

the investment tax credit fails on all three grounds and as we understand Assistant Secretary of the Treasury Surrey's testimony, before this subcommittee on March 30, he makes the same judgment.

Delayed effects.—Under present circumstances, there is an average lag of 9 or 10 months between the go-ahead decision (appropriation or authorization) and the installation⁴ of credit-eligible equipment. This means that the major part of the equipment to be installed during the remainder of 1966 is already in the pipeline. Denial of the credit at this juncture might have some effect on projects authorized but not yet committed, but it would not affect significantly those already on order. It follows that the restrictive effect on capital goods activity would be largely deferred. Most of it would come in 1967.⁵

Perverse reactions on suspension.—Unless the effective date of the credit suspension is definitely and convincingly *in the past*, the legislative consideration of the proposal will trigger a frantic rush to obtain deliveries of credit-eligible equipment before the deadline. This will aggravate the pressure on the equipment producer that it is the object of the suspension to abate.

It appears to be the view of leading proponents of suspension that equipment orders outstanding at the time of suspension must necessarily be exempt from its application on grounds of equity. In this case, the legislative consideration of the proposal—unless again the cut-in date is convincingly *in the past*—would lead to an *orders* stampede. This might not be as harmful as a deliveries stampede, but it could be very disturbing to capital goods suppliers, and is certainly not calculated to relieve the pressure on them in the near term.

Perverse reactions on restoration.—If the restoration of the credit were either dated in advance or anticipated by industry, it would obviously provide a powerful inducement for the deferment of new equipment installations until after the deadline. If the restoration applied to *orders* placed after the deadline, it would have an even more retarding effect. On either basis, the arrangement would produce an artificial depression in capital goods markets at the wrong time and contrary to the intention of its sponsors.

Timeliness.—In view of the delayed impact of a credit suspension on capital goods activity, the question arises whether the move is timely. There are powerful forces of restraint already at work in this area—falling corporate liquidity, increased pressure on internally generated funds, reduced credit availability and higher interest rates, rising costs of capital projects, severe shortages in skilled manpower, etc.—and there is informed opinion that the peak of new authorizations has already been reached. If this is correct, the effect of suspension—especially if delayed for 2 or 3 months—would come too late to be of much value. It would have its chief impact after the squeeze is over, and would aggravate any subsequent correction.

⁴ Note the significance of the "installation" test under the investment tax credit provisions. As Assistant Secretary Surrey said, "Actually, I think people who have advocated suspension of the credit really have an image of its operation that would have it turn on orders rather than installations as it now does. This possibility was explored at the time the credit was originally set up and found not to be feasible."

⁵ Senator William Proxmire made this same point in his supplementary views in the "1966 Joint Economic Report" at p. 23:

"Because there is a considerable 'leadtime' in carrying out investment projects; because the investment credit becomes available when assets are put in service and hence present contracts are being undertaken in reliance on the availability of the credit when the project is completed; because suspension of the credit would have to provide an exception for projects already under commitment, but which will be completed in the future; it follows that suspension of the investment credit would generally not alter investment expenditures or tax revenues for a substantial period of time."