of having us pay more to those who lend us our own money, and I am sure he honestly believes in this policy, in early 1957 before the Senate Finance Committee, said that we needed to do this because consumption was too high and investment was too low and savings were too low.

Yet in early 1957, we had enormously idle plant capacity. The financial institutions were stuffed with savings, and we had a tremendous deficiency in ultimate demand, just as we have now. So a little while later, in consequence of this policy, we got into the worst recession since World War II from which we have never recovered; and the next year the same gentleman came before the same committee and said that the big trouble we had a year earlier was the great deficiency in consumption and that investment was outrunning consumption.

Those who make policy should be more contemporaneous with events. Their observations should not be matters of hindsight only. I think we are now in the same kind of situation basically. I agree with Dr. Saulnier that investment is too low. There is no question that it is, but why is it too low? When you move from what I might call generalization to a specific examination, industry by industry, company by company, total by total, the break-even point is not too low. The steel industry has a break-even point below 40 percent. This does not mean that costs are too high relative to profits per unit.

If they are not making enough money, it is because they have been operating at low capacity for the last 5 years or longer. I hope the committee will very carefully study these factual examinations I have made, and I am always glad when economists come forth and on the basis of a different set of figures show that there is something wrong with my analysis but there is really no way of matching analyses in terms of the data against an analysis in terms of generalities.

The fact of the matter is, as I see it, that a crucial characteristic of American industry is that it generates, at a given level of operations, a level of profits above what it can enduringly invest as against the markets which are militated against by too low a level of ultimate demand.

This has happened over and over again. It has happened four times since 1949. And it is happening again now. There is nothing wrong with first quarter profits, 1962, in any basic industry, with some rare exceptions, which would disprove the general rule. The only thing wrong is that business is operating at too low a level of capacity, and this is relevant in my view to tax policy, and to money policy, and to other basic policies, and it applies to price-wage policy fundamentally.

Chairman PATMAN. Thank you, sir.

Senator BUSH. Mr. Chairman, I have another question.

Mr. Keyserling, you and Dr. Saulnier agree about the investment factor being too low. I mean you do agree that that is one of our problems; is that right? You just said that?

Mr. KEYSERLING. Yes, sir.

Senator BUSH. Dr. Saulnier has developed a thought in here that hasn't been developed before this afternoon in these hearings this week which has to do with the question of cost. I am very much impressed with his argument here about the need for a better control