

ary problem, and in so doing we have ended up with a policy which embodied what I would call restricted output, or if you will, underutilization of capacity.

Dr. Adams and Dr. Kahn earlier referred to, in the private sector, a target rate of return approach—production policy set with 60 to 75 percent of capacity as the normal, as the target, as the optimum, if you will.

Now, what I am saying is that it is a rather curious bit of irony that what has been discredited as a national policy of restrictionism in terms of utilization of our capacity for the purposes of insuring stability, has been adopted by large, powerful corporations as a private policy. These firms, I think, have been important enough, and their impact on the economy has been sufficiently great, to bring about in the aggregate the very effect that we did not wish to bring about, as a national policy, namely, underutilization of capacity.

Senator BUSH. Just one question, there.

You are not suggesting, for instance, that in steel, let us say, which is running at a rate very short of capacity now—

Dr. LANZILLOTTI. Yes, sir.

Senator BUSH (continuing). That that is a deliberate restrictionist policy on the part of this industry or these corporations, are you?

Dr. LANZILLOTTI. Yes, Senator; I am.

Senator BUSH. You are?

Dr. LANZILLOTTI. Yes, sir.

Senator BUSH. That is what I wanted to bring out.

Dr. LANZILLOTTI. Yes, sir. I am saying that these firms are sufficiently large, they are sufficiently powerful, to be able to gear their operations, to tool up, and on the basis of statements made by steel executives, statements made by the General Motors Corp., they gear their operations to earn a target return, a profits return, on their investment, predicated upon a utilization of 60, 75, or 80 percent of capacity as the norm. This is precisely what I am saying, Senator.

Senator BUSH. And you are saying, really, then, that today they could be doing much better, could be turning out much more steel, than they are doing, because of the restrictionist policy that they employ?

Dr. LANZILLOTTI. Senator, you express it much more clearly than I do. This is precisely what I am attempting to put across.

Senator BUSH. Then I am much more surprised.

Senator PROXMIRE. You are not saying the optimum rate is necessarily 65 or 70 percent. The break-even point for steel, Gardner Means testified to us—he has not been contradicted—may be 35 or 40 percent. Some say it will be a little higher. But the optimum rate might be up as high as 85 or 90 percent.

McGraw-Hill testified to us that in general in industry, and they are talking about manufacturing industry, the optimum operation is around 90 percent, that after that you get such a full utilization your marginal costs begin to rise.

So I would think that if McGraw-Hill is just roughly right, even though the steel companies operate at 65 percent of capacity and can be very happy and pay good dividends and make quite a bit of money, they would be a lot happier if they could maximize their profits and go on up.