I say that a workable division is a good division. Then I look at wages, and I look at profits, and prices are a factor in both, because the price level determines the real buying power of the wage as consumption, and the price factor determines the real buying power of the profit as investment.

First I look at the wage side, and I say wages have two functions. One of the functions of wages is to play its part in consumption. Taking that one first, I find a deficiency in consumption relative to the actual productive capacity in being of the American economy Therefore, I reach the conclusion that, from the viewpoint of the consumer side, the wage increases have not been too high. In other words, they haven't produced a redundancy of purchasing power.

Then I go over to the profit side. I ask, Have the wages been too high from the viewpoint of leaving over enough profits after wage costs, after payment of dividends, after all other costs, to fulfill the investment function, which gets back to the cost per unit idea? Are the wage costs per unit and other costs per unit leaving the business with too small a margin of profits per unit?

The more I study the figures, and I know I am objective, although I may be wrong, as any economist may, the more I reach the conclusion, which I think is supported by all the data shown on individual industries and on the overall picture, that in each period of upturn the profits after taxes, after wage costs, after all other costs, have been too high per unit and have been too high in the overall to be used fully, and that is the only workable test of profits.

Oh, these profits have been used for a while, when we have gone up in one boom or another, but then we have had a tremendous downturn in investment, which has propitiated the successive recessions. These downturns haven't come because of an inadequacy of profits, because then they could never start. There certainly were plenty of profits during the upturns. They didn't come because of too high a wage cost.

What has happened is that the profits have been so high, after allowing for all costs, including wage costs, that they led by way of investment to tremendous excess capacity, and then downturns came. I think this is the fact of our American economic life. I don't cite it as an indictment of business. I wish that business followed a price policy and a wage policy that kept the economy in better balance. They would make more profits in the long run and they would invest more in the long run. But I can't find, and I have asked various economists—they will talk in a general way. Let me give an illustration.

Senator BUSH. You are not worried about the effect of this upon our competitive position, both at home and abroad?

Mr. KEYSERLING. Well, it is the same problem. If you say that the reason that the prices are so high in America is because the costs are too high, then you say that you have to reduce these costs, including wage costs, to get a lower price. But if you say, as I say, that the existing price is too high, not because the cost is too high, but because the profit margin per unit is too high, then you reach my conclusion. I think this conclusion is supported by the repeated collapse of each successive investment boom and each profit boom. I cannot look at the profits of any of our key industries during the past years, or first quarter of 1962, and reach the conclusion that their costs are militating against an adequate level of profit for all investment purposes.