in Dry Lake City expressed a truism when he declaimed that "a shovel is made to shovel with." Likewise, it would seem, potatoes are grown to be eaten although the new myth of "parity" would seem to have raised a serious question in some minds regarding such a truism.

Until twenty years or so ago, prices of all commodities sought their own level. If too many turkeys, turnips, eggs, or potatoes were produced, prices would drop, more consumers would buy them, and in the following year, fewer would be raised. Conversely, if too few turkeys, turnips, eggs, or potatoes were produced, prices went up, fewer consumers bought them, and in the following year, the producers raised larger crops of these particular items.

The new myth of parity is a philosophy of not caring about the consumer. By mandate we now keep up prices on specific farm products so that fewer consumers will use them, and the consumers who do use them, will use less of them. That is the perfect way to lower a standard of living. In April, 1950, instead of allowing the price of potatoes to seek its own level—a price at which consumers would have bought and used the crop—a price was fixed at which 25 to 40 million bushels of potatoes could not be sold and consumed, and so were allowed to rot in the field, or were sold back to growers for animal feed at one cent per 100 pounds. In this program the consumer became the forgotten man. It is he who must pay the arbitrary price determined by our new mythology, with the consequent pressure on his standard of living.

Nature's law of supply and demand cannot be repealed, although efforts in this direction have been tried over and over again. In 1948, Jacques and Robert Lacour-Gayet published a volume in France entitled *De Platon a la Terreur, From Plato to the Reign of Terror.* In this volume the authors discuss price fixing and planned economy from the days of Plato to the French Revolution. No one seemed recently, they pointed out, to have commented upon the fact that the principle of government interference in the economic life of a country had already been enunciated twenty-three centuries ago, with astounding prescience, by the great Plato. The trail of price fixing, with the unfortunate results of "piecemeal solutions" to immediate problems are traced, in this volume, from Plato through the edicts of Diocletian, the "fair price" theory of the Middle Ages, the ordinances of King John of France, the edicts of Charles IX, to the laws of the French Legislature Assembly of the Revolution.*

Our very experience with potatoes shows how, by arbitrary interference, we aggravate a problem, which normally provides its own solution and adequate solution, within our existing price

* A condensation of this volume appeared in *The American Journal of Economics and Sociology,* July, 1951, pp. 389-399, Vol. 10, No. 4.

mechanism. Congress threw up its hands in 1951 and gave the problem back to "supply and demand," to natural economic forces. It is just possible that a little more concentration on, and consideration for the consumer, is needed today. Is he not entitled to his full share of justice? It is evident that our Founding Fathers had just and logical apprehension regarding the effects of future levelling laws from which they had seriously hoped to protect their descendants. Among the delegates to the Constitutional Convention of 1787 there were, in truth, men of wide experience in the world of practical affairs, of wisdom and of vision.

The maintenance of the price of any commodity by arbitrary interference above the free and open market price of that commodity not only takes advantage of the unorganized consumer; it also wastes land, labor, and capital. Some portion of the land used to grow "surplus" potatoes by the pressure of a guaranteed price, should have been used to grow other commodities for which a greater demand existed in the normal give and take of supply and demand. Some labor and some of the machinery, that is, capital used to cultivate surplus potatoes, for the same reason, should have been used to cultivate other commodities. By supporting the price of surplus potatoes above the free and open market, the farmer received arbitrary compensation for his expenditure of effort, but the wealth of the country, to the extent that potatoes were destroyed, was decreased, not increased. If the farmer had grown commodities for which there had been a normal demand, he would have received normal compensation for his land, labor, and capital, and the wealth of the country simultaneous would have grown.

The first law of economics is to the effect that man seeks to satisfy his desires with the least possible effort. That was an axiom until George Kingsley Zipf published his fascinating research in *Human Behavior and the Principle of Least Effort** and proved, by an ingenious but simple use of mathematics, the application of the axiom to widely different areas of man's actions.

Economics also teaches us, only second to the law of least effort, that wealth is produced not because it is a good, in itself, but for use, for consumption. As Paul Mazur writes in a prefatory statement to his latest book, *The Standards We Raise,*† purchases and consumption "are the ruling factors of our economy."

* Published by Addison-Wesley Press, Inc., Cambridge, Mass., 1949.
† p. ix (Harper & Bros., New York, N. Y., 1953).

The ultimate purpose of everything is to be used, not, as an editorial in the *New York Times* said regarding our farm products, "to be stored in warehouses till we run out of storage space," not be thrown away and wasted. In this sense, use means consumption, immediate, direct consumption in the case of food, clothing, fuel, gradual consumption in the case of durable consumer goods such as automobiles, refrigerators, vacuum cleaners, and televisions, and the still more gradual and indirect consumption of capital goods such as machinery in plants, public utility systems, and our transportation systems.

The truth is, that wealth can be accumulated but to a slight degree, and that communities really live, as the vast majority of individuals live, from hand to mouth. Wealth will not bear much accumulation; except in a few unimportant forms it will not keep. The matter of the universe, which, when worked up by labor into desirable forms, constitute wealth, is constantly tending back to its original state. Some forms of wealth will last for a few hours, some for a few days, some for a few months, some for a few years; and there are very few forms of wealth that can be passed from one generation to another. Take wealth in some of its most useful and permanent forms—ships, houses, railways, machinery. Unless labor is constantly exerted in preserving and renewing them, they will almost immediately become useless. Stop labor in any community, and wealth would vanish almost as the jet of a fountain vanishes when the flow of water is shut off.*

What did primitive man or the early colonial settlers along the Atlantic seacoast do with each item of wealth they produced? When they went hunting or fishing, they went to obtain food for consumption, immediate or future consumption. They might also have used part of their catch of fish to fertilize the soil for their crops, and they certainly used the skins of fur-bearing animals for clothing. If they built a hut or a cabin, they lived in it. There was no interference with production for use; there was no State to say "restrict the acreage you plant and we'll take someone else's money and with it pay you well for whatever you produce even though we might throw part of that produce away."

In essentials, we are no different from primitive man or from the early colonial settlers along our seacoast, notwithstanding our magazines and newspapers, televisions, radios, telephones, airplanes, and atomic power. We read more, we hear more, we see more, and we travel faster. Primitive man and the early colonists needed food, clothing, and shelter. So did the Greeks of Pericles, and so did the Europeans at the time of Bernard of Clairvaux and Peter Abelard. Even underlying Veblen's trenchant interpretation of the institutions of the machine process and the business enterprise, the peculiar characteristics of our culture, are

* *Progress and Poverty, op. cit.,* pp. 148.

the needs for human wants, foods, clothing and shelter. The human brain has undergone no fundamental change since the days of the latter cave men and our basic needs are unchanged even though our desire for luxuries has blossomed with our command over natural processes.

Wealth is any material thing produced by man from land or the products of land which has exchange value. One must keep in mind that in the economic sense, production means not only the manufacture of wealth, but also the distribution of wealth, that is, the process of bringing wealth to the consumer. Wealth was produced for use by early man, and has been produced for that sole purpose directly and through the mechanism of exchange by man down through the years. Wealth was not and is not produced to be summarily destroyed, or hidden, or discarded. Only by using more and more wealth have we been able to increase our standard of living, that is, have more than the minimum requirements and greater variety of food, clothing, shelter, and the gadgets of luxury, and only by the utilization of wealth in the future, will it be possible—under the great odds of potential world destruction—to increase our "standard of living."

Let us end this brief inquiry into the purpose of the production of wealth by quoting from an editorial in the *New York Times* of September 21, 1953, an editorial which expresses the highlights of this problem which neither primitive man nor our colonial precursors could possibly have created for themselves:

> For most of the past ten or twelve years American agriculture as a whole has experienced unexampled prosperity because it was able to sell unusually large crops at record or near record prices. This situation was the result of the vast demands created by the Second World War, and then by the slow recovery of foreign agriculture after the war, as well, of course, as by the high level of domestic consumption during this period.
>
> Unfortunately, this record level of prosperity came to be accepted as "normal" by many who had capitalized land values upward in the light of the high farm incomes obtainable during this era. Now that a recession from this truly extraordinary period is taking place, the understandable reluctance of farmers to adjust to lower price levels—price levels which are, however, still far from catastrophic—creates a situation in which politicians seek to profit by irresponsible promises. This is aided by the fact that . . . . the new mythology of "parity" . . . . [has become] almost a sacred symbol, though its economic justification is dubious, to say the least . . . .
>
> Farm products are grown, after all, to be consumed, not to be stored in warehouses till we run out of storage space.

It has been said that extended interference with the eternal verities of economic law, that is, natural law, leads only to disaster. The records of the ages and the reasoning of mankind for "piecemeal solutions" would seem to indicate that is only too true.

Ratios for the Year 1952

Tables on pages 34-45, give the fourteen important ratios. with inter-quartile range † for 72 lines of business activity based on 1952 figures. The 72 lines of business activity consist of 36 divisions of manufacturing, 24 of wholesaling, and 12 of retailing. The business enterprises used in this study generally have a tangible net worth of $75,000, or more, that is, they come from the top 8.4 per cent of the industrial and commercial business concerns measured by the size of their investment.*

* *In the column which immediately follows the lines of business activity listed on pages 34-45 and 48-67, is given the number of concerns whose financial statements were studied for each particular line. For certain of the ratios, particularly "Total Debt to Tangible Net Worth," "Funded Debt to Net Working Capital," and the relationships derived by the use of Net Sales and Net Profits, the resultant ratios are based on the figures of a smaller number of concerns than the total listed for the respective lines of business activity. This is due to the fact that relatively few concerns have outstanding long-term liabilities, and because, in certain instances, the figures of net sales and net profits are not available.*

† Explanation of Inter-Quartile Range: *The median ratio of current assets to current debt of manufacturers of automobile parts and accessories is given as 2.46 on page 34. To obtain this figure the ratios of current assets to current debt for each of the 69 concerns were arranged in a graduated series with the largest at the top and the smallest at the bottom. The median ratio of 2.31 was the ratio halfway between the top and the bottom. The ratio of 3.26 representing the upper quartile was one-quarter of the way down the series from the top (or halfway between the top and the median). The ratio of 1.97 representing the lower quartile was one-quarter of the way up from the bottom (or halfway between the median and the bottom).*

(TABLES NOT PROVIDED)

Explanation of Terms used in Tables on Pages 34-45, 48-67, 70-71

AVERAGE COLLECTION PERIOD: *The number of days that the total of trade accounts and notes receivable (including assigned accounts and discounted notes, if any), less reserves for bad debts, represents when compared with the annual net credit sales. Formula—divide the annual net credit sales by 365 days to obtain the average credit sales per day. Then divide the total of accounts and notes receivable (plus any discounted notes receivable) by the average credit sales per day to obtain the average collection period.*

CURRENT ASSETS: *Total of cash, accounts and notes receivable for the sale of merchandise in regular trade quarters less any reserves for bad debts, advances on merchandise, inventory less any reserves, listed securities not in excess of market, state and municipal bonds not in excess of market, and United States Government securities.*

CURRENT DEBT: *Total of all liabilities due within one year from statement date including current payments on serial notes, mortgages, debentures or other funded debts. This item also includes current reserves such as gross reserves for Federal income and excess profits taxes, and for contingencies set up for specific purposes, but does not include reserves for depreciation.*

FIXED ASSETS: *The sum of the cost or appraised value of land as the case may be, and the depreciated book values of buildings, leasehold improvements, fixtures, furniture, machinery, tools, and equipment.*

FUNDED DEBT: *Mortgages, bonds, debentures, serial notes or other obligations with a maturity of more than one year from the statement date.*

INVENTORY: *The sum of raw material, material in process, and finished merchandise. It does not include supplies.*

NET PROFITS: *Profit after full depreciation on buildings, machinery, equipment, furniture, fixtures and other assets of a fixed nature; after reserves for Federal income and excess profit taxes; after reduction in the value of inventory to cost or market, whichever lower; after charge-offs for bad debts; and after all miscellaneous reserves and adjustments; but before dividends or withdrawals.*

NET SALES: *The dollar volume of business transacted for 365 days net after deductions for returns, allowances, and discounts from gross sales.*

NET SALES TO INVENTORY: *The quotient obtained by dividing the annual net sales by the statement inventory. This quotient does not represent the actual physical turnover which would be determined by reducing the annual net sales to the cost of goods sold, and then dividing the resulting figure by the statement inventory.*

NET WORKING CAPITAL: *The excess of the current assets over the current debt.*

TANGIBLE NET WORTH: *The sum of all outstanding preferred or preference stocks (if any) and outstanding common stocks, surplus, and undivided profits, less any intangible item in the assets, such as good-will, trademarks, patents, copyrights, leaseholds, mailing lists, treasury stock, organization expenses, and underwriting discounts and expenses.*