work. The gap has somewhat narrowed in recent years in the period since 1957, but there is still a sizable gap between those two figures. The discrepancy between average hourly pay and output per man-hour is a measure of the increase in cost per unit of production. This discrepancy has been somewhat less since 1957 than in earlier years.

The trouble has been that, since 1957, market conditions have been such that it is no longer possible to get back the increased cost in higher prices. Since 1957 the wholesale price index for industrial products has increased by only 0.3 percent per year on the average. There has actually been a slight decline in such prices since 1959.

The net result of rising costs and practically steady prices has been a squeeze on profits. The incentive for business expansion, or even for the maintenance of current operations, has been curtailed. Marginal operations which would otherwise be profitable, and provide jobs, are not worth undertaking.

Four, as a result of past deficits in our international balance of payments, foreign short-term claims against this country now exceed our gold stock. This necessitates that measures used for promoting economic expansion at homes shall not depend on low interest rates and shall not encourage increases in costs of production.

The gold stock has declined to a level only slightly above $16 billion. Foreign short-term balances—which are potential claims against gold—have risen to $19 billion.

A situation of this type is not necessarily dangerous or inherently disastrous. Foreigners are not likely to convert their balances into gold as long as they can earn reasonably competitive interest on them, and as long as they are confident that such balances are ultimately convertible into American goods at internationally competitive prices. But if they come to believe that we will pursue economic policies which will make it impossible to preserve such conditions, they might begin to withdraw gold at a rate which could eventually force us to abandon the convertibility of the dollar at its present rate.

Fiscal policy to increase demand—the wrong approach. With this background it seems clear that a fiscal policy designed to raise the level of demand by increasing the Federal deficit is entirely inappropriate—for a number of reasons.

First, the economic problem which confronts us is chronic, rather than intermittent or temporary. An occasional deficit to meet a temporary situation might be tolerable. But an indefinite series of deficits to offset persistent underlying maladjustments is not to be contemplated.

Second, adoption of such an allegedly expansionary fiscal policy would encourage and intensify the very forces which have brought about the present economic difficulty. Uneconomic wage increases have a restricting effect on economic activity and on employment. If we pursue a national policy of using Federal deficits to "bail out" those who are responsible for such uneconomic cost increases, we are in effect encouraging them to go ahead and promising to guarantee them against the consequences of their own actions.

Finally, adoption of this course would diminish foreign confidence that we have any real noninflationary solution to our economic problems. They are watching to see whether we intend to underwrite cost increases by Government deficits, or adopt the alternative policy