This was brought out at the time by then Secretary of the Treasury Dillon in testimony before the House Ways and Means Committee: [1]

"As we look back over the past century we see that our record of economic growth has been unmatched anywhere in the world. But of late we have fallen behind. . . . In the last five years Western Europe has grown at double or triple our recent rate and Japan has grown even faster. While there is some debate as to the precise annual growth rate of the Soviet economy, CIA estimates that their GNP grew at a rate of 7 percent in the 50's. Clearly, we must improve our performance, otherwise we cannot maintain our national aspirations. The pressing task before us, then, is to restore the vigor of our economy and to return to our traditionally high rate of economic expansion and growth. I am confident this can be accomplished. But it will require a major effort by all of us.

"I have been impressed during recent travels abroad by the great progress our friends overseas have made in reconstructing their economies since World War II and by the highly modern and efficient plants they now have at their disposal. . . . All the information we have indicates that their plant and equipment are considerably younger than ours. Although this difference reflects the rebuilding of the shattered European economies, I think it is important to emphasize that it was due in good part to the vigorous policies of the European governments. Tax incentives for investment played a significant role, including accelerated depreciation, initial allowances and investment credits."

This same point was made even more directly in the statement of the Council of Economic Advisers before the Joint Economic Committee: [2]

"Measures to stimulate business investment directly will contribute to our recovery from the present recession, but that is not their main purpose. All who have confidence in the American economy must look ahead to the day when the slack will be taken up and high levels of output and employment will again be the rule. The full benefit of our decision to supplement increases in consumer demand now with a higher rate of capital expansion and modernization will then be realized."

The message is clear. There are long-run advantages to the investment credit for productive equipment that outweigh any use it might have as a device to offset cyclical changes in the economy. What are these advantages?

The case for the credit.—In essence, the investment tax credit is vital to economic health in that it provides an incentive to continued growth of the nation's productive capacity and the modernization and replacement of its existing equipment. In so doing it provides the assurance the economy can—

1. Provide the goods necessary to meet its domestic needs—civilian and defense—and, in so doing, combat inflation;
2. Provide the additional jobs and equipment required by an expanding labor force; [3]
3. Enable the economy to provide wage increases in accordance with productivity without inducing price increases;
4. Fulfill our international obligations; and
5. Meet the competition for world markets and thus contribute to the solution of our balance of payments problem.

To make its proper contribution to the performance of these tasks, the investment credit should be—as it was originally considered to be—a permanent part of our tax structure. To convert the credit to meet the requirements of a countercyclical tool—i.e., that it be used on an on-again, off-again basis—would run the risk of sacrificing its effectiveness in fulfilling the vital goals for which it is uniquely designed. But even assuming that serious consideration should be given to its use as a countercyclical tool, how will the credit function in that role?

The Credit as a Countercyclical Tool

It is generally agreed that the criteria that should be met by any tax used as a countercyclical tool include the following: (1) it must be promptly effective and its economic results consistent with desired effects; (2) it must be equitable; and (3) it must not create uncertainty in business planning, investment, and output. We conclude that the investment tax credit fails on all three grounds and as we understand Assistant Secretary of the Treasury Surrey's testimony before this Subcommittee on March 30, he makes the same judgment.

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[1] "President's 1961 Tax Recommendations," 87th Cong., 1st Sess., May 3, 1961, pp. 21, 22.
[2] "The American Economy in 1961: Problems and Policies," March 6, 1961, p. 49.
[3] *Capital Goods Review* No. 61, "Labor Force Growth and Business Capital Formation," MAPI, March 1965.