

Taking the process in reverse, with respect to the January 1, 1968, reinstatement, not only will there be an air pocket in orders between now and the January 1 date, but action will have to be taken promptly to move that reinstatement date forward or the adverse elements in the situation will feed on themselves. In a nutshell, the legislative process involving enactment of tax laws, the administrative process related to their administration, and the subtleties of business management decisionmaking, particularly in the field of business investment policy, do not lend themselves to so-called fine tuning objectives of government planning.

INVESTMENT CREDIT SUSPENSION SERIOUSLY AGGRAVATES ADVERSE IMPACT OF OTHER TAX DEVELOPMENTS

As important as the impact of the suspension of the investment tax credit is by itself, the severity of this action becomes even more important in the light of related tax developments.

Corporate depreciation accruals.—Particularly with regard to capital expenditures, one should examine the present posture of corporate depreciation policy in the United States. The institute has been a close student of depreciation policy for many years. It is clear that we are now in a period characterized by a fading effect of tax depreciation accruals on corporate sources of funds and on economic trends. In a study on this subject, entitled "The Fading Boom in Corporate Tax Depreciation," by George Terborgh, the following conclusion was reached:

The great postwar surge of corporate tax depreciation is over. From now on, the increase in accruals will be more closely geared to the long-run growth trend of corporate capital expenditures.

There is considerable reason to believe, moreover, that the rate of increase will actually fall below this growth trend. The future of corporate capital expenditures is of course unpredictable, but if they rise over the next decade at the average rate of the past 15 years (about 5.5 percent per annum), a short-fall of depreciation growth seems probable. The probability arises principally from the prospective fadeout of the relative net benefits from the accelerated writeoff methods of the 1954 Code and from the guideline-life system.

The reserve-ratio test.—Moreover, the depreciation guideline system is hobbled by an administratively unworkable and technically deficient reserve-ratio test. Because of some relief measures taken by the Treasury Department, this test has not yet begun to bite seriously. But when the test again becomes fully effective it may substantially limit the favorable effect of the depreciation guidelines. For the long pull, this situation as to the reserve-ratio test should be corrected administratively or by legislation if necessary—a subject worthy of extensive treatment on its own merits. Here we refer to it primarily to indicate that there are problems other than the investment credit issue which affect the health of plant and equipment in the United States.

Contracyclical tax action and leadtime.—Moving beyond the investment tax credit as such, the serious problems of leadtime in connection with the manipulation of personal and corporate income taxes received attention in MAPI Capital Goods Review No. 68. The conclusion from that Review is quoted below:

We are interested here in the *technical* aspects of corporate and personal income taxes as instruments of contracyclical action, not in their *political* aspects. We are glad to leave the latter to politicians.