

As I consider all of these developments I become greatly concerned. Above all, everything points now to the Administration's growing acceptance of the credit as a contracyclical tool subject to in-and-out manipulation in complete contradiction to the original commitment and understanding, not only with business but with the Congress. Mr. Heller said at one point in his testimony that "for the long pull, this country is firmly committed to a high-investment policy and the accompanying investment incentives." He and the country can't have it both ways. Government can't embrace such a long-range, high-investment policy and at the same time tamper or play with the incentive structure, including the investment tax credit. Government may over-optimistically try to manipulate its fine tuning control but if the power source of the instrument—in this case capital investment—requires steady handling, the system won't respond dynamically.

The distinguished Chairman of the Committee on Ways and Means made a relevant comment in a speech on February 12, 1967:

"Thus, while fiscal policy and economic policy may be, and frequently are, shifting, and while these may involve variables which either may be planned or unpremeditated, it is essential that tax policy have a certain degree of stability. . . . Changes must not be made merely for the sake of change and not merely just to experiment, but must on the contrary result from a demonstrable need and be carefully and deliberately entered into.

"Let me give an example which the fine ladies in this audience may more readily appreciate than the rest of us. We must not let ourselves be put into the position of raising and lowering the hemline of taxation, from season to season, merely to make the merchandise more saleable. Ours must be a becoming utilitarian style which will wear well and continue to serve its purpose in as attractive a design as we are able to create."

Credit not a practical contracyclical tool.—There is a further very important factor. Knowing my business, disciplines imposed on my business by planning, and having some knowledge about the investment credit and the serious cut-in and cut-out problems if it is manipulated, I am convinced that this device does not lend itself to contracyclical manipulation. Such use will do a great deal more harm than good.

Current business indicators point down.—Now to a few practical observations. While the indicators currently present a mixed picture, I am convinced that probably in late 1966 industrial production passed its peak. The Administration spokesmen seem to agree but in their guesses are optimistic about the second half of 1967. As I read government statistics, machinery and equipment orders, for example, are down 8 to 10 percent from 1966 midyear. There are a growing number of weakening areas or soft spots clearly discernible to me in business. It appears that new orders for machine tools crested and turned downward in the last quarter of 1966; this trend is even more visible from the January 1967 figures just released by that industry. Construction and construction equipment are off. Textiles have clearly softened and in turn are affecting textile equipment. Automobiles and appliances are off. We are in for an inventory adjustment. The economy overall experienced a marked slowdown in January as indicated by a substantial decline in orders for new durable goods (seasonally adjusted) to their lowest levels since November 1965. New orders fell below shipments by some \$800 million. The overall index of industrial production (seasonally adjusted) declined by a full point in January (1.2 points in the case of manufacturing production). Most if not all indicators are giving us warnings. And if you want a classic example of the effect of suspension of the credit equipment orders, look at the drastic tailspin in railroad equipment orders. (See Dr. Beryl W. Sprinkel's testimony before this Committee and the detailed account in *The Wall Street Journal* of February 27, 1967.)

Now I am not unduly pessimistic. I don't expect a deep recession but the economy is experiencing an adjustment overall and so is my company.

Other important economic facts.—I am sure this Committee is aware of the substantial labor cost increases which almost everyone concedes will be negotiated in the current year 1967. Statements issuing from AFL-CIO meetings in Miami confirm that labor is shooting high and will not be restrained by government pleas for moderation. In a related sense, my attention has been called to the fact that even before those increases take place, the index of labor cost per unit of output in American industry has increased at an accelerated rate since August 1966. The June-December increase in the index from 100.3 to 102.7 was the sharpest increase for any six months since May-November 1959 and the