

influences on sales of U.S. securities to foreigners will raise in foreign financial markets the question of the continuance of the U.S. interest equalization tax as a factor affecting the sales of foreign securities to U.S. citizens, however temporary and special its basis.

Exchange Controls

Recommendation No. 35:

The Department of State and the Treasury Department should take bilateral diplomatic action aimed at securing the step-by-step removal of remaining exchange controls on capital transactions between advanced capital-forming countries and the discontinuance or liberalization of special exchange markets or procedures for investment transactions.

Substantial progress has been made in removing exchange controls, yet the situation is still far from satisfactory. Only the United States, Canada, Germany and Switzerland are free of exchange controls. Although adopting the aim of full liberalization, France, Italy, the Benelux countries and Austria have preserved certain restrictions. A third group of countries, which includes the United Kingdom, Ireland, Japan, Australia, Spain and the Scandinavian countries, retain a wide range of controls for balance of payments and monetary policy reasons.

The impact of exchange controls varies according to the operations regulated. In general, treatment of direct investment is the most liberal; the treatment of financial loans (that is, loans not linked to commercial transactions) is the least liberal. Treatment of portfolio investment has been formally "liberalized" in Austria and the Common Market countries, but even some of these countries retain practices which tend to be restrictive.

In some countries, for example, foreign securities may be purchased only through authorized banks. In some cases, certificates of ownership of foreign securities must be kept on deposit at these banks; in other cases purchases of foreign securities which are not listed on securities exchanges sometimes require the prior approval of exchange control authorities.

Japan, Australia, Spain, Ireland and the Scandinavian countries all exercise tight control over foreign portfolio investments; except in rare instances, their nationals are not permitted to buy foreign securities. Although residents of the United Kingdom may freely acquire foreign listed securities and certain U.S. over-the-counter securities, they can do so only with funds obtained from