Exports over the 2 years 1965 and 1966, taken together, continued to grow reasonably well despite higher cost and price increases than in the preceding period. How much better they would have done in the absence of excessive demand here, we do not know. We do know that in order to increase our trade surplus we must not only hold imports to a reasonable level but we must keep our exports competitive over the longer run. The tax increase contributes to this by reducing upward pressures on our costs and prices.

In the first half of this year, our trade surplus has, in fact, improved from the low annual rate of $2.9 billion in the fourth quarter of 1966 to an annual rate of $4.5 billion in the second quarter of 1967. We must not permit a new outburst of excessive demand to interrupt this trend.

The recently strengthened interest equalization tax and our voluntary Federal Reserve and Commerce programs will help hold capital outflows within reasonable limits.

To summarize then, on why we need a tax increase:

It is necessary to fulfill our obligation to finance the special cost of Vietnam in a responsible way.

It is needed to hold down the size of the deficit to acceptable limits.

It is needed to avoid the return of monetary stringency and high interest rates with their distorting and unfair impact on the economy, particularly in the homebuilding sector.

It is appropriate in relation to our current and prospective economic situation and insures against the danger of a spiralling of prices.

Without the tax increase our balance-of-payments position will suffer.

II. THE TAX INCREASE PROGRAM

To produce the needed revenues the President has proposed a three point program:

I will omit the detail of those proposals since they are familiar to members of the committee.

(The material, referred to here, deleted from Secretary Fowler's prepared statement follows:)

A *temporary* surcharge of 10 percent of tax liability (not 10 percent of taxable income) to be placed on corporations and on those individuals with tax liability above an exemption level.

To be effective October 1, 1967 for individuals, and July 1, 1967 for corporations.

To remain in effect until June 30, 1969, or continue so long as the unusual expenditures associated with our efforts in Vietnam require higher revenues.

A speedup in corporate income tax collections.

A postponement of the scheduled excise tax reductions on automobiles and telephone service during the period of the temporary surcharge.

1. The surcharge form of tax increase

Mr. Fowler. I will make a comment about the surcharge form of the tax increase. In recent years there has been considerable expert discussion about the form that a temporary tax increase should take. We have concluded from that discussion that an across-the-board surcharge is generally the most appropriate method.

A surcharge is simple to administer and easy for the taxpayer to understand. It is relatively prompt and predictable in its impact. It causes minimal disturbance to the existing pattern of relationships