which was submitted to your committee yesterday with a few remarks in places for clarification.

Our association has given careful consideration to the administration's tax proposals made by President Johnson on August 3, 1967. In brief, our recommendations, which will be discussed in detail are as follows:

(a) The administration should make a substantial effort to effect a percentage reduction in nondefense spending equivalent to the percentage of surcharge imposed on the public. This should be done as a corollary measure recognizing the Government's responsibilities as well as the private citizen's, in bearing the cost of war and in lessening the danger of inflation.

(b) Any surcharge should have a definite termination date, be kept as low as possible, and should apply equally to individual and corporate tax liabilities.

(c) The effective date of a surcharge should be January 1, 1968.

(d) A surcharge should be applicable to net tax liabilities after allowance of the 7-percent investment credit and foreign tax credits.

(e) No change should be made in the present estimated tax requirements of corporations, and accordingly the following Presidential proposals should be rejected:

(1) Elimination of the exemption of the first $100,000 of corporate tax liability from the requirements of payment on quarterly estimated basis.

(2) Increasing from 70 to 80 percent the amount of the estimated tax which must be paid in installments during the taxable year.

Current economic conditions have had a significant adverse effect upon corporate earnings during the first half of 1967. A recent survey of 528 corporations published by the Wall Street Journal on July 28 disclosed that after-tax profits in the first quarter fell 6.4 percent, and those in the second quarter fell 8.1 percent, below the amounts reported in 1966.

In the case of our own industry, the chemical industry, first-quarter earnings as reported by the Department of Commerce were $786 million for 1967 as compared to $847 million in 1966. This represents a decline of 7.2 percent for the first quarter of 1967 from the first quarter of 1966.

The figures for the second quarter for chemicals and allied products are not available but from all indications, this decline in earnings was greater in the second quarter than in the first quarter.

While we realize that in recent days statistics released by the Government indicate that an upturn has started in the economy, we do not believe that it has yet commenced in the chemical industry. We have just not seen the upturn in the chemical industry.

Recently the top executives from 13 firms producing chemicals, drugs, and cosmetics met with Government officials, including Secretary of Commerce Alexander Trowbridge. They informed Mr. Trowbridge that they did not see any immediate evidence of an economic upturn.

Furthermore, we believe that even though the economic uncertainties are resolved in the fourth quarter on a favorable basis, it is highly unlikely that corporate earnings for the full year 1967 will attain their 1966 levels, especially in our own industry.