

sales of bonds and bank loans more than doubled between 1964 and 1966, the funds available for housing dried up. Housing starts dropped precipitously.

What is more, "as the increasing demand for capital goods began to strain domestic capacity \* \* \* purchasers increasingly turned to foreign suppliers to get prompt delivery," this year's Council report observes. As a result, "imports of capital goods rose by about 50 percent and accounted for more than 20 percent of the increase in imports in 1966."

This upsurge of capital goods spending and the economic distortions which it has produced raise serious questions about the special incentives for business investment adopted in recent years—the overemphasis of the combined 7-percent tax credit for new investment in equipment, the speedup of depreciation and the reduction of the corporate tax rate from 52 to 48 percent.

It was and is the AFL-CIO view that these tax reductions for business have been dangerously overdone and have been contributing to imbalances between demand and productive capacity. The major incentive to sustained increases in business investment is rising demand for goods and services. The major barrier to a sustained high level of investment in the past has been idle productive capacity.

By 1965 and 1966, the capital goods superboom moved far beyond sustainability. It continues to rise about twice as fast as GNP—which cannot be sustained indefinitely. It moved to about 11 percent of GNP—which the postwar record indicates is clearly unsustainable.

Our convictions on this score have been strengthened by recent studies which indicate that America's economy cannot sustain the levels of investment which have been reached in recent years. Among the most recent of these is a study by the staff of this committee.

That study indicates that the projection of "past relationships, trends, and programs \* \* \* into the future, without alteration" would result in a ratio of business fixed investment to real gross national product higher than any year of the postwar period and it concludes that such a level of investment is "completely unsustainable for any long period of time \* \* \*."

The committee staff's report suggests that a balanced and sustainable full employment economy would require a level of business fixed investment that is 9.5 percent—9.8 of real GNP in 1970 and 1975—significantly below the unsustainable levels of recent years.

Return to a more sustainable level of investment may well cause serious adjustment problems. The history of the American economy is replete with depressions and deep recessions that followed unsustainable capital goods booms.

Attempts to maintain the boom by artificial devices for another year or two will only postpone the inevitable adjustment and difficulty.

A sound policy would place emphasis, now, on increasing the demand for goods and services—to match the rapid increases in productive capacity. And a sound policy would attempt to restore balance to the basic relationships in the private economy among wages, prices, profits, and business investment.