The CHAIRMAN. Now that being the case, what does this substantial decrease in inventory accumulation suggest that business is thinking?

Does it mean that business is not yet anticipating inflationary price rises in inventory stocks? Why would business allow this situation of decumulation to almost liquidation in the field of inventory to happen, if the business community was convinced that it was faced with an inflationary price spiral?

Or is there an explanation?

Mr. ACKLEY. Mr. Chairman, I think the explanation lies as I tried to suggest this morning, in the fact that in the latter months of last year, as you yourself pointed out, accumulation was very excessive. Businesses have been adjusting to this excessive accumulation of last year by reducing their rate of production relative to their rate of sales, and engaging in very little further accumulation, particularly in the second quarter.

I don't think business is—I hope business is not expecting an acutely inflationary situation, which will make them scramble for goods.

I do expect that with the continued uptrend in final sales, business will grow into its inventories, which in manufacturing are still somewhat excessive.

As my second chart this morning suggested, if the rate of increase of final sales merely continues in the second half at the same rate as in the first half, and no further accumulation occurs, to say nothing of no decumulation, the ratio between stocks and final sales would be restored to normal by the end of the year.

The CHAIRMAN. What effect does a tax increase have, in your opinion, on this present pattern?

If we enact a tax increase, would it have the effect of again causing business to accumulate, or would it have the effect of causing business to liquidate? Do we know?

Mr. ACKLEY. I don't think the tax increase by itself, Mr. Chairman, is a decisive factor at all. I think the actual advance in the economy and the expected future advance, along with the existing inventory situation, are the important factors that will determine whether business accumulates inventories or merely leaves them where they are for awhile.

The prospective continuing advance in final sales suggest that business will be wishing, before long, to resume inventory accumulation. Sales will have grown in relationship to the existing stock, and they will then be in a position to want to rebuild inventories.

The CHAIRMAN. Will you pardon us? I understand that this is a vote rather than a quorum call, and if we may suspend for about 10 or 15 minutes, we shall be back.

(Whereupon, a brief recess was taken.)

The CHAIRMAN. The committee will please be in order.

Let there be order in the room, please.

Mr. Ackley, this past Saturday's business and financial section of the New York Times carries a piece stating that total manufacturing and trade inventories declined in June, as you pointed out, the first month they declined in something like 6 years.

The total drop was, according to this, $468 million seasonally adjusted, divided almost equally among manufacturing, wholesale, and retail.