conclusions of congressional, governmental, and private studies on this subject, tax inducements designed to increase the flow of U.S. private investment to selected oversea areas should be given a fair trial. It is important, of course, that in view of the cost of tax inducements to the Treasury, they should be made as selective as possible and should not, directly or indirectly, give special encouragement to investment in developed countries or open up tax loopholes to American citizens. In other words, tax inducements should be limited to the realization of our foreign policy objectives in specific situations. Also, they should be integrated closely with our general foreign aid programs for individual countries. Finally, tax inducements should take into account what we have learned about the motivations for foreign investments and the interests and attitudes of the host countries toward private foreign investment. In the light of these principles, we should like to outline very briefly the proposal made by Dr. Behrman mentioned above and, in addition, to endorse the proposal for legislation providing for a foreign business corporation (FBC) embodied in a bill (H.R. 5) which was introduced by Congressman Hale Boggs in 1959 and again, with certain amendments, in 1960.

Dr. Behrman has proposed that the Congress extend a partial exemption from U.S. taxes to all new foreign direct investments or licensing agreements (and management contracts) in countries whose economic development the U.S. Government desires to encourage. The investments would be limited to the types of projects which have the approval of both the foreign and the U.S. governments. The Agency for International Development (AID) would make available to the prospective investors tax exemption certificates which could be used for payment of tax liabilities equal to a certain percentage return on the foreign investment. The exemption certificates could be issued serially so that a given portion would be valid in each of a number of years. The exemption certificates need not be restricted to use against taxes on income from the particular project in which the investment was made. The project might be unprofitable so that no income would be earned, or losses might be incurred. In this case the certificates would be usable against any foreign income or possibly any income of the U.S. parent. Then, even if there were a loss overseas, the parent company investor would receive half of the anticipated income as a tax exemption on other income, thus reducing his risk. Of course, if the project were more profitable than expected, the exemption would still be given while all income above that exempted from taxation would be taxed at full rates. The exemption certificates would be accepted by the Internal Revenue Service which would have the information necessary to assure itself that the investment was actually made under the conditions agreed to between AID and the U.S. investor.

The Treasury Department is currently engaged in negotiating so-called tax-sparing treaties which provide for a reduction of the normal U.S. tax rates for a limited period equal to the amount of tax reduction granted by foreign governments to selected investments. In the absence of such tax-sparing arrangements, any reduction in foreign corporate income taxes would simply reduce the normal U.S. tax exemption by that amount. Although negotiations with certain countries have been going on over a period of several years, the fact that the treaties need to be ratified by both the U.S. Senate and by the foreign country has made the procedure so lengthy that at the time