

porations, and banks other than foreign central banks, not doing business in the United States, on U.S. dollar deposits in the domestic offices or foreign offices of U.S. banks;

(2) Proposed estate tax on U.S. dollar deposits of nonresident aliens not doing business in the United States at the time of death where such deposits are held in the domestic offices or foreign offices of U.S. banks;

(3) The proposed change to subject to Federal estate tax bonds issued by the U.S. government, political subdivisions thereof, and U.S. corporations when owned by nonresident aliens not doing business in the United States even where these bonds were located outside the United States at time of death.

The proposed change mentioned in (1) above seems to us of major importance. Based on published statistics of the Federal Reserve System and the U.S. Treasury as of September 30, 1965, foreign individuals, foreign corporations, and foreign commercial banks held over \$2 billion in time deposits in the domestic offices of U.S. banks. It is hard to believe that a very large part of these deposits would not be quickly withdrawn if made subject to income tax on a withholding basis. It is true that perhaps part of these funds will continue to be held by their owners in dollars with foreign banks in such leading Euro-currency markets as London and that the dollars will then be carried as current dollar deposits with U.S. correspondents of these foreign banks. However, we believe that there would be an increased tendency on the part of the owners of such dollars to swap or convert them to other currencies. Both of these actions would probably have the effect of changing unofficial claims on the United States to official claims by central banks and thereby pose a threat to the U.S. gold reserve.

We know of no available nationwide statistics giving deposits in foreign branches of U.S. banks. However, the Bank of England reports that at the end of September 1965 American banks held deposits from non-United Kingdom depositors equivalent to \$2.7 billion; we believe it reasonable to assume that about \$1.5 billion of these deposits were interest-bearing dollar deposits from foreign individual and corporate, including bank (other than central bank), sources. We would also estimate that there was another \$0.5 billion of such interest-bearing dollar deposits in foreign branches of U.S. banks outside of the United Kingdom. A good proportion of these funds is presently re-deposited by the foreign branches of the U.S. banks with their head offices. Another large percentage of these funds is loaned by these foreign branches to U.S. corporations to enable the latter to finance their businesses abroad without hurting the U.S. balance of payments. Imposition of an income tax on these deposits we feel would mean that they would quickly disappear from the branches of the U.S. banks going to foreign banks operating into the Euro-currency markets. Again some of these funds would be held as current dollar deposits by these foreign banks with their correspondents in the United States, but there would be a tendency to swap or to sell outright these funds for foreign currencies, changing their status to an official claim against the United States. The foreign banks would not be as likely to channel as great a proportion of their funds to help financing of subsidiaries of U.S. corporations abroad as would American branch