

years ago. Unfortunately, the available data on the investment—export relationship are far from complete and they do not provide conclusive answers to many of the questions needed to accurately determine the overall investment-export relationship.

The mandatory investment restraint program administered by OFDI is designed as a temporary program and is primarily aimed at arresting new capital outflows and reinvested earnings and encouraging U.S. firms to make further use of funds available abroad in their investments overseas.

In administering this program, every possible effort is being made not to interfere with the decisions of U.S. companies to invest abroad but to limit the effects of these decisions on the balance of payments over the near term. We are continually reviewing the program and seeking ways to reduce any adverse effects which it may have on exports.

Mr. CURTIS. Very good.

Up to date the administration has not shared with the Congress or the people its reasoning in this area.

Now, the other point I would like to ask you, Mr. Secretary is this: You are advocating a tax increase. Is it not true that increasing taxes is going to further encourage imports, and also be a deterrent to exports?

Secretary SMITH. No. I think you can argue that both ways. Certainly I think we can make a good argument that the tax bill will decrease imports.

Mr. CURTIS. Increasing taxes to that point does become a deterrent to exports. I am not arguing how much, but it is a deterrent to exports, and is an encouragement to imports.

Back in 1962, the Secretary of the Treasury argued that by reducing taxes, we would encourage exports, and to a degree make ourselves more competitive on imports.

Isn't this true?

Secretary SMITH. To the extent that taxes have gone in the cost of production, you increase the cost of producing the article that you export.

On the other hand, one of our problems is that the purchasing power in the hands of our citizens is so high now that they have a great ability to purchase imports, which they would not have. Certainly it would be diminished with the passage of the tax bill. I would expect the imports to decrease after passage of the tax bill.

Mr. CURTIS. What you are really saying is that our tremendous deficits that lie behind inflation and that the inflation is a deterrent to exports and an encouragement to imports. On that I could not agree with you more.

There are two ways of overcoming a deficit. One, and the preferable way, I would argue, is getting Federal expenditures down. The deficit in the balance of payments also adds to the national deficit which lies at the basis of our inflation.

That is why I pointed out that using the tax increase has a detrimental aspect that cutting expenditures does not have. This is why I raise the point.

Secretary SMITH. I presume it will do both.

Mr. CURTIS. The trouble is that we are getting nowhere on cutting expenditures. We have had the administration fight us every inch of the way.

Secretary SMITH. It has been decided.

Mr. CURTIS. It has not been.