

income derived from these functions should likewise qualify for the lower tax rate. In addition, where a portion of the consideration received for the export or for any related technical and know-how services consists of a non-cash item such as an equity investment in a foreign enterprise, provision should be made for the taxpayer to elect treatment of such items as in constituting receipt of income for the taxable year in which acquired, with a corresponding provision that would treat these proceeds from any subsequent disposition as ordinary income.

The Nation's balance-of-payments deficit has continued for 17 of the last 18 years and, therefore, can fairly be viewed as a chronic condition which must be corrected by permanent, and not stop-gap remedies. The suggestion of a lower income tax on exports, as described above, is therefore offered as a permanent feature of our taxing system.

STATEMENT OF THE INTERNATIONAL ECONOMIC POLICY ASSOCIATION

The International Economic Policy Association is vitally interested in trade policy because of the importance which foreign trade has in our international accounts. We are in favor of steps which would increase exports and assure continuing surpluses in our international trade account.

H.R. 17551, "Trade Assistance Act of 1968"

The orderly management of our trade relations requires the President from time to time to make adjustments in tariffs. We, therefore, recommend that such portions of the authority granted in Section 201 of the Trade Expansion Act of 1962 as are necessary for these housekeeping purposes should be extended.

I trust that our failure to comment on the other portions of H.R. 17551 will not be considered as reflecting opposition. We are refraining from commenting on them simply because we have not given them sufficient study to justify taking a thoughtful position on them.

Export incentives

Foreign trade should represent an important plus factor in our balance of payments. It did so over the years 1960 through 1965, when our commercial surplus was at an annual average of \$2.7 billion. However, the evolution of trade blocs, the effects of nontariff barriers, such as variable levies and border taxes, and the erosion of our competitive position are having their effect. In 1966, our commercial trade surplus, arrived at by subtracting government-financed exports, slid to \$646 million. In 1967 it slid further to a mere \$250 million. (See Table I.) Preliminary figures for the first four months of 1968 show further deterioration. (See Table II.) Unless this situation can be reversed, efforts to solve our urgent balance of payments problem will be difficult.

The recent adoption of the surtax and reductions in government expenditures will, hopefully, contribute to improving our competitive position with an accompanying reduction in imports and increase in exports. It will, however, be some time before these effects are felt.

The decline in our trade surplus results from the fact that our exports have not expanded as rapidly as our imports. Although our exports have expanded, our share of world trade has steadily declined. (See Table III.) This has been particularly notable with our major trading partners who have organized into blocs. Over the period 1958 to 1967 the members of the European Economic Community increased their exports to the United States by 166 percent while our exports to them increased by only 109 percent.

The failure of our exports to keep pace with the growth in world trade and our own increase in imports does not reflect simply the erosion of our competitive position. It also results from the fact that our exporters are at a disadvantage compared with their foreign competitors. If we are to improve our foreign trade position, we must provide our own exporters with compensating advantages and incentives.

We therefore propose that legislative action should be taken to authorize U.S. firms to organize International Trade Corporations for export purposes only. Provision should be made that the profits of such corporations would be taxed at a rate of 14 points less than the tax rates usually applied to domestic business corporations. Such an incentive should induce those now engaged in exporting to step up their efforts and many not now so engaged to become interested.