created [12] which obstruct the formulation of a well-balanced program within the limitations imposed by the whole budget.[13] The particular program can no longer be considered in relation to other agricultural programs, for example, because its size will already have been determined by basic legislation. Thus support for current production may be receiving greater emphasis than long-run improvements in productivity.[14]

Earmarking of taxes also introduces rigidities into the financial structure that may lead to a situation where the tax system would be rendered less flexible and where it would be more difficult to obtain an optimum combination of taxes.

Accelerated amortization

The suggestion has often been made to provide liberal amortization allowances designed to facilitate a firm's exit from a particular industry; or to allow the firm to discontinue a particular line of operations rendered unprofitable by increased import competition; or to encourage the firm to expand production of products other than those affected by the tariff reduction.[15] Proponents of this idea have argued that the program would fall into two parts: One would concentrate on scrapping a portion of the firm's existing plant and equipment; the other half of the program would be concerned with providing aid to acquire and install new plant and equipment to produce products not sensitive to import competition. The procedure would parallel that used by the Office of Civil Defense and Mobilization in inducing firms to expand existing production facilities for defense production.

With regard to the first part of the program, it may be pointed out immediately that accelerated amortization for junking equipment in the transition period would not be practicable. In fact, the incentive to change would be stronger if after a certain point no depreciation at all were allowed a firm unwilling to make necessary adjustments along these lines. The extra weight of tax burden thus imposed on the firm would serve as a negative incentive to producers of import-sensitive articles not to stay in the same line of business.

But the fundamental difference between the problem dealt with by the Office of Civil Defense and Mobilization, for example, and an organization supervising a program of assisted readaptation to increased imports is this: In the case of defense production, relatively quick installation of an asset is required; the asset may lose its value once the need for the particular product has lessened. After its installation, therefore, the asset is supposed to depreciate rather quickly, and accelerated amortization is designed to take this fact into account in lowering the firm's tax liability.

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[12] In connection with the passage of Public Law 466, the Bureau of the Budget did point out that an annual appropriation for the conduct of research would thereby be established regardless of need, and that the procedure placed a priority on certain types of research which, as time went on, might be relatively low in priority to other research activities. See U.S. Senate Committee on Interstate and Foreign Commerce, "Report on Encouragement of Distribution of Fishery Products," Washington, D.C., Apr. 14, 1954.

[13] See in this connection, Smithies, Arthur, "The Budgetary Process in the United States," New York, 1955, p. 362.

[14] The same criticism is applicable to other agricultural programs, such as price supports, sugar subsidies, surplus removal, and conservation payments, and the sec. 32 program, Smithies, op. cit., p. 366.

[15] 1954 Internal Revenue Code, par. 168.