This probability is fraught with very grave danger, and so far as our dollar deficit is concerned, I would hope the Treasury would look into that aspect of it very carefully and be prepared to recommend to this committee, one way or another, what we ought to do about it.

Secretary FOWLER. Well, I think, Senator, it is a question of weighing the balance-of-payments consideration with the tax equity consideration—two very valid considerations. The House Ways and Means Committee gave a preeminence to considerations of tax equity as between domestic citizens and the other——

Senator TALMADGE. I would agree with that aspect of it completely. Certainly I would hate to see the United States of America grant preferential treatment to foreigners that is not given its own citizens. But the fact remains we have jurisdiction over American citizens and we do not over foreigners.

Secretary FOWLER. That is the observation I was going to make. The foreigner has an option—he can leave his money here or he can take it someplace else.

Senator TALMADGE. An American does not.

Secretary FOWLER. The American has a much lesser option, shall we say and, therefore, looking at it from a balance-of-payments standpoint, I think one views this provision with a considerable amount of concern.

Senator TALMADGE. Then you would have the further inequity that results from some American banks having foreign branches and some not.

Secretary FOWLER. That is another aspect of the problem.

Senator TALMADGE. So the American bank with foreign branches might not lose any deposits. It would merely shift from the American branch to the foreign branch. The foreigner would get increased income on his deposit, and escape the tax at the same time. But if the American bank had no foreign branches it would lose the deposit, which would also further complicate the dollar deficit crisis.

Secretary FOWLER. I think that is true. And I would imagine that one of the considerations that led the House to defer the effective date of this provision until 1972 was so that banks without foreign branches that were interested in this business could arrange to open foreign branches.

Senator TALMADGE. Thank you, Mr. Secretary.

Senator ANDERSON. Senator Dirksen.

Senator DIRKSEN. Mr. Secretary, I have one question. All the representations and all the mail I have received concern section (2) (c) (1) on page 12. The words are "effectively connected." They point out that foreign corporations doing business in this country but, at the same time, out of their home office in their own country they do an investment business, but they permit their New York office to collect a return, interest and principal, on foreign loan repayments and so forth. They are uneasy about what the interpretation of the proposed "effectively connected" is going to be. I have had mail from Asia, Europe, and any number of people in this country, and I swear that all the letters deal with just that item. I understand that it is on page 12 of the bill.

Secretary FOWLER. Yes, Senator Dirksen, this has been a phrase that has given rise to some concern. I am going to ask Secretary Surrey if he would deal with it. My understanding is that in the legis-