of delivery instructions (if it is on an installation basis) as the restoration date approaches. Unless the cut-in comes at just the right moment (right with this deferment taken into account), the resultant "air pocket" in equipment activity will be both untimely and injurious. It will be the more so, of course, the later the cut-in relative to the correct timing.

The chance that a predetermined suspension period will end at or near the right time is very slim. So also is the chance that the preceding "air pocket" in equipment activity will be rightly timed. There is grave risk that the inevitable wait for restoration will serve to aggravate capital goods recessions.

But what if the restoration date is indefinite, subject to the future action of Congress or the President? In this case the basis for the anticipatory deferment of orders or deliveries is uncertain, and the affair turns into a guessing game. Industry will guess when the cognizant authority is going to move and will regulate its capital programs accordingly. The air pocket will be less sharply defined than when the cut-in date is known (there will be differences of opinion on the prospects), but it will be present nevertheless. The pendency of the restoration will exert a drag on the recovery of investment (or will aggravate its decline) until the effective date is passed.

3. CONCLUSION

The moral of this discussion is clear. The investment credit is not suited to manipulative application. It is not, therefore, an appropriate device for economic control purposes. It was not intended for this use in the first place and should not be so employed.

The practical alternative that confronts policymakers is either to maintain the credit as a permanent feature of the tax system or to abolish it. As to this choice, we entertain no doubt. It is still as important to accelerate the longrun growth of the American economy as it was when Secretary Dillon made the statement quoted earlier. There are now, moreover, two additional factors that did not obtain at that time: the accelerated growth of the labor force, and the declining growth of tax depreciation deductions. A word on each.

We estimated in an earlier *Review* that the stepped-up growth of the labor force (which began around 1965) will require an annual investment in productive facilities $5 billion to $8 billion *larger* than would be needed with a continuation of the labor-force growth rate obtaining previously.[14] Obviously, these expanded requirements will have to be financed somehow.

It is here that the second factor comes in. Over the 20 years 1945–65, the tax depreciation deductions of American corporations rose at an *average* rate of nearly 11 percent per annum, a rate far more rapid than the expansion of depreciable assets (7 percent). But this situation has now come to an end:

"The great postwar surge of corporate tax depreciation is over. From now on, the increase in accruals will be more closely geared to the longrun growth trend of corporate capital expenditures. There is considerable reason to believe, moreover, that the rate of increase will

[14] "Labor Force Growth and Business Capital Formation," *Capital Goods Review* No. 61, March 1965.