STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; ACCOMPANIED BY STANLEY S. SURREY, ASSISTANT SECRETARY, DEPARTMENT OF THE TREASURY

Secretary FOWLER. Thank you, Mr. Chairman. I am appearing before you to urge prompt and favorable action on H.R. 5916, legislation which is intended to reduce tax barriers to foreign investment in the United States.

Passage of this bill will serve two important national objectives. First, it constitutes a comprehensive and integrated revision of our present system of taxing foreign individuals and foreign corporations on income derived from the United States, bringing our system of taxing foreigners into line with the rules existing generally in the other developed countries of the world.

Second, the bill will make a significant contribution to our balance of payments by serving to eliminate the impediments now existing in our tax laws to foreign investment in the United States.

The background of these proposals, Mr. Chairman, goes back to mid-1963. In his balance-of-payments message of July 18, 1963, President Kennedy announced he was appointing a task force to review U.S. Government and private activities which adversely affect foreign purchases of the securities of U.S. companies. The group was composed of representatives of finance, business, and government. This task force, of which I had the privilege of serving as chairman, studied various courses of action which could be adopted not only by the public sector, which is the area before the committee today, but also by the private sector, to carry on activities that would be designed to induce larger amounts of investment from abroad in U.S. private corporate securities, real estate, and related matters.

Everyone was conscious at that time of the fact there was a very strong flow of capital out of the United States which was having an unfavorable short-term impact on our balance of payments. Everyone was also conscious that there was, and had historically been, a strong desire on the part of persons and institutions with savings in Western Europe to own U.S. private securities and other properties. Therefore, it was felt that a thorough reexamination of any impediments to the flow of foreign capital to the United States that might exist by reason of laws, regulations, and so forth, was necessary. With this in mind, industrial corporations operating abroad, investment banking houses, commercial banking houses, and brokerage concerns with offices abroad, were all brought together to determine what might be done to encourage the flow of foreign investment capital to the United States, with the thought that over the long pull we should get a better balance in capital flows. Such a result would, of course, have a healthy impact on our balance-of-payments deficit. It would also produce the kind of permanent arrangements that over the long pull would enable us to return to a period of relatively free capital movement, which is what we all want to get back to after the temporary measures we are now pursuing have served their purpose.

So it was in that framework that President Kennedy in his July 1963 message indicated that such a study would be made. It was also in this framework that President Johnson said in his February 10, 1965 message to the Congress that: