

But we have given thought to it, and we have run figures on it, and the problem is that not only would it cost more, but we would be in the position of having, at least for the initial 10 years or so, no idea at all what our Federal revenue would be, because we would not know how fast people would want to depreciate.

One year they might go much faster than another, and we would have fluctuations in our corporate tax revenue that would be fantastic in their amount.

Senator PELL. But presumably in a free capitalistic economy, would it not be a fallacious theory to set depreciation rates in order to insure a steady source of revenue for the Government?

Secretary DILLON. Oh, it would if that were the only reason. We feel it should be set, and we have set it, on the basis that we think most accurately represents actual use of machinery by the business. That is what depreciation is. It is the charge that the company sets aside to offset the wear and tear on its machinery.

And we have now said that as your wear and tear occurs, you write it off, any way you decide. You are the judge of how much wear and tear. If you say you want to replace a piece of equipment in 6 years, that is all right, though we may think the equipment normally would last for 12 years.

But we do not go beyond that and say, "You can write off the whole wear and tear in 1 year," when you are going to use it for 6 years.

Senator PELL. I have just one final question to ask, and that is: Bearing in mind, as we all do, I am sure, that we are about the most overtaxed people in the world, I was wondering if the Treasury has any opinion concerning a preferred form of income tax cut.

Secretary DILLON. I think that is one way, one of the most rapid and quick ways, of putting a shot into the economy. I would say I agree with that.

There are two different concepts. There is the concept of the flexible tax reduction, the Commission on Money and Credit idea, of putting a temporary stimulus into the economy, and then there is our basic reform of the tax structure. They are quite different, and I do not think should be confused.

But certainly, from the point of view of quick action, one of the ways that would operate very quickly would be a change in the withholding rate. But if that were not accompanied by a change in the basic tax that was owed, the person who had less withheld would just owe more at the end of the year.

Senator PELL. Thank you very much.

Senator PROXMIRE. I want to apologize if I seemed a little antagonistic a little earlier. Sometimes we bring things out a little better when we do disagree.

I am happy to say there is one part of this presentation on which I find myself in wholehearted agreement, if I interpret you correctly.

You say our balance of payments deficit must be eliminated. But then further on you speak of—

borrowing that in any event is attracted more by our unrivaled market facilities than by relatively small differences in the total cost of the credit to the borrower.