

where restricting a surge in investment demands would make good economic sense.

Mr. KLEIN. May I say something?

Representative CONABLE. Yes, sir.

Mr. KLEIN. I think the investment tax credit definitely supports the high level of capital formation that we are having, but I have detected among business executives of this country a dissatisfaction with the idea of using something like that as a shortrun policy instrument.

Representative CONABLE. It certainly affects their plans rather adversely to have it frequently changed.

Mr. KLEIN. Yes.

Representative CONABLE. Businessmen's plans have to be made over a longer period of time.

Mr. KLEIN. That is precisely it.

Representative CONABLE. Too short a period of time was involved in manipulating it over the past few years. I understood there was a great deal of business dissatisfaction.

Mr. KLEIN. It is a longrun capital expansion.

Representative CONABLE. We were considering it a manipulative device in having taken it off and putting it back on immediately, and it is not desirable from a business point of view certainly. You think it is not desirable from an economic point of view also?

Mr. KLEIN. I think it didn't work in late 1966 because it was a shortrun measure designed to deal with a longrun issue, and it was ineffectual. Also it really represented at the time a kind of flip-flop in Government policy, something that was wanted in September was not wanted 3 or 4 months later. It isn't like an open market operation, and it isn't like a changing of current expenditure policy, current fiscal policy of the Government. It is a basic longrun consideration.

Representative CONABLE. Certainly quite apart from the effectiveness of such a device an on-again-off-again use of it does create very serious inequities in the business community.

Mr. PERRY. May I just say one thing. I don't see that you can both argue that it is ineffective in the sense that was just suggested and also that it is highly undesirable because it is so upsetting of plans. Also, if you are going to affect the capital goods area, however you do it will affect plans. If you did it by some very severe credit rationing and it had the same effect on capital goods producers I don't see that it would be more or less objectionable than if you did it via the tax credit.

Representative CONABLE. I realize you have to make a lot of assumptions in answering such a question but does an inflating economy have a greater impact on the reliability of information about interest rates, or capital investment, or inventory levels? In what areas are the variables the greatest here in the course of an inflating economy?

Mr. KLEIN. Well, let me say something about the present state of our national income account. We now carry along a figure in these numbers, which we all rely on so heavily, a statistical discrepancy between the income side and the expenditure side which is now as big as over \$5 billion.

When we are dealing with these large numbers, inflated numbers, and making very strong corrections for inventory valuation adjustments and similar kinds of manipulations. We are having difficulty, and this is a very disturbing aspect to see that the range of disparity