

At the same time, some of these provisions are extremely difficult, if not impossible, to enforce, or are susceptible of relatively easy avoidance by the sophisticated foreign investor. Since they deter many foreign investors and are avoided by the rest, they give rise to almost no tax revenue. Enactment of all of the changes proposed in H.R. 5916 before you will result in a revenue loss of less than \$5 million annually. However, in proposing these changes, we have kept in mind the importance of not converting the United States into a tax haven nor of diverting funds to the United States from less developed countries.

The purpose of this bill is to remove tax barriers which have served to discourage foreigners from making investments in the United States, in comparison with other competing areas. At the same time we recognize that no purpose will be served if the bill violates international tax standards, thereby setting off a struggle among the developed nations of the world to attract foreign investors through tax devices. To attract foreign investors, the United States must offer not "tax breaks" or "tax gimmicks"—it must offer a growing and dynamic economy. We believe our record of economic growth over the last 5 years and our prospects for the future are sufficient to induce a substantial increase in foreign investment if our tax system does not act as a bar.

Now as to the impact of H.R. 5916 on the balance of payments, which was the governing inspiration of the establishment of the task force in 1963, there is no way of estimating with any degree of precision the impact of the bill on foreign investment in the United States or the resulting benefit to our balance of payments. The factors governing securities investment are many and complex. Even in purely domestic transactions, intangibles such as habit, convenience, and past experience may be as important as yields, price-earnings ratios, and other economic indicators.

Although difficult to quantify, there is ample evidence of a sizable potential for attracting foreign investment in U.S. corporate securities, particularly stocks, by residents of the prosperous countries of continental Europe. After more than a decade of rapidly rising incomes, Europeans have to a large extent fulfilled many of their most pressing consumer needs and are accumulating savings at a high rate. Individuals in Europe are turning increasingly toward securities investment, as shown by the rising activity on European stock exchanges, the large number of new offices opening in Europe by American securities firms, and rising sales of mutual fund shares. Yet, even now, in Europe only one person in 30 is a shareowner as compared to one in 11 in the United States.

At the end of 1964, foreigners held an estimated \$12.8 billion of U.S. corporate stocks valued at market prices. In every year since 1950 except two, foreign purchases of U.S. stocks have exceeded foreign sales. In the 6 years between 1959 and 1964, net purchases by foreigners averaged \$141 million. These net figures are the residual of much larger gross purchases and sales which in recent years have been on the order of \$2½ billion to \$3½ billion annually. You can see that a small percentage shift in the ratio of purchases to sales, therefore, could have had a very substantial effect on the net balance of transactions.

If the amount of additional investment expected to result from H.R. 5916 were merely a function of the amount of tax saved, there