

one way or the other on the outflow of investment. It might cause some companies to look at it.

Chairman PROXMIER. If I could interrupt at this point—isn't it true, however, that the deterioration of the profit ratio by European firms in the last year or so dropped from 1966—the 1967 figures apparently are not available—and the increase in investment here tended to be a good, natural free enterprise factor in encouraging more investment here and somewhat slightly perhaps discouraging investment abroad?

Mr. BEHRMAN. Sure. This is a free enterprise reaction. What I am suggesting is that we do not have enough information about the commitments of companies and what caused them to go to say that the decline of profit rates in Europe causes a decline in investments in—

Chairman PROXMIER. Yes; I was not talking so much about the Ford Motor Co. or United States Steel. I was talking about an investor, sophisticated enough and so forth to invest here or abroad?

Mr. BEHRMAN. A portfolio investor looking at stock? Certainly, this would have an effect. Now, as to the reduction of interest rates: certainly, the increase in interest rates abroad and the decrease in interest rates here is going to pull capital out of the United States into Europe. By the same token, if—and this gets to the heart of your presentation—if the inflationary impact of the surtax or rather the deflationary impact of the surtax is adequate this would bring the money back in terms of export sales, services, or whatever else. The real question, as I see it, is one that you pose, and that is, Can the surtax itself have an adequate dampening effect on the inflation of items which affect the balance of payments?

Let me address myself to the two: the exports and the imports. I would tend to agree with you that our export structure, given the fact that there is a heavy element of agriculture and on the other hand a heavy element of technologically advanced goods which are priced on almost a tailormade negotiated basis dampens the significance of inflation or deflation on exports of the United States; that is, United States prices. What is more significant are the foreign prices, and the competitor's prices vis-a-vis the United States itself. If their prices are going up rapidly vis-a-vis the United States then there is pressure to look at the U.S. supplier. I would count that more significant from the selling standpoint than the U.S. price level, because, as you say, it is often an administered price.

But, by the same token, reverse it and put the United States in a situation of having inflation. This creates a pull on imports, on a variety of things which are not in the raw material area alone nor even in the agricultural area, but are in the consumer line; and this is why I think we have, besides this copper strike, a substantial increase in imports, notably even in December, as a result of successive inflation.

Now, if you could dampen consumer spending by the surtax, then this would also have an impact on the imports particularly. This is where I think the balance-of-payments effect is more likely.

It is also likely in terms of inflationary effect on tourist spending. If you can have a reduction of prices in the cost of vacation here, as compared to the other areas, then there is an impact on tourism. I would like the others to go on from there, or contradict me if they wish.

Mr. BUTLER. Again, I agree in general. I think that if you continue the sort of inflationary policies that we have run for the past 2 years, you are bound to have unfavorable impacts.