THE INVESTMENT CREDIT—THE CASE FOR ITS PERMANENCY*

By Charles Stewart, President

We appreciate the opportunity extended by your letter of March 11, 1966 to present the views of the Machinery and Allied Products Institute and our affiliate, the Council for Technological Advancement, on the issues and problems involved in alternative approaches to short-run economic stabilization. Our comments will be directed to the role of the investment credit in the economy and to a consideration of its appropriateness as a countercyclical device. The reason for this concentration is threefold:

1. We believe the investment tax credit as applicable to productive equipment was an imaginative and sound proposal. Further, we believe the credit has worked and has proven its merits as a permanent part of our tax structure.
2. The investment credit is the subject of one of the recommendations of the full Joint Economic Committee in its 1966 Joint Economic Report. To wit:
"We should immediately suspend the 7-percent investment credit provision in view of the extraordinary exuberance indicated by investment programs. This is one of the major inflationary threats of this year. This action should be accompanied by a provision that the 7-percent credit would go back into effect at a fixed future date unless Congress acts to extend the suspension."
3. As a national organization representing the capital goods and allied equipment industries, the Institute speaks on behalf of firms who have the unusual vantage point of being at one and the same time both the *producers* and major *users* of the productive equipment subject to the investment tax credit. This vantage point also includes familiarity with the impact of the credit on the wide range of customer industries served by capital goods producers. Finally, from the original conception of the credit, the Institute has studied it closely.

We turn first to a brief discussion of the investment credit in relation to the goals of our economy.

Goals—One Theme With Different Arrangements

After twenty years under the Employment Act of 1946 its goals of "maximum employment, production, and purchasing power" have come to be generally interpreted as full employment, economic growth, price stability, and balance of payments equilibrium. Since it is impossible to maximize everything at once—and since conditions change as well—the individual goals have been given different priorities at different times. Currently, the goal of stability is receiving the most attention and, becauses of this, there is a strong tendency to analyze and pass judgment upon a particular measure only in terms of its contribution (or lack of it) to this one goal. We make two observations in this connection:

1. There is a great danger that in attempting to avoid inflation and maximize price stability we will sacrifice the progress we have made in achieving present levesl of full employment, economic growth, and balance of payments equilibrium.
2. The investment credit has played—and can continue to play—a major role in achieving the essential economic goals of full employment, economic growth, and balance of payments equilibrium. Further, it is not without merit in its contribution to reasonable price stability as well.

The Positive Role of the Investment Credit

The rationale of the credit.—In the current dialogue on the investment credit it is frequently overlooked that there was a basic and long-run consideration in enacting the investment credit upon the recommendation of President Kennedy.

*Statement presented by Machinery and Allied Products Institute and Council for Technological Advancement to Subcommittee on Fiscal Policy of the Joint Congressional Economic Committee in Connection with Hearings on Short-Run Stabilization Tax Changes, March 31, 1966.