

cause of the higher quality of its machines and its more sophisticated technology. U.S. builders still enjoy a lead in technology and quality over Western Europe and Japan and continue in the forefront of research and development, but their lead is diminishing. Today foreign builders are offering to potential customers not only first class standard machines but also highly sophisticated machines equipped with numerical control systems and other advanced technological features.

It is ironic but true that an important reason for this foreign development has been both official U.S. assistance to foreign machine tool builders, going back to the Marshall Plan, which financed modern machine tool plants for our European competitors, and private action in the form of licensing arrangements and investment by U.S. manufacturers in foreign machine tool production facilities, which has compelled foreign builders to improve design to stay competitive. Foreign investment by U.S. companies has been forced upon them both by ever-increasing domestic production costs and by tariff and non-tariff trade barriers in Europe and other important machine tool markets, which have made it increasingly difficult and in some instances impossible to export U.S. built machines to those markets. This shift of U.S. productive capacity abroad, whether through building new plants, buying existing plants or licensing foreign builders, has resulted in a wholesale exporting of technology and production methods to the foreign subsidiaries and licensees.

It should be noted in this connection that pressures on U.S. machine tool builders to establish production facilities abroad, or to expand already-established foreign facilities, continue to be intense. To a significant degree U.S. companies with foreign manufacturing subsidiaries have so far resisted the temptation to serve the U.S. market from abroad. It is not clear, however, how long they can continue to do so. Further substantial expatriation of machine tool capacity would be injurious from the standpoint of both our balance of payments problems and national security. It would also penalize—undoubtedly in many cases fatally—those companies that so far have failed to establish any foreign production base and have confined their manufacturing operations to the United States.

A third factor that accounts for the success of foreign machine tool builders in penetrating the U.S. market is the export assistance they receive from their governments. Such governmental assistance includes subsidizing exports by rebating domestic taxes with respect to exported products, insuring exporters against a wide range of credit risks, assisting in export financing, underwriting private promotional efforts abroad, financing foreign trade missions and participation in international trade fairs and aiding in foreign market research. The mechanics and details of export assistance programs of course differ from country to country. A detailed analysis of such programs in eight machine tool exporting countries—Germany, Britain, Japan, Switzerland, Italy, France, Belgium and the Netherlands—is set forth in Appendix G. As these analyses show, foreign machine tool builders are invading the U.S. market not only with the blessing of their governments but with their very effective cooperation and financing.

Of all the export promotion techniques employed by foreign government the most effective may well be the widespread practice of rebating to exporters or exempting them from various "indirect" domestic taxes (such as "turnover," "value added," sales or other excise taxes) that are principal sources of revenue in these foreign countries. Under GATT, the rebating of such indirect taxes is permissible, but the rebating of "direct" taxes is prohibited. Because the U.S. Government relies principally on the direct income tax as a source of Federal revenue, the United States had not been in a position to provide U.S. manufacturers such as U.S. machine tool builders the same kind of export assistance in the form of tax refunds and credits. This has put U.S. machine tool builders at a great disadvantage in competing in world markets.

U.S. machine tool builders have also competed at a disadvantage, both at home and abroad, as a result of our Government's failure to keep pace with other industrial nations in providing comparable capital recovery allowances to encourage plant modernization and lower production costs. The need for reforms in this area is a matter we shall return to.

V. FACTORS INHIBITING EXPORTS

At the outset of this Statement, we noted that the United States is losing the balance of trade war on the export as well as the import front. This is not for want