Doesn't this suggest that the economic policies of the period of 1961 and thereafter have been successful in reducing unemployment, and that the economic growth inherent in that reduction in unemployment has redounded to the benefit of manufacturers, as shown by the steady increase in their after tax profits?

Mr. HAGEDORN. I sort of draw the opposite conclusion, Congressman. Yes, the policies that have been pursued have had good results, both on the profit side and on the employment side. The train of causation in my mind is that the general policies pursued have permitted a rise in profit margins, and that rise in profit margins has caused employers to hire more people and to relieve the unemployment problem. That would be my analysis of the train of cause and effect. May I explain why?

Representative REUSS. Surely.

Mr. HAGEDORN. First of all, on the general principle that people are hired because it is profitable for somebody to hire them. This is the basic fact you have to recognize on the question of how big unemployment is going to be in a free economy.

Representative REUSS. People hire them, though, depending on the level of total demand.

Mr. HAGEDORN. Well, it has to be a demand that makes it profitable for you to hire them. You are not going to hire people just to satisfy a vague demand that exists out there, if the cost level is such that you lose money satisfying that demand. It has to be demand under conditions that makes it profitable to supply the demand.

Second, I don't know whether I can illustrate it from this chart. If you look at the fine detail, you find that the unemployment rate tends to turn up somewhat after the profit margin turns down. For example, the profit margin actually reached its peak in 1956, but the peak of the business cycle itself you will recall was in 1957, and unemployment didn't start rising until the end of 1957.

This point could be illustrated better with monthly figures or with quarterly figures. But if you look at the fine detail, you find that the profit margin is one of the first things to turn in business turns, whereas employment is one of the last things.

Representative REUSS. What we have had is policies since 1961 which have obviously been successful in reducing the unemployment rate. Equally, the after tax profits of manufacturers have gone up percentagewise. Now I would have thought, very frankly, that the pleasing performance of the after tax profits of manufacturers was due to the greater use of the economy, as indicated by the reduction in unemployment.

You aren't suggesting the exact opposite, are you, that it should be the task of Government to concentrate on increasing the after tax profits of manufacturers, and then that will then tend to bring down unemployment?

Mr. HAGEDORN. Well, I think I am suggesting that you should move very cautiously in doing things that obviously would reduce those after tax profit margins, because it will have a repercussion on employment. Yes, sir, I am saying that.

Representative REUSS. Well, it's an interesting position, and I suppose it is the "chicken and the egg" school.