

We are taking the liberty of casting the principal part of this presentation in the form of a statement by a typical president of a medium-sized manufacturing company which in terms of its own business is a substantial user² of capital equipment. To pinpoint the issues and the problems involved in the investment credit hiatus, this typical business executive speaks for himself:

I am thoroughly confused, even mystified, by the chronology of events relating to the investment tax credit as I recall its original enactment, its period of application, its suspension, and the present state of limbo in which the credit and my corporate planning are placed.

Capital expenditures planning.—First let me say a few words about corporate planning. I have been reading a great deal about government planning and The New Economics, but I want to talk first about corporate planning, particularly capital expenditure planning.

For many years capital expenditure planning on a long-term basis was almost nonexistent in my business and in most such businesses. We shot from the hip, moving our expenditure programs up and down in what economists would call cyclical fashion and even the cycles were uneven. Then our thinking on this subject began to sharpen and we tried to make longer-range plans. Capital budgeting has been coming into its own and more rationalized systems of investment decision making have been devised and put to work. We also became aware that business had a tendency to peak its capital commitments at the wrong phase of the cycle and this phenomenon has been receiving attention in corporate planning.

From a planning standpoint, therefore, my company, and I believe industry at large, is committed to long-range capital expenditure planning and sophisticated investment analysis techniques. From a company standpoint, and also from a national policy viewpoint, my company and industry in general are convinced that domestic and international competition and the challenge of technological advance require constant modernization of our capital stock on a company, industry, and national basis. And above all, my company and other organizations can't plan or expand on an off-and-on basis. As Mr. George Champion, Chairman, The Chase Manhattan Bank, said in an address on February 16, 1967: "The fact is that capital expenditures cannot be turned on and off like a garden hose. They must flow in a continuous stream if we are to keep our industrial plant and equipment up to date."

Financial resources for corporate programs.—But determination, planning, and investment analysis techniques are not enough. Particularly for a company of our size, financial resources are crucial. Cash flow is critical. After-tax profits must be maximized to permit dynamic application of our new management techniques as to capital investment. In this respect, I don't and shouldn't look primarily to government. Pre-tax profits are my responsibility and so it is with all the ingredients of profit improvement: technological innovation, sound manufacturing techniques, aggressive and imaginative marketing, etc. But—and there is a big but—federal tax policy is government's responsibility and its effect on my company's corporate planning and overall performance is most significant. The aggregate effect on the economy takes on much greater importance.

Conception of the investment tax credit.—So, when even before President Kennedy was inaugurated his advisers in the federal government began to talk and think about capital investment and long-range planning relating thereto, I was most encouraged. Then followed introduction of the investment credit concept and proposed legislation. Some of my business colleagues—I should say many of them—were skeptical about the credit because they feared that it would become a tool of federalized economic manipulation. I felt differently.

²In order to understand the impact of the investment credit, one must examine the equipment-using industries, acknowledging of course that the equipment producer is also a user. The main and broadest impact of the credit is on equipment users or buyers. The credit affects practically every product-producing or service industry in the United States as well as the farmer. (Note that the farmer is a prime beneficiary.) The airlines. The steel industry. The automobile industry. The textile industry. The railroads. The tool and die makers. The plastics manufacturer. The dairies. The newspapers. Etc. Etc. The main thrust of the credit is not to prop up the machinery-producing industries; that is purely incidental in terms of objective and impact. The real impact spreads across the whole economy; as we have said, practically every product or service-producing industry including the farmer is the direct beneficiary when the credit is in effect.