

actually fall below this trend. The future of capital expenditures is, of course, unpredictable, but if they rise over the next decade at the average rate of the past 15 years (about 5.5 percent per annum), a shortfall of depreciation growth below this rate seems probable. The probability arises principally from the prospective fadeout of the relative net benefits from the accelerated writeoff methods of the 1954 code and from the guideline-life system."¹⁵

Both of these factors conspire to make the investment credit more, rather than less, urgent than when first proposed. If under present conditions additional measures of economic restraint are called for—a question we do not consider here—there are better ways to accomplish this end than manipulation of the credit. Indeed, if the foregoing analysis is valid, its manipulation is likely to do more harm than good.

MACHINERY & ALLIED PRODUCTS INSTITUTE,
Washington, D.C., March 31, 1966.

Representative MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy, Joint Economic Committee, Congress of the United States, Washington, D.C.

THE INVESTMENT CREDIT—THE CASE FOR ITS PERMANENCY

DEAR MRS. GRIFFITHS: We appreciate the opportunity extended by your letter of March 11, 1966, to present the views of the Machinery & Allied Products Institute and our affiliate, the Council for Technological Advancement, on the issues and problems involved in alternative approaches to shortrun economic stabilization. Our comments will be directed to the role of the investment credit in the economy and to a consideration of its appropriateness as a countercyclical device. The reason for this concentration is threefold:

1. We believe the investment tax credit as applicable to productive equipment was an imaginative and sound proposal. Further, we believe the credit has worked and has proven its merits as a permanent part of our tax structure.

2. The investment credit is the subject of one of the recommendations of the full Joint Economic Committee in its 1966 Joint Economic Report, to wit:

"We should immediately suspend the 7-percent investment credit provision in view of the extraordinary exuberance indicated by investment programs. This is one of the major inflationary threats of this year. This action should be accompanied by a provision that the 7-percent credit would go back into effect at a fixed future date unless Congress acts to extend the suspension."

3. As a national organization representing the capital goods and allied equipment industries, the institute speaks on behalf of firms who have the unusual vantage point of being at one and the same time both the producers and major users of the productive equipment subject to the investment tax credit. This vantage point also includes familiarity with the impact of the credit on the wide range of customer industries

¹⁵ *The Fading Boom in Corporate Tax Depreciation*, Machinery and Allied Products Institute, 1965, pp. 1, 12.