With respect to the tax base, the application of the surtax to corporate tax bills before the foreign tax and investment credits would, in effect, penalize the corporations which are doing the most, in the first instance, to ease the balance-of-payments problem by bringing home income from foreign investments and, in the second, to move us back to an expansion trend in productive facilities which will sustain strong economic growth and provide a bounty of more and better jobs.

With respect to further tax speedup, the new proposals come on top of acceleration in payments and remittances which since 1964 has subjected the larger corporations to an additional tax of some $14 billion—the equivalent of a surcharge in the range of 50 percent of 1 year's tax bill. An increase from 70 to 80 percent in the requirement for current payment on tax liabilities in excess of $100,000 would for the transition year have the effect of a 10-percent surcharge.

With respect to the proposal to inaugurate a 5-year program for putting tax liabilities under $100,000 on a current basis, the result would be the equivalent of a 16-percent surcharge in each of the years for companies whose liabilities do not exceed that figure.

It seems inappropriate that speedup in the corporate area should be justified by reference to current payment of individual tax because of the large forgiveness of tax when the latter was introduced. The importance of retained earnings to new investment and job creation is fully as great for the small firms as for the large ones, and it is a well known fact that smaller corporations have greater difficulty in raising money from banks and other outside sources. In addition, for many small firms, especially in manufacturing and in research and technology, it is difficult to project an annual rate of profit from a current rate because the inflow of new business is not steady. To handle new business as it comes along, such firms must attempt to hold together their forces of skilled and technological workers even though this means recurring red ink in slow periods. There is serious question, therefore, whether there ever will be a good time to apply speedup to small firms, but certainly that time is not now.

A LESSER RATE OF TEMPORARY SURCHARGE

The second overall view stated in the summary is that the temporary surcharge as enacted should be at a considerably lesser rate than the 10 percent proposed by the President in his August program. The evident reasons for this view are the hazard of applying too great a dose of new tax restraint to the private economy at this time, and the contemporary preference for a much greater effort to reduce and control in the expenditure area. If it be thought that a moderate surchage might be too little even if not enacted too late, there are two further considerations which bear on the size of the job to be done.

The first is that a significant part of the current deficit, perhaps as much as $6 billion to $7 billion, will be financed internally within the Government, primarily by use of a surplus in the current accumulation of trust funds. This consideration affords no reason for complacency about the ultimate size of the deficit, but it does bear directly