• P.S. to **the NEWS**

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THE NEED FOR PROFITS

"The worst crime against working people is a company that fails to make a profit." John D. Rockefeller? Andrew Carnegie? Wrong. The author of that statement was none other than Samuel Gompers, who headed the American Federation of Labor from 1886 to 1924. The great union leader understood the crucial role of corporate profits in stimulating the investment necessary to create jobs.

Nowadays, business profits carry a less respectable reputation. The false image of the corporate fat cat sucking riches from the sweat of the working man haunts too many public discussions of tax policy and government regulation.

The widespread belief in the myth of exorbitant profits was revealed in a 1975 poll. The average American estimated an average after-tax profit of 34 cents on each sales dollar. The actual figure is about 4 cents. Even the five largest oil firms kept only about 4-1/2 cents of every sales dollar in 1976.

Real business profits (i.e., adjusted for inflation) declined steadily from 1965 to 1970 and have never recovered their 1960s levels.

Federal Reserve Board Chairman G. William Miller, who should know better, recently urged the Carter Administration to consider proposing an "anti-inflation" tax on excess profits as part of a "second stage" of its battle against inflation. He also called for the establishment of "standards for wage and price increases."

Not only are higher corporate taxes and price controls to reduce profits the wrong answer to inflation, but they would only aggravate the equally pressing problem of unemployment, as Gompers understood so well.

Profits are a basic motivation for economic activity. No entrepreneur will bear the high risks of investing in new enterprises unless he can hope for an attractive return on his investment. About half of all new firms fall by the

wayside during their first 18 months, and only a third last longer than 3.5 years.

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In both new and mature firms, profits provide a cushion of internal financing and help to convince outside investors to finance capital needs.

Without the profit incentive to invest, there can be no new jobs, higher wages, growth, or better standard of living. Profits are not wealth taken out of someone else's pockets; profits are wealth created by the two factors that make the U.S. economy the most productive in the world: capital formation and managerial talent.

The current attempt by Congress to reduce the capital-gains tax is a constructive step to improve investment opportunities. Much more, however, remains to be done to reverse the long-term decline of business profits, if investment is to expand significantly. Because of the sluggish rate of capital formation in the United States, less than 18 percent of our Gross National Product goes to investment, as compared to 35 percent in Japan and 26 percent in West Germany.

One villain is the chronically huge federal deficit which, by crowding private borrowers out of the capital markets, diverts resources away from productive investment and fuels more inflation.

Another area where major policy reform is needed is the tax environment for corporations. Former Treasury Secretary William E. Simon, an articulate advocate of private enterprise, recommends (1) ending the double taxation of business earnings (at the corporate and shareholder levels), (2) a. stable investment tax credit {as opposed to the erratic policy we have had since 1962), and (3) revised depreciation guidelines, such as a wider Asset Depreciation Range.

"Our system of taxation bears more heavily on corporations than does the tax system of almost any other major industrial nation," Simon says. Our major trading partners have largely eliminated double taxation on corporate income, and many American businesses complain that U.S. depreciation guidelines place them at a competitive disadvantage with other nations.

The encouragement of profits is clearly in the national interest of all Americans. Congress and the President are better off listening to Simon than to Fed Chairman Miller.

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