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### Notes on Stu Chase's Harpers Article

The new fact in the TNEC testimony, brought out by Chase, is the curious effect of depreciation reserves. Even if the reserve for each machine were exact, so as to set aside its cost just as it wears out, the new machine becomes a capital increase. For either the new one is cheaper, or it will produce more, because of progress in technology since the previous one was bought.

The final result, so far as continuing corporations is concerned, may be that their growth can go on with no new capital from either internal or external investment. They can even take on new products in place of old, by replacing amortized plants with different types of plant.

In fact, it could happen that an investor putting 1 million dollars into a plant to make cellophane would cause a tinfoil plant to close fully amortized, and return to the owners a million dollars in liquidation, leaving no reduction of the liquid capital in the market.

In practice, the formation of new corporations will ordinarily take new capital, and the old corporations forced out will close not fully amortized, with a loss of capital. This process will use up some liquid capital, but with practically no net increase of the total capital in business.

Altogether, it appears that when a high percentage of business is done by continuous corporations, expansion can go on as fast as the market actually grows, with practically no saving or investment at all. It has not been recognized that in these cases technical progress takes the place of new investment, and may entirely displace it. The only place for new investment would be in the margin where new corporations sprout, which is an extremely small fraction of the total.

This casts light on the Republican theory that with confidence a vast amount of new investment would occur. Where? Housing, a possible increase of a billion over present rates. Power, say half a billion. Railroads, nothing unless they go through the wringer, which is a reduction of investment, not an increase. Industry, new money not over 2 billion. Total say 6 billion, but it would have to be 15 billion to get prosperity. They are caught in a road that is petering out to a narrow trail.