

It would be difficult to dispute it because it is primarily a matter of arithmetic.

If wage increases exceed the advance in productivity in the economy, unit labor costs will rise and there will be inflationary pressure on prices.

Senator JAVITS. But you are not setting a figure on the advance in productivity any more. You are just saying you want restraint?

Mr. ACKLEY. No. We have not changed our view that the trend of advance in productivity in the economy is slightly over 3 percent a year. What we are recognizing is that it is unrealistic this year, in view of the price increases that have occurred, to ask labor and to expect labor to agree to wage increases which do not exceed the productivity trend.

Senator JAVITS. And is it going to continue to be the policy of the Federal Government and all its agencies to use its influence to implement the policy as you have now described it?

Mr. ACKLEY. I believe it is.

Senator JAVITS. Just one other question, Mr. Chairman. I am much intrigued by your seventh point on how you are going to deal with the balance of payments. I would like to ask you this. Do you assume that the behavior of France, which has been drawing down our gold as if there was no tomorrow, and that of other countries will remain exactly the same as it has in 1966 in your assumptions on the international payments situation?

Mr. ACKLEY. I wonder if I could ask my colleague, Mr. Okun, to respond to that question?

Mr. OKUN. We are counting on a measure of cooperation in international discussions. I think we have a basis for doing so. Countries will differ in their policies and attitudes toward the way they want to hold their reserves.

The French have chosen to take their surpluses and convert them into gold. I see no reason to be optimistic about any change in their policy and we have not assumed any change in that.

Senator JAVITS. Will you next year or this year ask for a further reduction of the gold cover or a repeal of the gold cover on currency?

Mr. OKUN. This is obviously an area that will have to be kept under consideration. At the present time, we feel that there is no need for a request for amending the legislation.

Senator JAVITS. But that assumes a continuance of the French and other positions as they are. If there is a worsening, then you reserve the right to seek some remedy on gold coverage, is that right?

Mr. OKUN. Obviously what happens depends not only on the policies of the individual nations but also on their surpluses or deficits. The fact that the British balance-of-payments situation has improved is a favorable factor. The French domestic recovery should mean that they will have a smaller surplus this year than they have had in the past.

That would be a favorable factor as far as holdings of international reserves are concerned.

Senator JAVITS. Thank you, Mr. Chairman.

Chairman PROXMIRE. Senator Talmadge?

Senator TALMADGE. Mr. Ackley, I regret I came in a little late and did not get to hear your presentation but I have read it very hurriedly. I want to take up where Senator Javits left off.