The simple yet essential truth, Mr. Chairman, is that for many major industries sales in the world market are frequently the difference between high cost production and production sufficient to permit achievement of scale economies, and, therefore, markedly lower costs. The aircraft industry is but one example of an industry that would be unable to achieve economies of scale without access to international markets.

By the same token, however, this dependence on foreign export markets makes their industry very vulnerable to retailiation. Our customers are often governments or government-controlled entities. If we damage our trading partners, they can turn elsewhere for their purchases.

My own corporation has a vital stake in world trade. IBM exported $222.9 million worth of products in 1967, compared to $84.9 million in 1963. IBM's total net contribution to the U.S. balance of payments was $353.6 million in 1967. It is very difficult to estimate the employment resulting from these exports. But we do export parts and equipment from plants in all parts of the country.

THE BALANCE OF PAYMENTS AND TRADE POLICY

As businessmen and responsible citizens, we are greatly concerned with the weakening trade balance and with our recurrent balance of payments deficits.

An essential question for public policy is whether in light of a declining trade surplus we should continue the trade policy that seeks liberalization of barriers to trade, or whether we should reverse that policy by imposing import restrictions such as the quota proposals before the Congress, or special import taxes.

The business community firmly believes that the most feasible answer to the balance of trade problem is reduction of the size of the federal deficit, both by cutting expenditures and by raising taxes. These steps are fundamental if we are to control domestic inflation and thus temper the economic forces that on the one hand have made imports more attractive to consumers and more necessary for the economy, and on the other hand have made U.S. exports less competitive in the world market.

We believe that an overwhelming majority of the nation's businessmen want enactment of the expenditure cut/tax increase package fashioned by the House-Senate conference. It is *the* essential step needed to help restore our trade surplus, help restore confidence in the dollar, and improve international monetary stability.

Domestic price stability is clearly important if U.S. industry is to remain competitive world-wide.

SPECIAL IMPORT TAXES

Direct measures have been suggested as necessary to improve the payments balance by improving the balance of trade. Some advocate that the United States impose special restrictions on imports. Others have recommended a special import surcharge—some a border tax on imports with a corresponding rebate on exports.

The proposal most widely discussed as a "corrective" for a payments deficit is a flat percentage surcharge on imports. The surcharge level most frequently discussed is 10 percentage points. Thus, if the duty on commodity X is currently 5%, a 10% tariff surcharge would bring the total duty up to 15%—an increase of major significance.

The overwhelming majority of the Emergency Committee for American Trade is opposed to a tariff surcharge. An important reason is the harmful economic effect of raising costs in an economy that is striving to remain internationally competitive. Exports would fall because of higher component costs. Ironically, there is also the possibility of increased imports of products made with cheaper foreign raw materials. A surcharge would also mean higher prices to U.S. consumers at a time when many American families are already suffering the effects of inflation.

Finally, there is the problem of foreign countermeasures. It is very likely that other countries would follow with their own special import taxes, thereby lowering the level of international trade but with no net advantage to the U.S. trade account.

Many of the same disadvantages would attach to a 2% border tax/export rebate, which has also been suggested as a balance of payments remedy and, more particularly, as a basis from which the United States could begin to negotiate removal of other countries' border taxes.