they can sell in world markets, most U.S. firms require some special inducement to go abroad. By and large profits on foreign investments—with the possible exception of petroleum—have not been disproportionately high relative to rates of earnings in the United States. In a large number of instances manufacturing firms have gone abroad in order to preserve, or in some cases to expand, the market for their products, which they had already established by exporting from this country.

Although it is unlikely that we shall be able to find any one device which will "unlock the floodgates of American capital" for flowing into the poorer developing areas of the world, the importance of providing these countries with the unique benefits of private enterprise is sufficiently great to justify our experimenting with a number of inducements.

1. Tax incentives

More attention has been paid by the Congress and by various official and private investigating groups to the question of tax incentives as a means of promoting private investment in the less-developed countries than to any other type of inducement. Extensive hearings were held by the Subcommittee on Foreign Trade Policy of the House Ways and Means Committee under the chairmanship of Congressman Hale Boggs on this subject.[2] Proposals for tax inducements to foreign investment have ranged all the way from complete exemption of taxes from foreign-earned income to modest tax reductions from income earned on new investments in selected less-developed countries. Tax inducements fall into several categories, including: (*a*) reduction of the U.S. corporate tax (normally 52 percent) on income from foreign investments; (*b*) changes in the law with respect to the treatment of reinvested earnings of foreign branches and subsidiaries of U.S. corporations, and (*c*) accelerated depreciation for foreign investments generally or for investment in selected areas.

It is not the purpose of this study to review the many proposals for tax inducements or the problems associated with them. This field is an extremely complicated one and nearly all of the proposals that have been made have been subject to criticisms of one kind or another. The Treasury Department has been especially concerned that proposals may have the effect of reducing revenues or of encouraging foreign investments in areas where we have no special foreign policy interest in inducing investment, or of introducing inequities and loopholes into our tax system. We shall confine this discussion to the statement of a few principles in this general field and to a suggestion which has been made by Dr. Jack N. Behrman in a forthcoming book on "U.S. Private and Government Investment Abroad" (edited by Raymond F. Mikesell) to be published shortly by the University of Oregon Press.

First of all, we firmly believe that in view of the expressed attitudes of business regarding the importance of tax inducements and of the

[2] See "Private Foreign Investment," hearings, House Committee on Ways and Means. Subcommittee on Foreign Trade Policy, December 1958; and "Foreign Investment Incentive Act," hearings on H.R. 5, House Committee on Ways and Means, July 1959. See also "Expanding Private Investment for Free World Economic Growth," a special report prepared for the Department of State under the direction of Ralph I. Strauss, Washington, D.C., April 1959. See also "Report to the President and to the Congress," Commission on Foreign Economic Policy, Washington, D.C., January 1954 and "Staff Papers," presented to the Commission on Foreign Economic Policy, Washington, D.C., February 1954.