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 a suspension bill is introduced there is an incentive to rush the placements of commitments.[12] Even though the cutout date is already past, there is no certainty that it will stick; hence prudence calls for protective action. Some other bill with a later cutout 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 can only aggravate the pressure on capital equipment suppliers which it is the purpose of the suspension to abate.

But this is not all. If the practice of manipulating the credit becomes established, industry will take anticipatory action even before there are overt moves for suspension. (This would occur, of course, even under a parliamentary system.) As soon as capital goods activity rises to a level suggesting the imminence of such moves, protective commitments are in order.

These observations assume suspension on a commitments basis, with sufficient time allowed to work off the outstanding backlog. Where this allowance is cut short, as in the Long amendment mentioned earlier (4 months), there is an additional incentive for perverse reactions. If the threat of enactment is taken seriously by industry, such a proposal is bound to touch off a stampede for the acceleration of equipment deliveries scheduled after the deadline (its enactment would, of course, have the same effect). Again the result will be the opposite of that intended.

These consideration raise grave doubts about the *effectiveness* of credit suspension as a means of restraint, quite apart from the administrative difficulties to which it gives rise. It may well prove counterproductive.

[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.