This may be true and it may be very beneficial and desirable but from the standpoint of balance of payments I cannot see why that would be an advantage. If our interest rates were lower than they are abroad, obviously capital tends to flow out. People would be less inclined to invest here, and more inclined to invest abroad.

In the third place, I think there is a clear case that to the extent that profitability is not reduced—that is, that the tax is passed on to the consumer—it will increase the cost of American goods, and, therefore, tend to diminish our advantage in competition with goods produced abroad and imported here; so, it will tend to discourage our exports and encourage imports.

Now just one other aspect to this question, and that is, let us see what it seems the surtax is designed to do. No. 1, the administration witnesses always say it is going to cut our imports. Is it? It will only cut our imports, it seems to me, if it reduces spending by our consumers. It will reduce their income but will it reduce their spending? Spending patterns are stubborn. They are hard to change. They change only over a period of time. The propensity to save was great last year. It is perfectly possible that the reduction in spending is going to be slow and gradual and not very sure.

But I think that the weakest part of the argument that you need a surtax in order to help our balance of payments is the kind of inflation the surtax is supposed to slow down. How is the pricing made on commodities that we sell overseas? Many of them are foodstuffs. In fact, a very large portion that we sell overseas is food. You are not going to reduce the price of wheat or the price of feed grain by any kind of a surtax. We all know it is not going to have any effect on that.

You take chemicals and machinery; there, I think, you cannot make a very strong case that the surtax is going to reduce the price in view of the pricing practices that we have found in those industries.

As far as imports are concerned, with steel, and the kind of foods we take in—coffee, tea, and so forth—the others that we do not have in this country—paper base stocks—which we are going to import in greater amount without much regard, really, to small change in price—rubber, minerals, fuel—and, of course, machinery and autos that come in; here again you have, it seems to me, a very weak argument that our surtax, by stemming our inflation, is going to have a retarding effect on imports or a beneficial effect on exports. Now, what is the case in favor of the surtax from the standpoint of balance of payments? Let us start off with Mr. Behrman.

Mr. BEHRMAN. Well, may I start off with encouraging investment abroad, your first point? Reduction of the profit rate here by surtax will certainly make a comparative difference in the profit rates. But, from my own investigation, Senator, I cannot find any good or clear correlation between the profit rates in the United States and Europe, and the flow of direct investment.

Most companies look at investment on a very long-term basis, and not at the immediate, this year or next year, profit return. There are even those who would indicate that a tax on their investments would not slow it down significantly. It is too important a long-term objective to get there to worry about differences in profit rates for any definite given period of time. I do not think it would have a very serious effect