Inequity.—In addition to the problem of long leadtimes mentioned above, capital expenditures also involve a good deal of preplanning and preparatory expenditures for such items as plant design, engineering work, etc. Any removal of the credit forcing a change in plans obviously results in certain losses or penalties to the company. Further, many such commitments are not only planned long in advance, but are contracted for. Where this is the case a change in plans is no longer feasible and this raises questions of the Government's keeping good faith with the taxpayer.

There is another matter of equity that merits attention here. The credit is a vital and necessary part of our tax system as long as industry is subject to the present extremely high corporate rates which have such a penalizing effect on investment.[6]

Uncertainty.—Frequent reversals of tax policy tend to destroy incentives. Under such conditions there is a reluctance to make capital expenditures when there is uncertainty as to the character and timing of congressional action. This is an important consideration at a time when industry is increasingly engaging in long-range planning and that planning with respect to expenditures on production equipment takes the investment credit into consideration. Thus, to the extent that the investment credit becomes an on-and-off device, its usefulness will be severely impaired.

Summary.—The moral is clear. The investment credit, potent as it is as a device to support and facilitate capital investment, does not lend itself readily to manipulative application because of its inherent limitations as a countercyclical tool.

The crucial element of timing

The proper tools.—Unquestionably, the practice of economics has become more sophisticated in recent years. We believe that through the efforts of economists in government, academe, and industry we know a great deal more about the economy and we are hopeful that government itself has become somewhat more astute and sophisticated in the use of economic tools. However, at this time it must be admitted that there still remains a good deal to be done in improving our analytical techniques and until this is accomplished we are not in a position to proceed with a great deal of reliability into the niceties of countercyclical fiscal policy.

Where are we now?—There are some who believe that the forces of inflation are severe and will grow much worse. There are others, with whom we are inclined to join ourselves, who feel that, although there are some significant inflationary signs, it is unlikely that we confront a runaway situation; indeed, it is very likely that we are near the top of the cycle and may be leveling off. As noted above, there are powerful forces of restraint already at work. These include the tight money situation both as to availability and rates, declining profit margins, and the decline in common stock prices in heavy trading. In terms of capital expenditures, this does not necessarily mean that we are about to face a recession, but rather a significantly slower rate of growth in physical output and a growth rate in plant and equipment expenditures closer to that of the economy as a whole.

[6] *Effect of Corporate Income Tax on Investment*, George Terborgh, Machinery and Allied Products Institute, March 1959.