

Forces at work.—In addition to the straws in the wind we have mentioned, there are a number of basic forces at work which will increasingly exert a restraining hand on the economy. President Johnson himself has identified these factors. These, of course, include the Tax Adjustment Act of 1966 which it is estimated will raise some \$6 billion in Federal revenue over the next 15 months, the increase in social security and medicare taxes of some \$6 billion at annual rates which went into effect on January 1, 1966, and the recent action of the Federal Reserve Board in raising the discount rate. In addition, it must not be overlooked that Congress can, and we think should, assert a firmer control over Federal expenditures and the executive department has leeway in certain of its actual *spending* decisions.

Beyond these factors, there is one other that to our knowledge has been overlooked by commentators on this subject; namely, the fading boom in corporate tax depreciation. Since the institute has documented this at length elsewhere⁷ we will simply excerpt the relevant portion of the conclusion of that study:

"The great postwar surge of corporate tax depreciation is over. From now on, the increase in accruals will be more closely geared to the long-run growth trend of corporate capital expenditures.

"There is considerable reason to believe, moreover, that the rate of increase will actually fall below this growth trend. The future of corporate 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 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."

Summary.—In light of the margin of error that exists in the application of macroeconomics, the relatively crude state of our analytical tools at this time, and the forces for restraint that have yet to reach their full potential, it would appear precipitous to take action to suspend the investment credit at this time on these grounds alone.

Summary and conclusion

The investment tax credit was enacted by the Congress upon recommendation by the Kennedy administration in order to stimulate sound capital investment as a means of both increasing our rate of economic growth and making U.S. industry more efficient and thus more competitive at home and abroad. It was later liberalized in the same spirit. The objectives of the act are just as vital today as when the law was enacted, despite some changes in economic conditions.

When the investment credit was proposed and enacted it was in the spirit of permanency. There is a clear legislative record to this effect. To attempt to use the credit as purely a countercyclical tool on an in-and-out basis would be a breach of faith, in addition to interfering with the longer-range goals to which it is addressed.

Most persuasive in terms of the applicability of the credit as a countercyclical device is that it simply would not be effective. The credit is not well suited to such use both because of the cutout and cut-in problem and the fact that it will lead to perverse reactions due

⁷ *The Fading Boom in Corporate Tax Depreciation*, George Terborgh, Machinery and Allied Products Institute, 1965.