

Senator TALMADGE. In other words, that would mean if he were wise enough and had foresight enough and wanted to avoid this tax he would simply withdraw the \$1 million he has on deposit in New York and transfer it to the Paris bank, thereby avoiding the tax and getting the same return, would he not?

Secretary FOWLER. That is correct, and I think I should add to that that most banks in Europe do accept dollar deposits from foreigners and pay about the same rate as is paid in the Euro dollar market, as it is called. The interest rate over the past year there has been ranging about a half percent higher than in the United States.

Senator TALMADGE. In other words, he would earn \$5,000 more and escape the tax.

Secretary FOWLER. That is right, and to carry out the mathematics of your questioning, according to our computation the net return on deposits in these countries, if it is equal to the gross interest rate currently payable would be about 6½ percent on 3-month Euro dollar deposits compared to a gross yield in the United States of about 5½ percent and a net yield to a foreigner after application of the withholding tax, of about 3.85 percent.

Senator TALMADGE. Doesn't it seem to you logical that this particular foreigner would choose this course of action and increase his income by escaping the tax?

Secretary FOWLER. From my own simple knowledge of the situation I think it does present a case.

Senator WILLIAMS. Would the Senator yield at that point?

Senator TALMADGE. Yes.

Senator WILLIAMS. Assuming that the individual did that and deposited it in France, would he be subject to a tax in France, and would he have the same privileges of withdrawal and convertibility as he would have in this country or would he lose some of those advantages?

Secretary FOWLER. Insofar as the tax goes, Senator Williams, my earlier comments indicated that in France, Germany, and the Netherlands, he would not be subject to a tax in the source country. Insofar as convertibility goes, that is a much more complicated question. I do not want to hazard a comment on that, although my impression is that there is fairly free movement insofar as bank deposits are concerned.

Senator TALMADGE. Assuming, Mr. Secretary, that he made that transfer from the New York bank to the Paris branch of the same bank, would not that \$1 million certificate of deposit be a factor in the further drain of our gold supply?

Secretary FOWLER. That is one of the consequences. There is a possibility of a gold impact from shifted dollar deposits.

Senator TALMADGE. Mr. Secretary, I listened to your testimony very carefully, and I think the main thrust of this bill would accomplish desirable ends, to increase investment in this country, and curtail our dollar drain. However, it seems to me that this particular provision of the bill which we have been discussing is calculated to do just exactly the opposite. Bank deposits are highly mobile in character. People are going to look for the highest possible short-range return, and if they can get a better return elsewhere and escape the tax, it is unquestionable that most foreigners would immediately transfer their deposits elsewhere to avoid the tax and get the higher return.