merce Departments in certain potential market areas (*e.g.*, Israel and Pakistan), and the program initiated in 1968 for cooperative export market development through joint export associations.

We believe that the Congress might also consider making available to exporters generally the tax advantages that now accrue under the Western Hemisphere trading corporation provisions of the Internal Revenue Code to those exporting to Central and South American countries. Considering our nation's balance of payments problem, the tax incentives now offered to promote Western Hemisphere trade could appropriately be extended to promote all export commerce.

There is one other important matter we think it appropriate to comment on before this Committee. Just as the tax laws of foreign nations aid our foreign competitors in permitting them to receive from their governments export rebates and subsidies, so foreign tax laws assist our competitors by providing them far more advantageous capital recovery allowances in connection with their efforts to modernize plant and equipment and enjoy the production savings made available by our advancing technology.

We firmly believe that our only hope of expanding or even maintaining our traditional export markets for high labor content products such as machine tools lies in the accelerated modernization of our domestic industrial plant. This can only be done with labor-saving machine tools and other production equipment of the most advanced technology.

The prospect for this would be bleak indeed if this Committee and the Administration had not recognized in 1962 that without realistic tax depreciation and capital recovery allowances comparable to those of other industrial nations there can be no generation of the cash flow and profits so necessary to facilitate modernization and low cost production.

Despite the enactment of the 7% investment credit and the adoption of the Depreciation Guidelines in 1962, however, the United States has not kept pace with other industrial nations in providing the capital recovery allowances that would give U.S. industry with high labor content products some chance of being competitive in world markets—or even, for that matter, in our own domestic market.

There must be a further liberalization, and perhaps even more important, some assurance to U.S. industry in its long-range planning that these capital recovery allowances and incentives will not be periodically turned on and off as the political winds and economic forecasts change direction. Our depreciation allowances must be grounded in permanent law, not just in regulatory guidelines that are constantly subject to administrative change or even withdrawal.

Unlike the present Guidelines the law must be uncomplicated, understandable and precise. It must not be conditioned on stringent and complex tests such as the "reserve ratio test" that taxpayers generally find impossible to meet or even to understand.

It has taken our country too long to learn that favorable balances of trade and international payments depend to a very considerable extent on providing in the Federal tax structure the same capital recovery allowances and incentives to U.S. industry that our foreign competitors receive from their governments. This may require once again a reexamination of our traditional, and even threadbare, tax accounting and depreciation concepts, as it did in the case of the 7% credit. But our recent experiences with this novel credit and with 60-month amortization in wartime and emergency periods have proved that this is all to the good.

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These hearings on our balance of trade problems are most timely. The U.S. machine tool industry is finding it increasingly difficult, and in some cases impossible, to compete at home and abroad with aggressive and technologically competent European and Japanese builders. While there are numerous aggravating circumstances, the problem is primarily the result of two factors—first, the high labor content of machine tools, which often accounts for as much as 50% of total product value; second, the tremendous wage disparities which exist between this country and other machine tool producing nations (*e.g.*, Japan where average hourly compensation is less than one-sixth that of U.S. workers) and which are constantly widening as a result of inflationary wage pressures in the United States.

Already segments of the industry are in trouble, and the time is now to find solutions for our import-export problems if we are to avoid the threatened atrophy of this essential industry.

We appreciate this opportunity to present our views and, to the extent that we are able, we will be pleased to supply additional information that the Committee may wish to consider in connection with its investigation and deliberations.