loans.[22] In most countries these programs date from the late fifties or the early sixties.

Subsidies to domestic investment is the third area in which governments have moved to improve their international payments positions. Investment subsidies for manufacturing and agriculture improve the competitiveness of a country's products in world markets. Some countries give direct tax incentives to new investment in plan and equipment, such as the investment tax credit of 7 per cent adopted by the United States in 1962 and the 30 per cent investment allowance in the United Kingdom. Japan permits greatly accelerated depreciation of assets. A rough impression of the influence of these arrangements can be gained from Table 1, which indicates the speed with which new equipment can be written off, taking into account investment allowances and tax credits. Table 2 indicates the susbtantial incentive to invest which accelerated depreciation and investment allowances provide in some countries by reducing corporate profits taxes.

Under a regime of fixed exchange rates, government subsidy for domestic investment is similar to a devaluation of the currency in that it improves the cost competitiveness both of the country's export products and of its products which compete with imports.[23]

Subsidies to investment are obviously motivated by considerations extending well beyond the balance of payments; economic growth has become a target of economic policy in its own right, partly for political and strategic reasons (arising in part from the "economic race" with the Soviet Bloc), partly because rising standards of living are universally desired. But balance-of-payments considerations do play an important role in the decision to inaugurate investment incentives. Britain for years has emphasized the need to enlarge and improve its capital stock to compete more effectively in world markets. And former U.S. Secretary of the Treasury Dillon, testifying on behalf of the U.S. investment tax credit in 1962, argued that the measure was required "if U.S. business firms are to be placed on substantially equal footing with their foreign competitors in this respect. It is essential," he said, "to our competitive position in markets both here at home and abroad, that American industry be put on the same basis as foreign industry. Unless this is done, increased imports and decreased exports will unnecessarily add to the burden of our balance of payments deficit." [24]

TABLE 1.—PERCENTAGE OF INVESTMENT IN PLANT MACHINERY ALLOWED TO BE WRITTEN OFF F OR TAX PURPOSE

	In 1st year	By 5th year	Cumulative total over asset life
Belgium	22	92	(1)
Canada	30	71	100
France	25	76	100
Germany, Federal Republic	20	67	100
Italy	25	100	(1)
Japan	43	68	(1)
Netherlands	26	86	110
Sweden	30	100	100
United Kingdom [2]	55	91	130
United States [3]	29	78	114

[1] Not available.
[2] Including an investment allowance of 30 percent.
[3] Including an estimate for the effect of an investment tax credit of 7 percent.

Source: Report of the Committee on Turnover Taxation, London: Her Majesty's Stationery Office, Cmnd. 2300, March 1964, p. 52; and Revenue Act of 1962, hearings before the Senate Committee on Finance, 87th Cong., 2d sess., Apr. 2, 1962, p. 82.

[22] ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, TOURISM IN O.E.C.D. MEMBER COUNTRIES 22 and Annex I (1963).

[23] Investment subsidies differ from straightforward currency devaluation, however, in that the improvement in competitiveness varies from industry to industry according to the capital-intensity of the productive process, and in general they encourage the use of more capital intensive methods of production.

[24] HEARINGS ON H.R. 10650 BEFORE THE SENATE COMM. ON FINANCE, 87th Cong., 2nd Session, pt. 1, at 83 (1962). It is noteworthy, moreover, that investment incentives are usually directed at the manufacturing industries, *e.g.*, those whose goods are important in international trade. An important exception in some countries is housing.