of-payments problem. It is a very learned book. I think the Treasury Department would be well advised to consider hiring you as an adviser or consultant for this field.

Because of your background and some of your recommendations I think they would come up with a much better program than they did bring before us, if they followed some of your ideas. I concur in much of what you say.

Specifically on pages 14 and 15, at the bottom of page 14, you say:

> The President, in his proposals, indicated that he would seek changes by our European friends or recommend legislation to impose a similar system in the United States.

You are referring to lifting the indirect or border tax, et cetera, that is, the indirect tax in Europe.

Mr. DANIELIAN. Yes.

Mr. SCHNEEBELI. This discriminatory provision should be eliminated or our exporters should be given fully compensatory trade treatment.

Are you recommending that either we have an export incentive in the reduction of some of our taxes on exports, or that we have some sort of a tax on imports to help achieve this more favorable balance of trade? This was first suggested by the President in January but not followed up by Ambassador Roth when he appeared before our committee, and I am interested in your approach to this problem. What do you think might be the best answer to this problem, the one of our declining exports.

Mr. DANIELIAN. Mr. Congressman, I want to reply to this in all candor. We have always recommended export incentives in the way of tax concessions. We have recommended, for instance, a more equitable interpretation of rule 482 in the allocaton of costs, in the Internal Revenue regulations, between domestic and foreign operations of a company.

We have recommended export tax incentives. We would like to see the creation of an export trade corporation with a special tax treatment, including a lower income tax rate as applied to an export trade corporation such as we do in the Western Hemisphere Corporation.

Mr. SCHNEEBELI. Specifically how would this work? Let's say Caterpillar Tractor is going to sell some tractors. In what degree and in what fashion would this work that they would be given a tax incentive to do this to increase their exports?

Mr. DANIELIAN. Caterpillar Tractor would have an export corporation. They would transfer their exportable products at the water's edge and that corporation would be taxed at a lower rate than 48 or 50 percent. It could be taxed at 30 percent.

And then that would give them an incentive to emphasize export sales in their operations.

We would prefer this approach rather than a restrictive approach.

Mr. SCHNEEBELI. Wouldn't there be reprisals by the foreign countries to equate this deduction?

Mr. DANIELIAN. I don't believe so. I think we take the talk of reprisal a little too seriously. Most of these countries buy the things they need from us and only those things that they think are competitively priced and so I think that there are very serious limits on this reprisal they talk about.