

our entire remaining gold stock, and an amount equal to almost 50% of our remaining gold free of pledging requirements against Federal Reserve notes. Even these figures may understate the problem to the extent that shifts of these accounts may affect other banking relationships as customers move to consolidate their accounts abroad. It is important to note that the amount of deposits directly affected is as large as our entire loss of \$2¼ billion of gold over the past three years.

To the extent that these foreign owned dollars (other than those owned by central banks) are held at offices of U.S. banks here and abroad they cannot be a claim on our gold. However, once these deposits are shifted to a foreign bank abroad, the foreign bank recipients of the dollar deposits will in turn almost surely lend them to foreigners. The foreign borrowers are all too likely to convert the dollars into local currency. As a result of that conversion process a good part of the additional supply of dollars so released is certain to end up in the hands of foreign central banks. The central banks, in turn, can turn them in to the U.S. Treasury for gold.

The effect of the proposed tax will be artificially to stimulate the growth of the Eurodollar market at the expense of the dollar deposit accounts now maintained by foreigners with U.S. banks. In other words, the tax will stimulate the shift of deposits to foreign banks abroad. Once this occurs there is no way to prevent conversion of the dollars to foreign currency and the possible call on our gold which can result when the dollars come into the hands of foreign central banks.

A bank executive responsible for extensive day-to-day international operations, I am made aware continually that U.S. banks no longer are in a unique position to compete for dollar deposits of foreigners. My foreign competitors in important financial centers throughout the world are ready, willing and able to compete for this business. The force of their competition is illustrated by the fact that banks in ten leading foreign countries at the end of 1965 already held some \$11¾ billion of gross dollar deposits from non-Americans who were not resident in the country of deposit. That total is already several times the volume of time deposits of foreigners in the United States.

Included among these foreign banks are the foreign branches of U.S. banks. To the extent these branches of U.S. banks recapture the funds shifted from the U.S. the damage will be minimized, for these funds are likely to be transferred back to this country or to be employed in lending to subsidiaries of U.S. companies, indirectly helping the balance of payments. But, of course, these branches only account for a fraction of the total, and we can certainly not count on deposits shifted from the U.S. being transferred to those branches. I would hope some of them would be, but, from the standpoint of the national interest, the objective should be to encourage rather than discourage the retention of existing deposits within the United States. I should also point out that, in many instances, foreign banks already benefit from some competitive advantages, such as more liberal regulatory treatment.

I am not aware that anyone familiar with international banking contests the conclusion that the proposed taxation will tend to drive the deposits abroad. The Committee on Ways and Means of the House of Representatives itself pointed out in its report on H.R. 13103 that immediate income taxation of bank interest could have "a substantial adverse effect on our balance of payments."

The postponement of the effect of the income and withholding tax until after 1971 will not solve the problem since it fails to recognize the sensitivity of foreign depositors to the kind of strong expression of Congressional intent embodied in the bill. I know from personal conversations with customers abroad since the House action that our foreign banking competitors are already seizing upon these new provisions of the bill as a lever for encouraging the transfer of deposits to them. In particular, they are pointing out to our foreign depositors the desirability of acting promptly to establish and solidify new banking relationships abroad well in advance of the effective date. In the process, the foreign banks naturally have no incentive to emphasize that the proposed income tax effective date is some distance off. Confusion on that point will tend to accelerate transfers, and inevitably some of our foreign customers will interpret the action, whatever its effective date, as a harbinger of a less hospitable climate for these funds in the United States. The application of the estate tax without delay means, of course, that individual depositors have every incentive to move their funds promptly.

Naturally, in response to urgent inquiries from foreign depositors contemplating an early transfer, we are doing what we can to dispel confusion and