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Book I

THE BROAD FINDINGS

CHAPTER 1

AN INTRODUCTORY SUMMARY

1. PURPOSE OF THE INVESTIGATION

WHAT rates of profit do representative American corporations, large and small, earn upon their capital investments in various branches of manufacture, trade, finance and mining—that is, in fields of enterprise in which competition is relatively free and where there is little public regulation?

Over how wide a range are the profit rates of these going concerns scattered at a given time? In what part of the range is there dense concentration of profit rates?

How do these rates fluctuate from one year to the next?

Do the rates that prevail at a given time in one industry tend to equal the rates that prevail in other industries? Do such differences as appear in one year in the profitableness of various industries tend to disappear shortly, or to maintain themselves for considerable periods?

How do the earnings of individual corporations vary, from good years to bad, in different industries?

Do the larger enterprises in one or another industry earn profits at higher or lower rates than the smaller ones?

Such are the principal questions for which the present investigation seeks answers. The answers are not always complete or final. In some instances they seem to be of definite character; in others, they constitute merely what are believed to be good approximations. But the attentive

reader will find that estimates and actual figures are clearly distinguished throughout the volume. Upon the whole, the data are more complete for manufacture and trade, and for their various subgroups, than for the two other divisions, finance and mining.

It should be noted that the questions dealt with concern *variations* in profit rates—variations from year to year, from industry to industry, from small to large concerns, from one corporation to another. To show what these variations are it is convenient to use average rates of profits for the groups treated. Though some of the averages cover over three thousand corporations and a period of ten years, no one should assume that any figure in this book shows the average long-time earnings of all business enterprises in the United States. To guard against such a misconception, as well as to indicate what the results do mean, a detailed examination of the representative value of the samples of data underlying the investigation is made in Book IV. There it appears that the samples yield average profit rates distinctly higher than those realized by all corporations that report to the Bureau of Internal Revenue. But it is no part of the present investigation to determine the grand average rate of profits earned by all business enterprises either in the short or in the long run.

The *raison d'être* of an investigation into the variations among profits of business corporations scarcely requires extended discussion. In all descriptions of the industrial system it is a commonplace that no set of agencies or individuals consciously controls our economic activities. Despite some degree of 'government in business', business men in the United States, indeed in most countries apart from the highly exceptional instance of Russia, are on the whole free to engage in the production, the market distribution or the financing of whatever commodities or services seem

to promise an attractive return upon the capital invested. Not only are men free to choose what products they will make or sell, but also the amount of each commodity that is offered, per day, per month, per year, is left entirely to the decisions of the individual entrepreneurs responsible for its production. That is to say, neither the fixing of specific sales quotas nor the allocation of productive equipment is undertaken by the community itself. Rather is reliance placed upon the unconscious and spontaneous working of the twin forces of price and profit as the instrument of production control. If too much of one product is offered for sale—so runs the common explanation of the operation of this mechanism—its price will fall. Profits in that branch of manufacture or trade will therefore shrink, and production will be contracted until a happy balance is restored. Conversely, an undersupply of any one commodity is supposed to cause a rise of price and an enhancement of profit which lead to an expansion of output. The phrase employed may be 'a balancing of demand and supply', 'an equation', or 'an equilibrium'; but from Adam Smith to Alfred Marshall, this concept of prices and profits as the controlling mechanism that regulates production is fundamentally the same. Under a free economic system it is supposed that men unconsciously and automatically supply one another's wants by varying the relative output of this or that commodity or service in accordance with the comparative rates of net return to be made in the several fields of business enterprise.

To make this mechanism work rapidly and precisely, it would be necessary that (1) business men should have accurate information about the profits realized in all branches of enterprise; (2) capital which had been invested in trades that yield less than average returns could be withdrawn quickly; and (3) no obstacles should hinder

the investment of additional capital in trades that yield profits above the average. Since these conditions have never existed, 'the tendency of profits to an equality' in different branches of industry has been a speculative tenet. How far that 'tendency' has been realized in practice has been a matter of opinion and opinions have varied. Some economists have written as if, over a wide field, business men can make fairly reliable estimates of the profits in different trades, as if sufficient capital can be withdrawn from unfortunate investments to restrict supply and raise prices to a profitable level rather promptly, and as if the hindrances to the investment of fresh capital in flourishing trades, either by those already engaged or by newcomers, are not sufficiently serious to prevent the reduction of prices and profits within a relatively short time. Other economists have hedged about their statement of the 'tendency' towards an equalizing of profits with such careful qualifications that it is difficult to determine what they think concerning actual conditions.[1]

To all who are concerned with the functioning of our economic organization, whether as men of affairs, government officials or investigators, the question of prime importance is the question of what happens in fact. Do the earnings of different industries really cluster closely about some central or average figure, over a period of time? Does competition so function in the industrial system that the differences in earnings rates during any one year are only temporary? That it does so function has often been challenged; but heretofore sufficient data to give a convincing

[1] It is interesting to compare the rather bold statements of Adam Smith (*Wealth of Nations,* Book I, Ch. X) with the more cautious exposition of John Stuart Mill (*Principles of Political Economy,* Book II, Ch. XV) and with the elaborately guarded discussion of Alfred Marshall (*Principles of Economics,* 8th ed., Book VI, Ch. VIII).

answer have not been available.[2] A comprehensive body of materials that has been developed in the Department of Commerce,[3] however, affords a basis for more complete answers to the several questions involved, and the findings obtained through the analysis of those and other data are presented in this volume.[4]

2. CHARACTER OF THE INQUIRY

Book I gives the principal facts and conclusions, which Books II and III develop more fully. Doubtless the busi-

[2] William L. Crum, *Corporate Earning Power* (1929), presents data for the net return on gross revenues over a considerable period, while Lawrence H. Sloan, *Corporation Profits* (1929), analyzes the return upon investment for specific industrial companies and groups in 1926 and 1927. Other investigators—J. E. Sterrett, J. P. Müller, David Friday, J. H. Bliss and S. H. Nerlove—have discussed the return upon invested capital, but not for both a ten-year period and for the numerous subdivisions of industry designated in the present volume as 'specific industries' or 'minor groups'. Nerlove's *A Decade of Corporate Incomes* (1932) covers the period 1919–29. Raymond T. Bowman, *The Statistical Study of Profits* (1934), discusses the frequency distributions of earnings rates in a wide number of industries, utilizing data developed by the Federal Trade Commission, the Department of Commerce, and other agencies. Other writers, Lucille Bagwell, Horace Secrist, and most recently Leland Rex Robinson (Corporate Earnings on Share and Borrowed Capital in Ratios of Gross Income, *American Statistical Association Journal,* March 1934) have made illuminating contributions to the subject of earnings ratios, but have not had available comprehensive data for specific sub-branches of industry, or what in the present volume are termed 'minor groups'.

[3] Ralph C. Epstein, in collaboration with Florence M. Clark, *A Source-Book for the Study of Industrial Profits,* 1932. This is the source for all the basic data on which the analyses of the present investigation rest, unless otherwise indicated.

[4] Only the competitive fields of manufacture, trade, finance and mining are covered by the statistical data of the *Source-Book* cited, and only those four divisions will be discussed in the present study. They include the great bulk of what is ordinarily termed 'competitive' as distinguished from 'regulated' industry; construction and 'service' activities, such as restaurants, hotels and garages, are all that is omitted, save agriculture, in which the corporate form is somewhat anomalous. Earnings data upon railroads, public utilities and other regulated industries are available in the reports of the Interstate Commerce Commission and those of other Governmental rate-making and regulating bodies.

ness man, the investment banker and the general reader will find that Books I–III surpass in interest Book IV, which goes further into detail as to the significance of the data, methods of compilation and the like. But it must be borne in mind that most of the summary facts and estimates presented in Books I–III do not hold entirely without qualification, even though in many instances this qualification may be slight. The reader who wishes to utilize either the actual figures or certain of the estimates to obtain more than a 'sense of direction' or a notion of 'general drift' concerning a particular industry or group ought therefore to examine such qualifications as they are discussed in Book IV. This is also true for the more general purposes of either the economic theorist or the student of business cycles. Frequently the significance of the findings in one direction or another, even when the data are taken *en masse,* depends upon the importance attached to the several margins of error to which they may be subject.

There are, to be sure, scholars who would allow the inevitable obstacles to the attaining of precise results to deter them entirely from pursuing any investigations such as the present one. These persons can adduce many cogent reasons why this conclusion or that can never properly be regarded as possessing much validity, if it is in part predicated upon assumptions that cannot always quantitatively, within the closest of limits, be proved correct in all their implications. There being doubt concerning the absolute impeccability of some of its conclusions, such a study, they reason, ought not to have been made. This, however, is a defeatist attitude. Moreover, it does not entitle the holder to be regarded as 'scientific' simply because of his skepticism. The important thing is not the presence of ambiguity or errors; but, how *great* are the probable margins of error and to what extent can they affect the ultimate results? These are the sole

questions of interest in appraising the validity, or the usefulness, of any piece of knowledge of the statistical, as contrasted to either the historical or the mechanical type.[5] An effort has thus been made to explain, either in the footnotes of Books I–III or in the text of Book IV, the underlying and contributory factors that may reasonably throw doubt upon, as well as support, the validity of the figures finally arrived at, for one purpose or another.

But in appraising the scientific utility of this or that summary figure—whether it be an amount or a ratio—the phrase, 'for one purpose or another' should be especially noted. Granted that the proper degree of care and conscience has been employed in the mechanics of its tabulation, a set of statistics such as this is rarely either entirely good or bad in an absolute or 'intrinsic' sense; its worth is purely functional or 'purposive'. To be sure, some collections of statistics are for almost no purposes useful. But the value of any compilation that has been honestly made and is reasonably free from mathematical error is variable. It may range all the way from *nil* to a very high point indeed, depending on the problems one seeks to solve.

3. RELATIVITY IN THE INTERPRETATION OF STATISTICAL DATA

Take, for example, the bearing which the valuation of assets has upon the validity of profit rates. Probably most corporations, by and large, no longer overvalue rather than undervalue their assets, relative to 'prudent investment' or to actual cost. But imagine that this is not so; and

[5] *Cf.* F. C. Mills, On Measurement in Economics, in *The Trend of Economics* (R. G. Tugwell, ed.); also Hans Vaihinger's concept of the 'as if' (*Die Philosophie des Als Ob*, cited by Havelock Ellis in *The Dance of Life*, Ch. III).

assume that the corporations included in manufacturing industry as a whole carry their assets at figures which average 50 per cent over actual (original) cost. Under these conditions, if net worth or invested capital amounts were drawn off the balance sheets, the aggregate capital investment would exceed by about one-half the figure at which it would otherwise be shown. This is of course an extreme assumption. If, however, it were so (and sufficient facts were not known to make possible any reliable correction or adjustment), the data would be valueless for purposes of, say, the social theorist whose primary interest lay in seeing just how much the return to entrepreneurial capital is, or of the socialist or other critic of the economic order who wished to see how 'high' a return was being made by 'capitalists' in general. But to the economic theorist whose interest lay in ascertaining whether an equality of return *among different industries* really is approximated, such inaccuracies in investment figures[6] would not much impair the usefulness of the data unless it appeared that the practice of one industry was, in general, very different in this respect from that of another. Or to the student of business cycles, whose interest lay in the fluctuations of profit rates from year to year, such inaccuracy in valuation might not constitute a vital defect unless the extent or direction of the error itself substantially changed during the period under review.

Questions such as these are treated in Book IV. It is not believed, however, that such extreme qualifications as the hypothetical one just suggested really attach to any of the data here presented, taken in their aggregate or average forms. Errors of 50 per cent or more may well be present in the individual figures for any one, two or three corpora-

[6] Inaccuracies, that is to say, from the point of view of valuation based upon original cost.

tions in a group, but hardly for the entire series averaged together. Some reliance, in other words, may be placed upon the 'stability of large numbers' in assaying the probable validity of many of the data presented.

The reader who is willing to take on faith the underlying technique of compilation may accept without any great reservation the findings given in the present chapter, and also in the other chapters of Book I, as representing general summaries of fairly accurate approximations. Certainly this holds true of all 'major' group figures (for example, Food Products or Textiles). The 'minor' group figures (for example, Bakery Products or Railway Equipment), presented mainly in Books II and III, are sometimes to be used more carefully; but doubtless their representativeness as 'samples' will be appraised by the persons most interested in, and best acquainted with, the specific industries in question. Finally, the careful and patient reader who takes nothing on faith and who wishes to know the limits of error present, in so far as these can be estimated, can supplement his provisional acceptance of Books I–III with a close study of Book IV, which necessarily is addressed to the professional economist or accountant rather than to the lay analyst or general reader.

4. A CONCISE SUMMARY OF RESULTS

For the convenience of the reader who first desires a short summary of some of the outstanding results of the study, concise answers are here given to the questions raised at the beginning of this chapter. Qualifications are omitted, only the bare findings being outlined. Their economic and social implications are discussed elsewhere, particularly in Chapter 47.

(1) The average rate of return earned upon invested

capital by the large American manufacturing, trading, financial and mining corporations of our sample in 1928 was 10.7 per cent before the payment of Federal income taxes, and 9.6 per cent after such taxes,[7] as shown by the figures for 3,144 companies for which data were compiled over a ten-year period. The return in 1926 was 11.5 per cent before taxes and 10.2 per cent after taxes. In the depression year 1921 the figure was 4.4 per cent before taxes and 3.4 per cent after taxes. In all instances the income figures are the net amounts remaining after subtraction of the deficits of corporations which suffered losses.[8]

For the ten-year period 1919–28 as a whole, the aggregate net earnings of these 3,144 large corporations amounted to 10.5 per cent upon their combined investment before taxes, and to 9.2 per cent after taxes. In other words, an owner of the capital stocks of *all* these corporations would over this ten-year period have averaged approximately a 9 per cent return upon his equity, year in and year out, although in one year his return might have been four or five times as great as in another, the range being from 12.8 per cent after taxes in 1919 to 2.4 per cent[9] in 1921. Between 1922 and 1928, however,

[7] These averages are weighted, in accordance with the relative importance of manufacture, trade, finance and mining in the nation's economic structure. For details, see Appendix A, section that discusses Table 2, Ch. 2.

[8] The averages cited in this section, however, are for the earnings of large corporations that remained in business continuously during the period 1919–28; they do not reflect earnings rates for *all* corporate enterprise; see Ch. 43.

[9] These figures are not weighted as are those explained in a preceding note, since an hypothetical 'owner of the capital stocks' of the 3,144 corporations of the sample would receive simply the arithmetic average return. The difference between the weighted and unweighted figures, however, is slight. 'Equity' includes, of course, the book value of reinvested earnings (corporate surplus) as well as capital stock, and is shareholder's equity in the accounting and economic senses; the expression does not refer to the market prices that may be paid for such equities by other than original holders.

the range of the return was only from 9.6 to 11.5 per cent before taxes, and from 8.6 to 10.2 per cent after taxes. Since the comparability of earnings rates from year to year is somewhat affected by changes in Federal income tax rates, the figures given in the remainder of this summary (and elsewhere in the volume unless otherwise noted) will be for earnings before the payment of such taxes.[10]

(2) The range between the earnings rates of different industries and trades is wide indeed, either in any given year or over a period. In 1928, of the 106 different manufacturing, trading, mining and financial groups in which our large corporations data can be separately tabulated, 8 industries show earnings of less than 5 per cent upon their invested capital, while 3 industries show rates of over 25 per cent. The extreme range of the 106 earnings rates is from 1.3 to 27.3 per cent. Summarizing the situation more completely, 42 of the industries earned under 10 per cent, 59 from 10 to 19.9 per cent, and 5 from 20 to 27.3 per cent.

The year 1928, however, was one of prosperity. What

[10] There are arguments for and against doing this. To be sure, the income that the owners of corporations actually realize is what remains after income tax payments. But when tax rates change markedly, or when they are themselves based upon the rate of profit upon capital (as with excess profits taxes), a better clue to comparative earning power—at different times and between different industries—is perhaps afforded by the figures before Federal income tax payment. (This is said with recognition of the possible inconsistency involved because local and state taxes are treated as deductions in both cases.) The figures for Federal income taxes are, however, given in Appendix B and may be utilized by the reader who wishes to compute any particular figures after subtracting all taxes.

It is further to be remarked that consideration of net income figures before the payment of income taxes is quite as permissible in analyzing corporate earning power as in surveying the incomes of persons. When we think of one individual's income being, say, twice that of another, or of "86 per cent of incomes being under $2,000 a year", we have in mind earnings before taxes (levied in some proportion to earnings) have reduced them.

do similar figures show for a year of depression? In 1928 none of the 106 industries showed deficits (some *companies* in each industry did, but not any industry as a whole). But in 1921 the range of earnings rates was from a net loss of 12.6 per cent upon investment to a net profit of 29.2 per cent. Fifteen of the 106 industries had deficits, the figures running from a fraction of 1 per cent of the amount of their capitals to the 12.6 per cent loss just indicated. Sixty-one industries showed earnings rates of from 1 to 9.9 per cent; 25 more earned from 10 to 19.9 per cent; and 5 earned over 20 per cent.

Taking the decade 1919–28 as a whole, and aggregating the annual earnings for all ten years in each of these 106 industries, we find that their earnings rates for the entire period range from 1.9 to 31.6 per cent. Twenty industries show earnings of from 1.9 to 9.9 per cent; 57 earned from 10 to 14.9 per cent; 22 earned from 15 to 19.9 per cent. The remaining seven industries earned from 20 to 31.6 per cent. The most common return is thus between 10 and 14.9 per cent; but as will appear shortly, this does not denote the existence of an average or central rate towards which all industries tend to 'gravitate'.

(3) Data for 71 large manufacturing corporations, available for the 13-year period 1919–31, show a 3.8 per cent return upon investment in 1921, a 10.4 per cent return in 1928 and a 3.6 per cent return in 1931. For all 13 years together the aggregate return is 10 per cent.

(4) For the ten years 1919–28 aggregated, 2,046 large manufacturing corporations show a net return of 10.8 per cent upon investment. The most profitable industry shows earnings of 31.6 per cent for the period, while the least profitable records earnings of only 1.9 per cent.

Of the 73 industries into which the entire manufacturing

field has been divided, the following ten are most profitable (aggregate results for the entire ten years in question):

	Per Cent
Toilet Preparations	31.6
Newspapers	25.6
Scientific Instruments	25.5
Miscellaneous Printing and Publishing	22.9
Proprietary Preparations	20.8
Motor Vehicles	19.7
Confectionery	17.8
Planing Mills	17.7
Road Machinery	17.5
Boots and Shoes	17.3

The following ten industries are least profitable:

	Per Cent
Meat Packing	1.9
Beverages	3.8
Castings and Forgings	5.8
Rubber Products	5.9
Miscellaneous Leather Products	6.8
Weaving Woolens	7.2
Stationery	7.4
Miscellaneous Food Products	7.9
Railway Equipment	8.1
Blank Paper	8.4

Half of the 73 industries show earnings, for the ten years, of over 13.6 per cent upon investment; the highest quarter earn over 15.8 per cent, while the lowest quarter earn under 10.6 per cent.

(5) When the industries that show the highest rates of profits in any given year are followed through successive years and their earnings rates checked, they show no substantial declines in earning power. In other words, not only do discrepancies exist among the earnings rates of different industries for a period, but the 'high' industries of any given year are also high industries in most succeeding years. While considerable shifting of position takes place, no general tendency towards an 'equality of profit rates' is

discernible. To illustrate, Toilet Preparations was the third most profitable of all 73 manufacturing industries in 1919. It was the most profitable in the depression year 1921, again the most profitable in 1922, and the third most profitable in 1928.

In some industries long-time increases or declines in relative earning power are to be observed, but secular influences of this sort in no way suffice to bring about any approximately uniform rate of long-run return; at least, competition brings no such result about over the ten-year period studied. It is to be observed in this connection that while some of the 'high' industries are those characterized by the possession of trade-marks, etc., on the part of the corporations that belong to them, few are industries commonly regarded as subject to monopoly control. Nor *are* they really 'monopolized' in any usual sense of the term; numerous independently-owned enterprises operate and 'compete' in each of the industries in question.

(6) In every industry wide variations exist between the average return on investment and the rates received by the individual corporations whose incomes and capitals contribute to that average figure. Taking first manufacturing as a whole, the average return on investment received by 2,046 large corporations in 1928 was 11 per cent. But one-quarter earned under 6.6 per cent; half earned from 6.6 to 18.4 per cent. The highest quarter earned over 18.4 per cent.

Generalizing upon the basis of the data of this and other samples for smaller corporations, our estimate is that in years other than those of depression, about a third of all manufacturing corporations in the country earn over 10 per cent upon their investments, and about a sixth earn over 18 per cent. But at the same time roughly half of the com-

panies earn under 5 per cent, a number experiencing deficits.[11]

(7) But of the manufacturing corporations *that show net incomes,* approximately half earn over 10 per cent on their investments in years of prosperity, while one-fourth earn over 18 per cent. The earnings of the lowest quarter range from 1 to 5 per cent.

Of the trading corporations with net incomes of over $2,000, in years other than those of depression, one-half earn over 13 per cent upon their investments; one-fourth, over 20 per cent, and the lowest quarter, from 1 to 8 per cent.

(8) Shifting our emphasis from the *number of corporations* earning net returns upon their capitals to the *amount of capital* on which a profit is earned, we find that in prosperous years such as 1926 or 1928 about 95 per cent of the capital of our 2,046 large manufacturing companies earns a net income. In a poorer year such as 1927 about 90 per cent of the capital shows a net return, while in a year of severe depression such as 1921 net incomes are earned on 70 per cent of the total capital investment.

(9) The larger manufacturing enterprises, in the main, do not earn profits at higher rates than the smaller ones. In 1928, for example, 1,421 small companies, with invested

[11] No effort is made to estimate the exact proportion with deficits. The definition of a true deficit in the case of small corporations is difficult because many enterprises that report deficits are 'close' concerns in which the deficit appears after the payment of relatively large managerial salaries (large relative to the corporation's income before their deduction) to the corporation's owners (see Ch. 43). The common impression, based upon Bureau of Internal Revenue data for *taxable* net incomes (in the technical or legal sense of that term), that "about 50 per cent of the corporations in the country lose money" is misleading because of this difficulty of definition. To be sure, the figures for publicly-owned corporations are frequently subject to questionable accounting practices also, ordinarily of other sorts (see Ch. 45). Apart from exceptional instances, however, the latter are seldom so pronounced as to convert book profits into nominal losses.

capitals mostly under $250,000, earned an average net profit of 11.3 per cent, while 1,970 larger companies, with capitals of over $250,000, earned 10.6 per cent.

But the net incomes received by companies with capitals ranging from $250,000 to several hundred million dollars each indicate that by far the highest rates of profit are earned by the corporations with capitals of from $250,000 to $500,000. In both 1924 and 1928 the latter averaged earnings of 20 per cent upon their investment, while the very largest companies of all, those with capitals of over 50 million dollars each, earned less than 10 per cent in both years. The evidence seems fairly clear that, beyond a certain point, mere size is accompanied by no increased effectiveness in production, at least as reflected in terms of earning power. In spite of the successful income showings of some of our largest corporations, numerous smaller companies not only equal but excel them in earning capacity per dollar of capital invested in the business.

(10) Analysis of the data upon earnings rates, sales and investment for the broad upswing in general business that occurred between 1922 and 1929 shows that the peak of profits, in terms of the rates earned upon investment in many industries, was reached in 1926 rather than in 1928 or 1929. Contrary to popular belief, 1926 was a more prosperous year than 1928, and was just as good as 1929.

(11) The percentage of manufacturing industry's gross income, as measured by sales, that goes to 'capital' in the form of long-time interest and net income together shows no substantial change during the years 1926–28. Interest payments on funded debt plus net income on capital stock and surplus amounted to about 10 per cent of the gross product of industry in *each* of the years 1925, 1926, 1928.

(12) As has already been remarked, the major groups of manufacturing industries (such as Foods, Textiles,

Metals) and likewise specific industries in each group (such as Castings and Forgings, Motor Vehicles) varied greatly among themselves in respect of earnings rates in any one year. But more important, for purposes of cyclical study, the courses of their earnings over the period 1922–28 varied enormously. Only one-fifth of the 73 industries analyzed show increasing earnings rates over this period. Another two-fifths show marked declines. The remaining two-fifths either remain stable or show such fluctuations that no trends are detectable.

In over one-sixth of these 73 industries capital investment increased faster than the volume of sales, in spite of the fact that earnings rates were declining both absolutely and comparatively. This indicates either that the facts were unknown to entrepreneurs or that changes in profit rates fail to function in directing the flow of productive resources as efficiently as is ordinarily supposed. One reason for the failure of declining earnings rates to halt investment may be that the cost of new capital during the period in question was substantially less than even the declining return that was being obtained upon the capital already invested in these industries. But, in order to be permanently profitable, any additional fixed investment in plant and equipment must yield a return that exceeds its annual charge *over the period of its entire life,* and not just for a few years. Whether many of the investments made in these industries during the late years of the period 1921–29 will do this remains to be seen. But there can be no doubt that unwise expansion in several industries contributed to the crisis of 1929–30.

(13) Consumers' goods industries in general enjoy both higher and steadier earnings than those which manufacture producers' goods. When consumers' goods industries are divided into those making highly durable goods, those making goods of intermediate durability and those making

quickly consumable goods, the sales of highly durable goods show by far the greatest increase in 1922–28. The sales growth that occurred in the group of industries making consumers' goods of the highly durable type points significantly to the relatively high state of 'consumers' inventories' that prevailed at the time of the 1929–30 collapse.