

This recheck was taken before stock market prices began to recover, before margin requirements were reduced from 70 percent to 50 percent and before revenue procedure 62-21, with its more realistic depreciation guidelines regarding lives of machinery and equipment, became effective. It is conceivable that these three factors, along with the 7 percent tax credit for new machinery and equipment purchases, which Congress may soon make a part of the Nation's law, could result in higher capital expenditures at the end of this year than are now anticipated by companies and by business economists in general.

However, it is my opinion that their impact on capital spending may be slow in coming. We have some factual evidence on this point.

In our spring survey, we asked the question:

If the administration's program of tax incentives for investment were enacted, how much would this increase your capital expenditures in 1962?

Business as a whole indicated that it would raise its 1962 plans by only 1 percent, or about \$300 million. Nine out of every ten companies replying indicated that they would not use such a program at all in 1962.

The fact that American business is going ahead with its investment plans for 1962 was not a surprise to us. It confirmed our belief that business plans for new plants and equipment, once made for the year ahead, are generally carried out. In the past, wars, recessions and booms have led to significant changes in investment plans. But in my view, we are not likely to be in any of these three situations this year.

Also, it makes good sense for businessmen to go right ahead with their modernization programs in 1962. Business firms reported to us in our recent checkup that this year's capital investment programs are stressing modernization, with the hope that these cost-cutting projects will result in better profit margins.

In our earlier survey this year, manufacturers reported that they planned to devote 70 percent of their 1962 investment dollar to modernization. The reason for their concern is obvious. About 40 percent of U.S. plant and equipment dates back to before 1951, and nearly 25 percent goes back to World War II or even before that. These significant statistics were also revealed by our spring survey.

Only a very small percentage of investment is going for new capacity this year. Most of this is going for capacity for new products which are an important part of the payoff of industry's tremendous expenditures on research and development during the last decade. Little investment is going for additional capacity for existing products.

Based on the McGraw-Hill measures of manufacturing operating rate, we estimate that manufacturers, on the average, are currently utilizing 84 percent of their capacity, whereas they prefer to operate at about 90 percent. Therefore, it is true that industry has a modest amount of excess capacity at present. And the gap between the operating rate and the preferred rate may widen if manufacturing output were not to continue to expand during the rest of the year.

As this committee well knows, my department compiles the only direct measure of manufacturing capacity. Only a few months ago I testified on the McGraw-Hill measures of capacity before the Sub-