

tered European economies, I think it is important to emphasize that it was due in good part to the vigorous policies of the European governments. Tax incentives for investment played a significant role, including accelerated depreciation, initial allowances and investment credits."

This same point was made even more directly in the statement of the Council of Economic Advisers before the Joint Economic Committee:²

"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."

The message is clear. There are longrun advantages to the investment credit for productive equipment that outweigh any use it might have as a device to offset cyclical changes in the economy. What are these advantages?

The case for the credit.—In essence, the investment tax credit is vital to economic health in that it provides an incentive to continued growth of the Nation's productive capacity and the modernization and replacement of its existing equipment. In so doing, it provides the assurance the economy can—

1. Provide the goods necessary to meet its domestic needs—civilian and defense—and, in so doing, combat inflation;
2. Provide the additional jobs and equipment required by an expanding labor force;³
3. Enable the economy to provide wage increases in accordance with productivity without inducing price increases;
4. Fulfill our international obligations; and
5. Meet the competition for world markets and thus contribute to the solution of our balance-of-payments problem.

To make its proper contribution to the performance of these tasks, the investment credit should be—as it was originally considered to be—a permanent part of our tax structure. To convert the credit to meet the requirements of a countercyclical tool—for example, that it be used on an on-again, off-again basis—would run the risk of sacrificing its effectiveness in fulfilling the vital goals for which it is uniquely designed. But even assuming that serious consideration should be given to its use as a countercyclical tool, how will the credit function in that role?

The credit as a countercyclical tool

It is generally agreed that the criteria that should be met by any tax used as a countercyclical tool include the following: (1) it must be promptly effective and its economic results consistent with desired effects; (2) it must be equitable; and (3) it must not create uncertainty in business planning, investment, and output. We conclude that

² "The American Economy in 1961: Problems and Policies," Mar. 6, 1961, p. 49.

³ *Capital Goods Review* No. 61, "Labor Force Growth and Business Capital Formation," MAPI, March 1965.