order, or must they be broken out? These and other vexing questions are bound to bedevil both industry and tax administrators, giving rise to uncertainty, controversy, and litigation.

There is another aspect of the matter. Suspension on a commitment basis will give rise to deplorable pressure on equipment suppliers for the redating of orders that fall on the wrong side of the line, the shifting of items from later to earlier orders, etc. No one will contend that this is desirable, least of all the suppliers themselves.

As a matter of fact, the Administration explored very thoroughly the possibility of putting the credit on a commitment basis at the time it was first proposed. In the words of Assistant Secretary of the Treasury Surrey, "It was found not to be feasible."[10] If it was not feasible to *introduce* it on that basis, can it be feasible to *suspend* it in the same fashion?

TIMING

Because of the long lead time between orders and delivery, the cutoff of the investment credit at the ordering stage would obviously have a *delayed* effect on equipment production. Senator Proxmire recently commented on the point as follows:

"Because the suspension of the credit would have to provide an exception for projects already under commitment, but completed in the future, it follows that suspension would generally not alter investment expenditures or tax revenues for a substantial period of time. . . . If we repeal the credit today or tomorrow, it would be at least the middle or the end of 1967 before the real effect would be felt. If we acted next March or April, it would have no decisive effect until 1968."[11]

This means that the suspension should occur long *before* capital investment attains the level at which restraint is deemed desirable. It requires action on the basis of predictions and forecasts. This is not necessarily a prohibitive requirement, but past experience with the application of restrictive measures in a political environment (especially in election years) is not reassuring. The chances are that the suspension will come late, in response to *current*, rather than anticipated, conditions. In some cases, certainly, this will lock the barn door after the horse is gone. Indeed, there is always the risk that the delayed effects will fall in the receding phase of the capital goods cycle, thus aggravating the decline.

PERVERSE REACTIONS

In a parliamentary system, the minister of finance can guard the secrecy of his budget proposals until they are formally presented to the legislature. Moreover, the budget, once disclosed, is practically certain to go through. (If it doesn't, the government falls with it.) In this setup, a measure like the suspension of the investment credit can be imposed as of a date already past, and *there is nothing industry can do about it.*

In the American system, things do not happen this way. Proposals can be tossed into the hopper by any member of the Congress at any time, and it is often difficult, if not impossible, to assess their chances. Even if they progress in the legislative machinery, they are likely to be pending for months, and no one can be sure whether, or in what form, they will finally emerge. Proposals of the Administration must run the same legislative gauntlet, and even if acceptable in principle are commonly exposed for extended periods to discussion and amendment. On many crucial details the final result is often uncertain up to the moment of enactment.

This makes it extremely difficult to suspend the investment credit without triggering perverse reactions on the part of industry. Since the effect of suspension is an across-the-board increase of 7.5 percent in the cost of eligible equipment, the moment of suspension bill is introduced there is an incentive to rush the placements of commitments.[12] Even though the cut-out date is already past, there is no certainty that it will stick; hence prudence calls for protective action. Some other bill with a later cut-out may supersede the first one. Even if the original proposal eventually goes through, it may be some months hence, and the final effective date is unpredictable. The response to these uncertainties

[10] *Hearings* Before the Subcommittee on Fiscal Policy of the Joint Economic Committee, March 16–30, 1966, p. 242.
[11] *Cong. Rec.*, August 23, 1966, pp. 19421, 19422.
[12] The 7.5 percent applies to equipment with a service life of 8 years or over. For shorter-lived items, the credit is scaled down.