Is that not correct?

Dr. LANZILLOTTI. Senator Proxmire, I admire your grasp of the economics of this problem.

I would like to return the question with the question: What do you mean by "optimum"? Are you speaking of an optimum in the sense of the least cost? Or that particular rate of operation which the firm's engineers would particularly like to see the plant operate at? Or are you speaking of an optimum in terms of higher national objectives?

Senator PROXMIRE. I am speaking of optimum in the technical way McGraw-Hill does, that point of operation at which you maximize profits. For most firms, according to McGraw-Hill, it is about 85 to 95 percent. This seems to be the average.

Dr. LANZILLOTTI. This emphasizes only the cost side of the picture, Senator. And even though, as you put it very well, marginal costs or incremental costs begin to rise beyond that, it does not mean, of course, that there are not profitable operations beyond what engineers may stipulate as an engineering optimum.

Senator PROXMIRE. I pressed McGraw-Hill on this. They said generally if firms went above 90 percent, they actually would reduce profits on the overall.

In other words, that you get to a point where your marginal costs exceed your marginal revenue.

Dr. LANZILLOTTI. Well, that I think is considerably beyond the point which you would term "optimum." I think what you are saying is that the per unit costs may be larger in that range.

But certainly not total profits going down, until you reach the point where, as you indicate, incremental costs exceed incremental profits; which is quite beyond that.

And I would merely submit that during the periods of the war and postwar periods, when plants were being operated, at what may seem to be an impossible rate of 104 and 105 percent of capacity, these corporations were very profitable indeed. I think the record is quite clear on this point.

So that the point which we are currently discussing, namely, "Would it be possible for these corporations to operate profitably at a higher rate of utilization?"—yes.

The basic point I am making is that they are able to set a lower rate at which they can make satisfactory profits. I do not know that they are intending to make what you would call maximum profits.

I would like to have them drive for maximum profits. But I would like to have them do that under the discipline of the marketplace, rather than, as Dr. Adams and Dr. Kahn have indicated, on the basis of their own private discretionary power.

Senator PROXMIRE. Well, now, Senator Bush and I have interrupted the usual procedure of the committee, which I think works quite well. And in fairness, I think, to the other members, why do you not go ahead with your paper, and we will come back to this?

I think this is extremely provocative. You finish up, and then come back, and we will all get into it.

Dr. LANZILLOTTI. Very well.