ment as a means of both increasing our rate of economic growth and making U.S. industry more efficient and thus more competitive at home and abroad. It was later liberalized in the same spirit. The objectives of the Act are just as vital today as when the law was enacted despite some changes in economic conditions.

When the investment credit was proposed and enacted it was in the spirit of permanency. There is a clear legislative record to this effect. To attempt to use the credit as purely a countercyclical tool on an in-and-out basis would be a breach of faith, in addition to interfering with the longer-range goals to which it is addressed.

Most persuasive in terms of the applicability of the credit as a countercyclical device is that it simply would not be effective. The credit is not well suited to such use both because of the "cut-out" and "cut-in" problem and the fact that it will lead to perverse reactions due to the effect of anticipated changes in the credit on behavior of industry.

Frequently the arguments in favor of suspending the investment credit seem to assume that success or failure in the fight against inflation turns on this single proposal. This obviously is not the case. The Tax Adjustment Act of 1966, the increase in Social Security and Medicare taxes which went into effect in January of this year, and the recent action of the Federal Reserve Board in raising the discount rate all have a restraining effect—both directly and indirectly—on capital expenditures and have not yet attained their potential impact. In addition, the supply of corporate funds will be adversely affected by the passing of the postwar boom in corporate tax depreciation, and the prospect of a deteriorating relation between capital requirements and financial availabilities.

The great economic challenge to the U.S. today remains the achievement and maintenance of the most modern technology and industrial plant in the world. It is only in this way that we can conserve the progress we have made, protect our national security and our international competitive position, and insure the highest level of job creation.

This concludes our comments on the role of the investment credit in the economy and its appropriateness as a countercyclical device both in the current economic context and as a general principle. We should like to express again our appreciation of your kindness in permitting us to present the views of the Institute on this subject. If the Institute and its staff can be of assistance to the Committee in its studies we hope you will not hesitate to call on us.