Mr. HAGEDORN. Perhaps I have oversimplified it.

Representative REUSS. I am much more impressed, I must say, by what actually happened, where the governmental attack was on unemployment, and unemployment did go down, and where the after tax profits went up for what seems to me the logical reason that with greater production, manufacturers' fixed costs could be spread over a larger number of units and their profits went up.

I should think, equally, that one could increase manufacturers' profits, in the first period at least, by wiping out the corporate income tax, just to take an absurd example. Yet, I wouldn't be at all sure that this would have a healthy result on the unemployment figure, and I don't think you would either.

Mr. HAGEDORN. No. I have been oversimplifying here, because what economists should be talking about is the marginal profit rate, and the marginal rate of employment. Profits at the margin—does it pay you to undertake the next bit of business that would draw so many people into the labor market. However, this would get us into a complicated discussion.

Generally, I think this is a very important principle, that you can operate to increase employment only by first creating profitable opportunities for people to hire others. That is, unless the Government is to hire the people, hire the whole labor force itself.

Representative REUSS. Thank you very much. My time is up.

Chairman PROXMIRE. Mr. Hagedorn, in looking over this Government expenditures committee study that you have here, even this committee specifically organized to study expenditures, does seem to be unfortunately generalized in their recommendations as to where we should specifically cut, but they seem to zero in on what is called "the massive public framework for social and economic opportunity," and you go on to have a series of analyses showing that 21 welfare oriented programs are up $3.8 billion in 1963 to $7.9 million—health programs have tripled, education programs have gone up sevenfold, and so forth.

Now, many economists who appeared here argue that education programs represent a good economic investment in general. The one area it would seem to me that represents a very large dollar increase at all comparable with the increase in defense spending would be the proposed increase in social security benefits.

If we are going to be realistic about it, if we are going to really cut spending—I mean if we are going to reduce the spending on the basis you have proposed here—that is, not cut public works or the space program very much, or some of these other programs, it would seem to me we have to think very carefully about the President's suggestion of a 20-percent increase in social security benefits.

Do you think we should not increase social security by 20 percent, that we should keep it down to an 8-percent increase, or something of that kind?

Mr. HAGEDORN. I can't give you any official view of the National Association of Manufacturers on that question, sir.

Chairman PROXMIRE. You see, we look to the NAM because the NAM has been a very strong conservative bulwark and a very thoughtful group too, I think.