

Removal of the tax would permit us to seek medium-term dollar deposits from foreigners freely in competition with indigenous banks, and to place those funds at the disposal of our borrowing customers, who are primarily U.S.-owned concerns. As a result, without any transfer of funds from the U.S., the total financing available to U.S. firms abroad would undoubtedly increase, to the direct benefit of our balance of payments.

I should emphasize that removal of this tax from our foreign branches would be fully consistent with the voluntary balance-of-payments program. The Federal Reserve System in conducting the voluntary restraint program for banks has fully and repeatedly recognized that the loaning by our foreign branches of dollars already located abroad is not detrimental to this country. More than that, to the extent these loans enable businesses to reduce transfers from the U.S., the balance of payments will be improved.

Presumably, the tax was originally extended to foreign branches to provide assurance that U.S. banks did not themselves transfer funds abroad to make loans taxable in the U.S. That theoretical possibility has now been effectively closed by the fact that U.S. commercial banks can make advances to their foreign branches only within the restrictive limits of the Federal Reserve balance-of-payments guidelines. Frequent and periodic reports provide positive protection against any possible abuse.

In conclusion, I would like to express my strong approval of the proposed amendment to H.R. 13103 which was presented to the Committee on August 2, 1966.¹ The amendment to be proposed would permit the President to exempt from Interest Equalization Tax U.S. dollar loans made at foreign branches of our banks. I understand that this proposed amendment would grant discretion to the President to reimburse the tax should he feel, contrary to all expectations, that the exemption is in any way abused. I feel confident that in view of the sizable potential benefits to the balance of payments, the President will in fact permit this exemption, and I respectfully urge that this proposed amendment be adopted.

Thank you, Mr. Chairman.

The CHAIRMAN. Let me just ask you this: If we give you this exemption you are asking for here, Mr. Barth, is there something in such an amendment to keep you from transferring money overseas from your parent bank into the branch and then lending it out from the foreign branch bank?

Mr. BARTH. Mr. Chairman, the transfer of money from here to the branch is controlled under the guidelines. We have to make a monthly report to the Federal Reserve Board, the Board of Governors of the Federal Reserve, and it is within our present 107 or 108 percent. We cannot exceed that.

The CHAIRMAN. So, if I understand your argument on this, you contend that if you are not permitted through your foreign branches to lend the dollars that come into those branches in those European areas, then those dollars are simply not going to come into those branches, for the most part. They will go to someone else's bank, rather than go to your branches.

Mr. BARTH. That is right.

The CHAIRMAN. And banks of other nations will loan it out.

Mr. BARTH. And they will loan it out.

The CHAIRMAN. So that in the last analysis about all that the restriction on your branches is doing is just taking business away from American branches—

Mr. BARTH. And giving it to foreign banks.

The CHAIRMAN (continuing). And putting it in foreign banks where this country has no say about what happens to those same dollars.

Mr. BARTH. That is correct.

¹ Amendment No. 717.