Representative CURTIS. Yes, because actually it is a return of capital. The reason we have depreciation schedules and depletion allowances is because the 16th amendment does not permit us to tax capital.

Secretary DILLON. I am very glad you pointed that out, because we have used the word "tax cut."

Representative CURTIS. I believe that liberalized depreciation is especially important when you have inflation. There is an advantage, and there can be an actual tax cut in there, because you can get your money back in 100-cent dollars instead of, 5 years later, in 75-cent dollars. And I have always felt that a great deal of the impetus behind this liberalized depreciation came from our post-World War II experience with inflation.

Now, this is to inform myself. The last I heard the Senate had cut from 100 percent to 93 percent the amount on which the investment credit would apply. Is that true?

Secretary DILLON. A company taking advantage of the present tax credit will then be able to depreciate only 93 percent of the investment. That is correct.

Representative CURTIS. Then there is a little bit of tax cutting there. But most of it, then, is no more than a further liberalization of depreciation; right?

Secretary DILLON. I would say a large part of it; yes. They have greatly reduced the economic impact of it.

Representative CURTIS. Well, and also the theory. I am very pleased with our liberalized depreciation, which relates to what I regard as the economic facts of today. Things become obsolete much sooner than they wear out. And that has been part of our difficulty.

Now, on this matter of inflation, I was very disturbed at the President's remarks Monday night, when he said that during the past 18 months we have had the greatest record of price stability since World War II.

Well, the figures actually reveal that we have had about a 1.5 percent increase, measured by the Consumer Price Index, which we usually use. Compare that with the 3 years, 1947–49, when there was no price increase, and with the years 1954–56, when the increase was only 0.1 percent.

Now, the only reason I bring it in, other than to try to do my best to get the right information to the people, is that I think it is an error to think that we do not have very strong inflationary forces at play in our economy. We must not ignore them, even though I appreciate the arguments being used that inflation is not a danger, because of this so-called underutilization of labor and idle plant capacity.

I was very interested in this Italian banker's testimony. He said that the idle plant capacity, as he saw it, in the United States, was for goods and services for which there was no demand. And I could not agree with that analysis more.

We do have, I think, traditional inflation in certain areas, in, for instance, the health field, where there are too many dollars or excess dollars changing too few goods. We see it coming out in two areas, one in labor demand.

There is a shortage of labor there, a very grave one. And the other is in prices.

The steel industry, I was intrigued to see, is spending heavily for more plant capacity. Not for more obsolete capacity, which they