

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 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

"Realistic depreciation alone, however, is not enough to provide the essential economic growth. In addition, a specific incentive must be provided if a higher rate of growth is to be achieved. * * * The objective of the investment credit is to encourage modernization and expansion of the Nation's productive facilities and thereby improve the economic potential of the country with a resultant increase in job opportunities and betterment of our competitive position in the world economy."⁴

Question of manipulation

It will be recalled that the initial reaction to the investment credit proposal was critical, and even hostile, in many quarters. There were a variety of reasons, only one of which concerns us here. It was charged that once in effect the credit would inevitably be manipulated for economic control purposes.

This charge was indignantly denied by the administration. Its spokesmen insisted that the credit was designed to be a permanent feature of the tax system, that its purpose was to raise the average level of investment over the long pull, and that there was no intent to employ it as a contracyclical device. As for the Congress, the legislative history strongly suggests that it concurred in the administration position.⁵

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.

⁴ Report of the Senate Finance Committee on the Revenue Act of 1962, p. 11.

⁵ Witness the committee reports quoted earlier.