the authority of domestic banks to pay interest on time deposits of foreign governments at rates differing from those applicable to domestic depositors. The committee, in recommending passage of H.R. 5306, stated that "the object of the bill is to extend existing provisions of law designed to encourage foreign governments and monetary authorities to maintain dollar accounts in this country rather than convert these dollar accounts directly into gold or to transfer the funds to other financial centers, whereupon they could be acquired by official institutions of other countries and be converted into gold."

Bringing our international payments into balance is difficult, particularly in light of the present magnitude of U.S. Government commitments in support of world peace and development. As an emergency expedient, American businessmen and bankers have been enlisted in a voluntary program of restraints on U.S. capital outflow to eliminate the deficits. This effort should not be undermined by introducing penalties on foreign deposits with American banks. We should recall that the purpose of tax legislation in this area at this time is to create a more attractive climate for foreign investments in the United States. Even the threat of the contemplated action is harmful, affecting foreigners' decisions to open or maintain accounts with American banks.

Beyond balance-of-payments considerations, sharp reductions in dollar deposits from abroad would frustrate U.S. monetary policy. Deposits from foreigners exceed loans to foreigners. A significant portion of this margin is used for loans and investments in the United States. Thus, if deposits from foreigners are sharply curtailed, the domestic credit market would be placed under pressure. Although monetary authorities could, over time, alleviate this situation by adding to domestic bank reserves, sharp losses of foreign deposits would at best be disruptive to the domestic financial system. Sharp deposit losses would have a comparable impact on the international financial system.

It is recognized that the bill provides that the amendments made by it are not to apply where application would be contrary to any treaty obligation of the United States and that there is a 5-year period before the income tax would be effective on bank deposits. Nevertheless, legislation of this character is apt to have an unwholesome immediate effect on investor psychology and we can look to a prompt outflow of funds seeking investment outlets in other countries.

In conclusion, the foregoing mentioned amendments of the 1954 code, as proposed by H.R. 11297—

Would impair the ability of American banks to hold and to attract foreign demand and time balances.

Would have an adverse impact on the U.S. balance of payments and gold stock.

Would inject an unsettling element in domestic and world financial markets as deposits from foreigners were reduced.

Would discriminate against American businessmen and banks in their effort to obtain a fair share of international markets.

Would cast further doubt on the future value of the U.S. dollar.

We strongly urge that these provisions of H.R. 11297, as relates to commercial banks, be deleted, in the interests of the United States and international economies.

Very truly yours,

ARCHIE K. DAVIS, *President.*