

The suggestion has been made that this reflects a belief by foreigners that the interest equalization tax was only a first step toward further restrictions on international flow of funds and reflected the fact, as Mr. Funston suggested, that foreign brokers and dealers who cannot sell their securities in the United States are far less receptive to the efforts of U.S. brokers and dealers to sell U.S. securities abroad.

The point of this, if this is an accurate picture, is that this is an entirely different picture of the context than the one on page 7 in your statement.

Doing these kinds of things that are suggested in this bill is going to be incidental to increasing foreign investment in U.S. securities if we have had this kind of impact as a result of the interest equalization tax. I would appreciate any comments you might make. This is the picture apparently and we are heading into sort of a war between countries abroad in further restricting capital flows which many of us suggested was bound to occur if we passed the interest equalization tax. That kind of effort in the proposed bill then is almost meaningless.

Secretary FOWLER. First let me observe what is fairly obvious—that the proposals before you for the tax treatment of foreign investment in this country are, as you have indicated, a part of a much broader complex of problems. The task force report itself necessarily adopted the point of view that this is a very large and complicated problem. The fact that only a half dozen, you might say—I think it is 6 or 7—of the 39 recommendations of the task force are reflected in the legislation before you indicates this.

Mr. Funston was a member of the task force and we had considerable discussion in our deliberations of the very aspect of the problem that you raise. As a matter of fact, on pages 30 and 31 of the task force report were some general comments on reducing restraints on the sale of U.S. securities in other capital markets. For example, recommendation 35 is to the effect that 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. Some of the other recommendations relate to capital issues control, the regulation of institutional investors, and the role of international organizations. All these recommendations are addressed to this problem. Let me quote from page 30 of the report:

Although the task force has conducted an intensive study of restrictions in other capital markets, we have not attempted to set forth all of our findings here. The identification and critical appraisal of restrictions remaining in the capital markets of other industrial countries have been covered extensively in a recent study by the Treasury Department, made publicly available by the Joint Economic Committee of Congress. In this section of our report, we summarize the most important legal and administrative obstacles abroad which impede foreign investment in U.S. corporate securities. No useful purposes would, we believe, be served by making detailed recommendations as to the removal of foreign restrictions or methods by which other countries could improve their domestic capital markets. In each country these matters are often complex and technical; they involve delicate domestic relationships; frequently they transcend financial considerations and encompass national policies well beyond the terms of reference of the task force. It should be noted that efforts to remove restraining influences on sales of U.S. securities to foreigners will raise in foreign financial markets the