

In a program of readaptation to increased imports, however, a firm installing new equipment should not have to anticipate that equipment to depreciate in value as rapidly as a piece of specialized defense production equipment; indeed, a gradual increase in profitability of the asset is far more likely to occur. Without expectation of an increased return from the new installation or the new line of production, readaptation would not make sense. Inducement to install new equipment would in fact be superfluous since such an investment would be in the firm's own best interest, and the firm would not be undertaking it for reasons of national security. The difficulty, if any, would arise in connection with financing new capital acquisitions and with tiding the firm over the transition period.

Assuming the new investment to contribute to the enterprise's eventual and continued profitability, it would actually be illogical to make accelerated amortization part of a readjustment program, to say nothing of the difficulties the technique has given rise to in other uses.¹⁶ The fast writeoff as used for defense production purposes is too powerful and too wasteful an instrument for an adjustment assistance program. The best form of assistance in form of tax relief would be a special tax carryover appropriate for new enterprises.¹⁷ A carryover would be more effective in accomplishing the objectives desired under readaptation: giving the enterprises a good start in its new pursuit by keeping burdens down at the outset, but letting the enterprise revert to a less favored position at the end of the transition period when the enterprise is again able to hold its own against competing producers at home and abroad.

Because the amounts involved are likely to be quite small compared to the total capital investment in the Nation, the problem of aggravating erosion of the tax base by this type of assistance is probably insignificant. This would be true particularly in view of the savings that will accrue to taxpayers and to the community as a whole as a result of the availability of a larger volume of imported goods at lower prices.

One version of proposed trade adjustment legislation provides for accelerated amortization of facilities used in the old line of production as well as the new facilities.¹⁸ This provision is designed to allow the displaced firm to recover the cost of its old equipment during its last years in the protected industry. But the firms that will change to a new line of production will be those unable to make a reasonable profit in their old line of production. Thus, during the last years in the old line of production, the displaced firm will probably not have sufficient profits to offset the large deduction for amortization. The effect of accelerated amortization of the old equipment will be to create a loss which the firm could carry forward if it stayed in the

¹⁶ See, for example, U.S. Congress, Joint Committee on the Economic Report, "Implications of Recent Expansion of Special Amortization Program," staff memorandum, Washington, D.C., May 29, 1956 (mimeographed), *passim*; and the same committee's "Federal Tax Policy for Economic Growth and Stability," (S. Rept. No. 1310, 84th Cong., 2d sess.), Washington, D.C., 1956, p. 8.

¹⁷ New enterprises encounter a period of losses during their developmental phase. A liberal carry-forward provision insures that such development losses can eventually be offset if the enterprise proves successful, and thus encourages investment in new ventures. A carryback, suitable for enterprises nearing or in the process of liquidation, would be inappropriate for firms hurt by import competition. It would not hasten their exit from the industry: on the contrary, it would give them an inducement to prolong their existence.

¹⁸ See Clubb and Reischer, "The Trade Adjustment Bills: Their Purpose and Efficacy," *Columbia Law Review*, March 1961, pp. 490-503.