Now, to me, this indicates a continuation of the negative side of the trend I referred to earlier. To you, is it negative or positive? How do you view this?

Mr. ACKLEY. For the past period, when it was occurring, the drop in rate of inventory accumulation was obviously negative in its impact. It was a drag on production.

It reduced current output and employment and income. But for the future, it seems to me that this rapid drop is indeed the most healthy aspect of the whole situation.

The fact that the inventory adjustment has gone so rapidly and so smoothly means that we have eliminated a very large part of the problem of the excess inventories that accumulated last year. We have set the stage for the kind of recovery we want.

Th CHAIRMAN. Which really were excessive to not only normal circumstances, but our own best economic results.

Mr. ACKLEY. Yes indeed.

The CHAIRMAN. Those enormous accumulations of last year?

Mr. ACKLEY. Yes, sir.

The CHAIRMAN. The sales this year have been relatively low, and it might well be that there still is a substantial excess of inventory to work off. Do we know about that?

Whether or not there still is the need to work off additional excess inventories? Sales in some areas have been lower.

Mr. ACKLEY. Yes, Mr. Chairman, sales have been themselves depressed by the inventory adjustment. If we take the ratios of inventories to current sales for wholesalers and retailers, they are now back to essentially a normal level. For manufacturers, the ratio of inventories to sales is still high, although it has been declining for the last couple months. That ratio, which is really the crucial point, is affected both by the change in stock and by the change in sales.

The CHAIRMAN. Well, this article states that there might be some further liquidation of inventories during the remainder of the year.

Mr. ACKLEY. I suggested in my testimony, Mr. Chairman, that it would certainly not be impossible that we might have another couple of months of inventory liquidation. But I certainly do not expect liquidation through the rest of this year.

Indeed, we should be having accumulation again by the end of the year.

The CHAIRMAN. And the imposition of the additional tax, you say, would have no effect.

Mr. ACKLEY. Only as it has an effect on the general economic environment.

The CHAIRMAN. Now, let's go to retail sales. Here you point to retail sales as an area of the economy showing improvement; do you not?

Mr. ACHLEY. I am sorry?

The CHAIRMAN. I say you point to the rise in retail sales now as an area of improvement in our economy; do you not?

Mr. ACKLEY. Yes, indeed. The last 5 months have shown very striking improvement in retail sales.

The CHAIRMAN. May was over May of 1966, June was over June of 1966, and so on. I have not seen anything on July, yet. Do you have figures on July?