to bring down the ratio that inventories bear to sales. Hence, inventory investment is likely to move to lower levels this year.

To be sure, the recent easing of credit should in time lead to improvement in the homebuilding industry, but as yet it has not had a significant impact on the mortgage market. In the best of circumstances, several months will need to elapse before expenditures on residential construction can begin to recover from the drastic decline in building permits last year.

The prospects of consumer and export markets are also not especially bright. Retail sales have been sluggish of late, and surveys of consumer buying intentions suggest that this conditions may well persist for a time. One clear reason for the sluggishness is that many families are forced by the rise in the cost of living to practice stricter economies. As far as exports are concerned, they will probably continue to grow at a moderate rate. But a rush of export orders is highly unlikely, since the rate of expansion is slowing down materially in the world economy, not only in our own.

In view of the slackening of demand pressure that is so evident in the private economy, the economic case for an income tax increase is weak at present. Such a measure, if adopted early in this session of the Congress, could tip our delicately poised economy toward recession despite the strong upward trend of governmental spending.

In expressing this judgment, I am not unmindful of the continuing threat of inflation. Demand is no longer pulling up prices as it did a year ago, but higher costs are tending to push up prices.

Workers and their leaders are insisting on much larger wage increases than have recently been customary. The wage push will continue, as workers seek to adjust to recent trends in profits and prices, and it will gain strength from the increase of the minimum wage that Congress recently legislated. Hence, the troublesome advance of the consumer price level, which reflects higher labor costs directly as well as indirectly, will continue this year; but the prices of industrial products in wholesale markets will probably rise much less.

The scope of constructive governmental action for dealing with the present price and cost inflation is, I think, quite limited. Unhappily, even a mild recession would probably not suffice to bring cost inflation to a halt under current conditions. The reasons are all the stronger, therefore, for avoiding governmental measures of an inflationary character.

In dealing with the President's legislative recommendations, it is particularly important to consider the psychological impact of a 20-percent boost in social security benefits, besides the fiscal implications and the direct economic effects. It would not be unreasonable for working people to feel that if retired folk are entitled to a 20-percent increase in the income put at their disposal by the Government, then those who are productively engaged deserve more than just a 5- or 6-percent increase in wages.

In summary, my advice to this committee on the fiscal issues that now face our Nation is as follows:

First, it is highly important that the Congress make a strong and determined effort to curb new appropriations and thereby pave the way for an early return, once the hostilities in Vietnam make this possible, to the policy of tax reduction which served our Nation so well from 1962 to 1965.