

largest June-December rise since 1957. January data show a further sharp increase in labor cost per unit of output. This overall trend is being felt in my business.

The penalizing effect of the increase in labor cost per unit of output which will be multiplied by the substantial cost increases to be negotiated in 1967 makes absolutely crucial an accelerated rate of modernization of equipment in our plant. Otherwise business will simply not be able to sustain the financial burden of these increases. It is almost incongruous therefore in the face of these facts to tolerate continued suspension of the investment tax credit.

When this consideration is coupled with the continued difficulty we are experiencing in our international trade position and the obvious need to supply the Vietnam war, isn't it sensible to ask why we shouldn't be considering special tax incentives to increase productivity and modernize capacity instead of debating whether the investment tax credit should be reinstated and when.

What to do?—Suspension of the investment credit was a mistake. Business makes mistakes and I believe government makes them too. This mistake could turn into a blunder—aggravating and deepening a turndown, or converting a leveling-off into a turndown.

I believe this mistake should be corrected. Prompt action should be taken to reinstate the investment tax credit and such action should be taken in a way to avoid the problem of an air pocket of orders during the period immediately preceding the reinstatement date. Clearly government should not wait for the January 1, 1968, cut-in date now provided in the statute. Finally, the reinstatement action on the credit should be considered on its own merit and separate from the 6 percent surcharge proposal.

Reinstatement of accelerated depreciation of real property.—Thus far, I have commented exclusively on the question of the investment tax credit. At the time the credit was suspended, on the recommendation of the Administration the Congress also suspended the accelerated depreciation privileges for real property granted under the 1954 Revenue Act. It has been my experience in business that the tax code and tax administration are replete with tax discriminations against industrial buildings. This discrimination is present in the depreciation guidelines and in the basic statute on the investment tax credit.

The real target of the suspension of accelerated depreciation privileges was speculative construction, not industrial buildings, and yet the suspension legislation lumped all buildings and structures together. Obviously, corrective action should be taken in this area also—and promptly.

Having attempted to present the views of a typical capital goods user regarding the investment credit issue—views which, based on Institute experience, discussions, and contacts, are believed to be a composite of capital goods opinion—we turn at this point in our statement to a technical amplification of certain points made above.

UNSUITABILITY OF INVESTMENT CREDIT FOR MANIPULATIVE ACTION

Since March 1966, before the Presidential proposal to suspend the credit, as documented in our testimony before a subcommittee of this committee, MAPI has underlined the reasons why the investment credit is not an appropriate device for economic control or contracyclical action.

A copy of that statement is attached. We reiterated these views during hearings on H.R. 17607 and in September 1966, MAPI Research Director George Terborgh's Capital Goods Review No. 67, entitled "The Investment Credit as an Economic Control Device," was published. A copy of that review is attached. The problems associated with suspension and restoration of the credit are spelled out in this document. It is especially timely at this juncture to quote the review discussion of certain of the perverse reactions which are attendant to restoration of the credit:

The restoration of the credit after a period of suspension is equivalent to a general price reduction of 7 percent. This is worth waiting for.