

not accept the proposition that the 10-percent surcharge is necessarily the keystone of a program of correction of deficiencies and fallacies in our domestic economic policy. On the contrary, we believe that the weight of government action in this area should be placed on substantial, very substantial, reductions in non-essential government expenditures. We do not believe that the administration has gone far enough in this direction and we sympathize with the attitude of the Ways and Means Committee as reflected in its deliberations thus far which seem to conclude that:

First, a clear and unmistakable economic case must be made in terms of business conditions in the United States for a tax increase; and, second, that even with such an economic case persuasively made any tax surcharge must be conditioned upon a substantial decrease in nonessential government expenditures.

The Institute feels that a much more substantial reduction in nonessential government expenditures must be promptly undertaken. If a tax surcharge is enacted, it is to be hoped that expenditure reductions would at least equal revenue from the tax increase.

In brief retrospect, the exports of the United States have been maintained at a remarkable level when one considers the disadvantage at which U.S. exporters are placed by domestic economic policies which include high wage policy, inflationary fiscal policies and an inescapable subordination of international commercial policies. As previously indicated, until the Administration sought a new argument for its surcharge proposal and pressed for the tax surcharge as the centerpiece of its balance-of-payments program, the general posture of the federal government has apparently been to consider the domestic economy in isolation from international economic commercial considerations.

3. *Prompt implementation of export expansion proposals.*—The President's program, as outlined in his message of January 1, includes a number of recommendations affecting export financing, including a special \$500 million fund for liberalized export insurance and export credit guarantee facilities, and prompt development of improved rediscount facilities. In addition, intensified export promotion activities under the aegis of the Department of Commerce was proposed.

All of these ideas, all of these recommendations, have been urged upon government by business for a number of years. They have not been dynamically implemented, in some respects they have not been implemented at all. One is entitled to ask whether there is an element of window dressing in the current revival of these proposals.

The President's message acknowledged that the United States was at a disadvantage because of the practice of foreign countries, permitted under GATT, to provide export rebates of indirect domestic taxes. The testimony of Ambassador Roth before this Committee is not reassuring as to the likelihood of early action for improvement in this area. This problem has existed for a decade or more. The fact that nothing has been done about it is unmistakable evidence that the federal government has not attacked the balance-of-payments problem on a consistent, hard-hitting, long-range basis. On the contrary, when an aggravation occurs it is dealt with on an ad hoc, panic basis.

Why have these export assistance objectives and programs referred to in the President's message not been fully implemented before? Why has this problem of nontariff barriers not received more attention? Why does this practice of foreign countries with respect to export rebates or border taxes go unattended from a policy viewpoint for so many years?

We can only conclude as we have already stated that these problems have been brushed under the rug and they are now being restated and related programs revised in order to provide a sense, and we believe an artificial sense, of balance to this program of controls on foreign direct investment and tourist expenditures. Without going into detail, obviously action should be taken along these lines particularly with regard to export assistance programs, but the fact that such action is taken is neither an excuse nor a rationalization for the controls aspects of this program. Nor should they be permitted to obscure the fact that the heart of the new balance-of-payments program is the control structure which applies primarily to direct investment abroad and banking activities.

4. *Modification of the control structure if it is continued.*—We have already alluded to certain points which we believe should be given central attention if a control system on direct investment abroad is to be continued even for a short