Inventories, according to the Council, are expected to level off in the second half of the year after a decline in the rate of accumulation during the first half. But, if other parts of the economy show unexpected softness, vigorous efforts will undoubtedly be made to reduce inventories in the second half.

Residential construction is expected by the Council to increase by about $5- to $6 billion between the fourth quarter of 1966 and the fourth quarter of 1967, but even so it will be about $1 billion below 1966 for the year as a whole. Some doubt is cast on the reliability of the Council's estimate by a forecast made by the Department of Commerce in its "U.S. Industrial Outlook 1967" to the effect that private housing starts for 1967 as a whole may only be in the 1,050,000 to 1,150,000 unit range. This would allow for little or no growth over the year-end rate, which stood at 1,102,000, seasonally adjusted, in December 1966. The Commerce forecast does admit of some upward trend in the second half of 1967, but not in very encouraging tones. It points out:

"The time factor involved in the translation of a shift of money resources to the housing sector into new housing starts appears under present circumstances to militate against a major change in 1967."

Other signs of softness are apparent. The industrial production index declined in both November and December. In fact, of the 30 "leading indicators" which the Department of Commerce uses as weathervanes in its monthly publication, "Business Cycle Developments", 23 had a downward direction as of the January 1967 issue (representing largely data for November 1966) and 29 of the 30 were below their previous peaks.

In addition, while Vietnam spending is to increase in 1967, barring a much-hoped-for end of hostilities, the rate of increase will be tapering off in the second half of the year.

As noted previously, even on the basis of the Council's forecast, the best the economy will do will be to maintain the 1966 rate of unemployment during 1967. And if, as appears very likely, the amount of stimulus given the economy from nonfiscal sources in the second half of 1967 is less than anticipated, while at the same time a tax increase drains off additional consumer buying power, the rate of unemployment will inevitably rise.

Unemployment too high a price

Unemployment is too high a price to pay for price stability. As has been noted in these hearings, unemployment is grossly uneven in its impact. The burden falls disproportionately on members of minority groups, teen-agers, displaced older workers, and unskilled blue collar workers. These groups, who are least able to bear it, would be called upon, if taxes are increased, to carry the major burden of the cost of combating inflation.

We in the IUD and the UAW share the view expressed by the National Commission on Technology, Automation, and Economic Progress (Automation Commission) that:

"* * * *the toleration of unnecessary unemployment is a very costly way to police inflation.* It deprives the country of valuable output, and it sacrifices the poorest and least privileged among our citizens. It is preferable to press carefully ahead with the expansion of total production and employment, and simultaneously to redouble private and public efforts in the manpower field to relieve shoratges in skilled and trained labor as they arise and develop effective means of combating other causes of inflation." [emphasis added]

In considering fiscal policy for 1967 and the period beyond, full account must be taken of the fact that the dangers flowing from unemployment and a slowdown in Great Society programs are far more serious than the danger of some further increase in the price level.

This nation cannot afford the further aggravation of racial tensions and the detonation of the social dynamite in the nation's ghettos which are inevitable if unemployment is not further reduced and if promised help to the victims of poverty is deferred. With the long-dormant hopes of the disadvantaged at last aroused, we can never again have peace of mind or peace in our cities until assurance is provided of prompt and certain fulfillment of those hopes.

The danger on the price front is of an entirely different order. The price problem, as will be shown, is not generalized but sectoral. It is not the kind of problem that is appropriately dealt with by measures to restrain expansion of total demand. Such measures would block further reduction of unemployment and current weakness in the economy suggest that even moderate restraints on the growth of demand might well increase unemployment sharply and possibly