

Mr. GILBERT. I heard the testimony and I have read that the warehouses are now empty or about to be emptied. Don't you think that would put a brake on the purchasing of this merchandise for the warehouse if you were going to have this tax increase?

Mr. ACKLEY. That I covered in some detail yesterday and also in response to some questions this morning.

Certainly there was an excessive buildup of inventory last year, but a great deal of that correction is already behind us.

Certainly, as far as distributors are concerned, both retailer and wholesalers, inventories are now back in normal relationship to their sales. So that we are not concerned at this point about the danger of the excessive overhang of inventories.

Mr. GILBERT. A fellow who has a retail business is certainly concerned about it, if he is going to see a drop off in his income.

Mr. ACKLEY. As I suggested, the level of retail inventories is quite back to normal by any reasonable standard. As the retailer sells more he is now going to have to replace it by ordering more from his suppliers. All we are talking about is slowing down the otherwise potentially too rapid growth of his sales so that his growing orders to his suppliers can be accommodated out of the productive resources that we have.

Mr. GILBERT. I am sorry, I just do not follow that argument. Maybe I am a little dense.

Mr. ACKLEY. The fact is that our economy is a most productive one and its productivity—its ability to turn out goods and services—is growing all the time.

But there are limits to our ability to produce an ever-increasing stock of goods for consumers and businesses and governments. What we are concerned with is the possibility, the very dangerous possibility, that with the extra stimulus from the Federal budget the growth of demand for goods and services will push against our ability to supply them, create the inflationary pressures and high-interest rates that we have seen.

We are trying to avoid that situation. The fact is that if the Government has to take more out of the economy to supply the men in Vietnam that reduces the growth in production available for the civilian economy. You have to keep the flow of consumer purchasing power in proportion to the available supplies of goods. That is what this is about.

Mr. GILBERT. You face a breakdown in the civilian economy.

Secretary FOWLER. Congressman Gilbert, let me see if I can put it to you in this light.

In the Korean war I happened to have been concerned with the mobilization process as Director of Defense Mobilization for some time and prior to that the Defense Production Administration. I was also with the War Production Board in World War II.

Now, in those periods, we to some extent relied upon monetary and fiscal policy but at that time we relied primarily upon the imposition of direct controls on the economy which took the form of allocations and priorities and indeed consumer rationing in World War II and direct wage controls, direct price controls and credit controls. You could not borrow money for this or that, or you were limited directly in the use of credit.