which future tax adjustments could bring such benefits. This dictates, for the longer run, careful consideration of the expanded use of indirect taxes (excise, TVA, etc.) and/or a major effort to alter the GATT working party agreement that assumes a black and white distinction in the incidence of direct and indirect taxes. We must also be cognizant in tax policy formulation of an increasing tendency to question the assumption that sales type taxes are regressive, especially if graduated or if compared with effective income tax rates.

Also in the taxation area would be careful consideration of the reallocation provisions of Section 482 of the Revenue Code, provisions for the taxation of "foreign base company income", Subpart G provisions dealing with Export Trade Corporations, and the question of expanding the geographical limits of Western Hemisphere Trade Corporations. While the Treasury surely has a legitimate interest in plugging loopholes and assuring equitable treatment to all taxpayers, under present balance of payments conditions this country must not ignore the balance of trade and payments impact of tax policy. Circumstances would seem to suggest that tax policy be one of our weapons to eliminate the deficit.

(2) *Investment Controls.* Because the controls on direct foreign investment cannot realistically be viewed as short term and because they damage export efforts, they cannot be justified. Having applied them, however, and still seeing no near term elimination of the deficit, the Administration understandably (however unwisely) feels constrained to keep them. There is fear of short run negative effects of control removal despite awareness of longer range benefits of direct foreign investment. Rather than clinging to the controls until the U.S. balance of payments reaches equilibrium,[16] the controls should be removed on an individual basis under an incentive system of performance. Under such a system a company which could show a certain improvement in its own overall balance of payments account (or could give firm evidence that investment would result in such for those companies not yet involved in overseas activities) would be relieved of the application of the controls. Basing relief on a firm's overall balance of payments rather than on its balance of trade alone could presumably avoid violating the conditions of the GATT regarding subsidies. Under such an arrangement the controls could be dismantled without short-term adverse balance of payments impact. The difficulties, of which there surely are some, seem no more insurmountable than those the Department of Commerce faces in applying the existing controls and in measuring the contribution to our balance of payments through the corporate response to the restraint program.

(3) *Aggressive Negotiation.* The United States must press for relief, especially in the area of non-tariff barriers, in negotiations which will proceed from a realistic set of assumptions regarding our competitive position and with clearly defined balance of payments goals. Where inequities exist, and they surely do, we must use all the weapons at our disposal. These include refusal to eliminate ASP except as part of reciprocal action on non-tariff barriers, the application of taxes for maximum trade benefits, and the use, where necessary, of action available under Articles VI, XII, and XXIII of the GATT. To have meaningful negotiations and balance of payments relief the United States must get its complaints to the bargaining table, must apply the leverage available, and must not fear to step back from negotiations which are unsatisfactory. This latter we failed to do in the Kennedy Round.

Earlier reference to statistical presentation and industry rationalization need no repetition here. They are part of what is needed for an integrated balance of payments policy just as is domestic price stability. Such a policy while not alone eliminating the deficit, will enable the United States to gain maximum benefit in the merchandise trade account. Quotas will not bring such an achievement. They are not only an admission of defeat but bring in their wake retaliation which will prevent optimum balance of payments benefits from the trade account.

Mr. FULTON. Thank you, sir.

Are there any questions?

Mr. CONABLE. Mr. Chairman, the juxtaposition of this statement to the previous one is a very interesting one.

Thank you.

[16] This means a surplus under present thinking, since, if removal of controls would bring a sharp rise in capital outflow, a balance could be achieved only by removing controls after achieving a surplus position.