

We are not talking about very large magnitudes.

Senator BUSH. Why is the rate of profit declining? Why is it so disagreeably low, in your estimate? What are the principal factors that bring about that condition, which is so serious in your mind?

Mr. ELLIS. Importantly because costs have risen and are still rising, and foreign competitive prices are lower than prices in the United States.

The steel industry is an outstanding example. It is difficult to sell steel abroad at the prices that apparently are necessary in this country to make a profit on the steel investment. It is difficult to sell American automobiles abroad, with our costs.

Senator BUSH. What do you think we can do about that?

Mr. ELLIS. We must do what has been mentioned here at the table: Increase the productivity per man, and per man-hour, so that we can get our costs down and therefore our prices down to a competitive level. That is the ideal.

At least we ought to hold costs in this country, so that if other countries, as in Western Europe, for example, do inflate their prices, it would be to our advantage.

Senator BUSH. Do you think American industry is doing a pretty good job of holding costs in line now?

Mr. ELLIS. Steel wage rates recently went up. Other wage and salary rates are rising. Social security taxes are going up the first of the year. State and local tax rates are rising. Transportation costs are rising. Postal rates may be raised. A lot of costs are still rising. In construction, for example, it may be that one of the difficulties with construction is the very high level of cost of construction. I think this committee has heard frequently about the difficulties caused by rising residential construction costs.

Senator BUSH. Principally in high costs of labor. Is that right?

Mr. ELLIS. Well, basically labor, because most costs are labor costs.

Senator BUSH. In construction?

Mr. ELLIS. In everything. Most costs of production are labor costs. By labor I do not mean wages only. It includes salaries. It includes the research people. It includes the sales people, the clerical people, everybody. Payroll is the primary cost item in anything.

Senator BUSH. What do you think is needed to sort of bring the realization of this thing home to those in authority? What do you think can be done about it to help us stabilize this cost situation?

Mr. ELLIS. We need to recognize the function of profit in the American economy. Profit is the stimulator in the American economy. If we had the acceptance of that fact, rather than the attitude that frequently prevails—that profit is a nasty word—the American economy would grow faster. To put it bluntly, if the administration would come out for a satisfactory rate of profit, I think businessmen would increase the purchases of capital equipment and their employment.

It could not be done overnight. It is not something sudden. But I think that is the direction in which we have to go. We have to recognize that the American economy is a profit-stimulated economy; not a Government-stimulated economy.

Senator BUSH. You do not feel that the business authorities have a sense of real security in the attitude of their Government toward this important point. Is that right?