

2. PROBLEMS ASSOCIATED WITH RESTORATION

It is obvious that the restoration, or cut-in, phase of the temporary-suspension cycle raises in reverse some of the same problems confronted at cutout. There is again the question of basis: should the cut-in be by installation or by commitment? There is the question of timing: how can anyone tell at suspension whether the scheduled restoration will be timely? There is also the problem of anticipatory reactions: with the cut-in date known in advance, how can perverse effects be avoided?

Basis

While the average leadtime between the commitment and installation of eligible equipment is likely to be somewhat shorter at restoration than at suspension, it is bound to be at least 6 months, and probably longer. This means that if the restoration is on an installation basis it will apply to commitments made long before the cut-in date. If, on the other hand, it is on a commitment basis, it will present the difficult administrative problems described earlier in connection with the suspension phase. (In either case it will generate perverse reactions, about which more in a moment.)

Most of the temporary-suspension proposals we have seen contemplate restoration on an installation basis, though in the administration plan it turns on commitments. Here it is a question of balancing the administrative simplicity of the installation-basis cut-in against the windfall gains conferred on then-outstanding commitments. With a fixed cut-in date, such gains are certain to be far smaller than the windfall losses from the exclusion of existing commitments at the suspension stage. For since the cut-in date is known in advance, most of these commitments will have been made in expectation of the credit. (Where the restoration date is indefinite, more of them will have been entered into without reference to the credit.)

Timing

If there are timing problems at the suspension stage, they appear also, though in different form, at restoration. No one can tell at the time of suspension how long the period should last. Should it be 1 year, 2 years, or 3 years? If the cutout is likely to come, as we have suggested, near the end of the capital goods boom, even 1 year may be too long. In other cases it may not be long enough.

Some temporary-suspension schemes allow the President to extend (but not to shorten) the period by proclamation. This gives one-way flexibility, but it introduces an undesirable element of uncertainty in business planning. Until it is known whether the scheduled cut-in date will be deferred, capital budgeting must proceed in the dark. A similar climate of uncertainty will exist, of course, if the suspension is for an indefinite period in the first place.

Perverse reactions

It is here that the greatest difficulty arises. The restoration of the credit after a period of suspension is equivalent to a general price reduction of 7 percent.¹³ This is worth waiting for.

With suspension to a time certain, there is bound to be a massive deferment of commitments (if the cut-in is on a commitment basis) or

¹³ Again with the exception noted earlier for equipment with a life of less than 8 years.