

MACHINERY AND ALLIED PRODUCTS INSTITUTE

A TYPICAL CAPITAL GOODS USER'S VIEW OF FEDERAL POLICY ON THE INVESTMENT TAX CREDIT

The Machinery & Allied Products Institute (MAPI) and its affiliate the Council for Technological Advancement appreciate the joint committee's invitation to present views on the 1967 Economic Report of the President in connection with the current hearings. We shall deal almost exclusively with tax policy, in particular the investment tax credit which is now in suspension, and perhaps in an even more uncertain state.

These views are offered in behalf of an organization which has not only followed the development of the credit from its original concept but has published extensive analyses of this part of the tax system.¹ Moreover, our representation of the capital goods and allied equipment industries puts us in contact with producers of equipment, and perhaps even more important, with the wide range of customer industries served by capital goods producers. Further, our comments are presented against the background of a statement submitted on March 31, 1966, to the Fiscal Policy Subcommittee of this joint committee entitled "The Investment Credit—The Case for Its Permanency," and statements to cognizant committees in connection with the credit suspension legislation.

May we summarize in advance the position of the institute with respect to the investment tax credit:

Suspension of the investment credit was a serious mistake in national policy. The credit was proposed and intended to be a permanent part of the federal tax structure. It is a long-range prerequisite to a modern and dynamic industrial plant in this country. In the light of its inherent characteristics and the long-range purpose of its enactment, it is totally unsuitable for contracyclical manipulation; indeed, its use for this purpose will have perverse effects on the economy and will do a great deal more harm than good.

Corrective action with respect to the suspension of the credit should be taken by the Congress promptly. Government should not wait for the reinstatement date of January 1, 1968, now provided in the statute. The most desirable method of reinstatement of the credit is to repeal the suspension retroactively to the beginning date of the suspension period, October 10, 1966. In any event, the reinstatement action must avoid the problem of the "air pocket" in equipment orders. The reinstatement action on the credit should be considered on its own merits and separate from the 6-percent surcharge proposal contained in the state of the Union message of President Johnson.

¹ *Incentives to Capital Investment—Two Approaches Compared*, Machinery & Allied Products Institute, 1961.

New Investment Incentives—The Investment Credit and the New Depreciation System, MAPI, 1962.

Incentive Value of the Investment Credit, the Guideline Depreciation System, and the Corporate Rate Reduction, MAPI, 1964.

"The Investment Credit as an Economic Control Device," *Capital Goods Review* No. 67, September 1966.

Also see statements presented to Subcommittee on Fiscal Policy of the Joint Congressional Economic Committee, Mar. 31, 1966, to Committee on Ways and Means, Sept. 14, 1966, and to Committee on Finance, Oct. 5, 1966.