THE INVESTMENT CREDIT AS AN ECONOMIC CONTROL DEVICE*

In the election campaign of 1960, both presidential candidates expressed dissatisfaction with the progress of the American economy and a determination to accelerate its future growth by providing additional incentives for business investment.

The nature of this concern is evident from the remarks of Secretary of the Treasury Dillon in presenting the first incentive proposal of the new Administration, the investment credit.

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 tasks before use, 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.[1]

ORIGINAL CONCEPT

This statement was made during the recession of 1960–61, following several years of relatively low business capital investment (after 1957). It is obvious, however, that the Administration was concerned not simply with the cyclical recovery of investment, but with the broader objective of raising its general level over the long run. The main goal was a higher economic growth rate through increased investment in productive facilities.

This view was well expressed by the Council of Economic Advisers in a report to the Joint Economic Committee:

"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."[2]

It is interesting to note that this concept appears to have been shared by the fiscal committees of Congress:

"The tax credit provided by this bill is a complement to the Administration's plans for revising the guidelines for the tax lives of property subject to depreciation. It is believed that the investment credit, coupled with the liberalized depreciation, will provide a strong and lasting stimulus to a high rate of economic growth and will provide an incentive to invest comparable to those available elsewhere in the rapidly growing industrial nations of the free world.[3]

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[1] Testimony of the Secretary before the House Ways and Means Committee, May 3, 1961.
[2] *The American Economy in 1961: Problems and Policies*, March 6, 1961, p. 49.
[3] Report of the House Ways and Means Committee on the Revenue Act of 1962, p. 8.