

basic position—which is something like a \$1½ billion deficit on both accounts.

Representative CURTIS. So, in other words, the administration doesn't believe these first-quarter figures are evidence of deterioration?

Mr. OKUN. No, we are not prepared to accept them as an evidence of deterioration.

Representative CURTIS. Then the conclusion is that you are not going to do much about it.

Mr. OKUN. We feel that the programs we have undertaken are adequate as we see the prospects ahead. Obviously, there have been a great many steps taken on the balance of payments and these have had their return in bringing our deficit into manageable proportions and stabilizing it there.

Again I would say that our progress on the balance of payments does have to be interpreted in light of the enormous special costs of Vietnam.

Representative CURTIS. What do you think would be the impact the deficit of over \$20 billion would have on our international balance of payments?

Mr. OKUN. As Mr. Ackley has suggested, we are not expecting a deficit of that size. But, if we were, I would certainly consider it as inappropriate for our balance of payments as it would be for our domestic economy.

Representative CURTIS. In the event that it were occurring, don't you think we should be doing some shoring up?

Mr. OKUN. I think we should be shoring up our domestic policies to assure that it doesn't.

Representative CURTIS. The U.S. trade balance has recently shown some improvement, largely because of reduced imports. However, since last July, unit labor costs in manufacturing have been rising sharply at an annual rate of about 5 percent. What does this imply for our future export performance and balance of trade?

Mr. OKUN. I would say it is really a leveling off of imports, a marked change from the huge rise of last year that has made the difference. We certainly do expect moderation in our import performance. We are not looking for, nor have we experienced sharp, persistent declines of our competitive position. Our competitive position is good. It did not worsen last year.

Last year, our unit labor costs did not behave better on the average than those of our major trading partners. That was an interruption after many years in which we made consistent progress in having a better record of unit labor costs than nearly any other country in the world.

I think it is important that we do have a good record and, as you are suggesting, that will have a large influence on our export performance over the long run.

In looking at our unit labor cost performance in recent months, it is important to recognize that we have had this dip in productivity gains associated with a temporary slump in manufacturing, and that the healthy resurgence that we foresee should give us a special bonus of productivity gains and thus improve our unit labor cost performance.

Representative CURTIS. One of the things that is of questionable benefit is the fact that some of these countries abroad had inflationary forces that cropped up comparable to ours. If they start handling their