controls program some broadly applicable and easily applied incentive to encourage companies to improve their individual balance-of-payments position.

3. We recommend that shipments of capital equipment for investment use under either of these optional standards be permitted without reference to area or schedule-of-countries limitations which might otherwise continue to apply.

4. The special incentive suggested in 2 above should be considered as a matter wholly separate and apart from any general incentive to increase exports as suggested earlier.

Machinery & Allied Products Institute—Capital Goods Review

A REMARKABLE DECADE FOR BUSINESS CAPITAL EQUIPMENT

Save for the minirecession of 1960–61, the American economy has now enjoyed a full decade of expansion, with only the mildest of interruptions. It is not surprising that this relatively stable growth has been reflected in the behavior of the capital equipment industries. They, too, have turned in a remarkable performance.

We can illustrate this proposition by reference to the monthly census series on orders, shipments, and backlog of "machinery and equipment." This is by no means an ideal classification, since it omits some categories of capital equipment and includes a certain amount of other business.[1] Moreover, the figures have shown a tendency in the past to drift downward relative to more comprehensive benchmark data. The defects of classification are not too serious for our purpose, however, and as for the downdrift, that has been corrected through 1966 by the revision described in the preceding *Review*.

The limitations of the series would be important if our object were to measure the *absolute* magnitude of the capital equipment market, and changes therein, but it is not. There are better sources available for this purpose (the GNP estimates, for example). What we have in mind is something quite different; namely, an analysis of the *interrelation* of orders, shipments, and backlog. For such *relative* measurements, downdrift and defects of coverage are of little consequence. The relations among these magnitudes developed by the census series are almost certainly valid in broad outline (though not, of course, in detail) for capital equipment correctly defined and measured.

The results

With this introduction, we turn to the results. The chart on page 1138 shows monthly orders, shipments, and backlog in dollars, orders as a percentage of shipments, and backlog in months' shipments. The heavy vertical line divides the timespan into the most recent dec-

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[1] Among the omitted lines are farm equipment, communications equipment, business motor vehicles, and civilian aircraft. The inclusion of some nonequipment business (such as defense products and consumers' durables) arises from the way the basic data are reported. Until recently, they were filed primarily by *company*. Each company was assigned to the industry of its major activity, and its whole output, of whatever character, appeared in the figures for that industry. Thus a huge multiplant enterprise with production in several major industries fell in a single category. The results, of course, was a serious "blurring" of industry and product lines. In the last few years the census has been developing divisional or plant reporting by such companies, and as this spreads it should make the industry classifications considerably "cleaner," but it can never purge them entirely of alien elements.