

would trigger a new boom in fixed business investment and in inventory accumulation—which may be translated as inventory speculation in anticipation of higher prices.

The Council can hardly argue that, with present unemployment and the present wide margin of unused capacity, the increase in consumer spending alone would put unbearable pressure upon resources. The danger, if there is any real danger, is that disproportionate spending on plant and equipment and on inventories would prove unsustainable. Distortions would thereby be created which could lead to a recession. As the Council says, “soaring profits” could generate a capital goods boom “in 1969, if not sooner [which] could sow the seeds of a subsequent collapse of investment in plant and equipment.” Inventory speculation, similarly, could be replaced by disaccumulation putting additional downward pressure on the level of economic activity. A capital goods boom could also affect the balance of payments. As the Council pointed out in its 1967 report, a 50-percent increase in imports of capital goods occurred during the 1966 investment splurge which accounted for 20 percent of that year’s total increase in imports. It is noteworthy also that the rise in nonfarm wholesale prices, which began in late 1964 after 5 years of stability, and which has continued since, was touched off by the capital goods industries in response to inordinately high investment demand.

The problem as described above calls for preparation to head off an investment boom and inventory speculation if and when there should be signs that they are imminent. This can be done most effectively by standby, selective fiscal and monetary measures. Standby measures are appropriate since the Council apparently does not expect that absence of the proposed surcharge would lead to a business spending spree before late 1968 at the earliest.

If there is clear danger of an unsustainable investment boom, it would be utterly ridiculous to continue the investment tax credit which was designed to stimulate investment. Instead of stepping on the accelerator, the brakes should be applied. The situation would call for the reverse of the tax credit—for example, a special tax on investment spending. Similarly, inventory speculation could be deterred, for example, by a tax on inventories in excess of the individual firm’s ratio of inventories to sales during an appropriate base period. Legislation authorizing such taxes could be enacted now with the proviso that they would not go into effect until a Presidential decision to impose them had been concurred in by a joint resolution adopted by both Houses of Congress. Thus, the Nation would be armed on the fiscal front to meet the danger the Council envisions.

Similarly, on the monetary front, the Federal Reserve Board could make it known now that it is prepared to make selective use of all the powers at its disposal to curb lending for investment and excessive inventory accumulation, if and when they threaten to get out of hand, while maintaining an adequate flow of credit for housing, for the needs of State and local governments, and for other high-priority purposes.

In the unlikely event that consumer spending should threaten to put undue pressure upon capacity, a progressive spending tax—along lines described above—which could also be enacted on a standby basis, could meet that problem.