

problem, and we are all concerned about that. I appreciate very much your responses.

Senator WILLIAMS. Primarily from where did this \$4 billion come from; out of what was it generated?

Mr. BARTH. Yes. The \$4 billion increase presumably comes from, in the main, from foreign banks that want to utilize the—foreign banks and individuals that want to utilize—their dollars in investments outside of the United States at a higher return.

Senator WILLIAMS. I understand that. But if we had about \$7 billion in that category in 1963 and it increased to \$11 billion—

Mr. BARTH. That is right.

Senator WILLIAMS (continuing). What is the primary source of it? It just does not grow—

Mr. BARTH. Well, the increase in the money supply between 1963 and 1965 has something to do with that, and I believe this almost matches the increase in the money supply.

Senator WILLIAMS. How does it get out of this country to get over there in the AID programs and various other programs?

Mr. BARTH. Well, to answer your question, let me finish answering your first question. I believe the U.S. balance-of-payments deficit has something to do with the increase.

Senator WILLIAMS. That is what I was getting at.

Mr. BARTH. I should have answered that before.

The CHAIRMAN (presiding). Senator Talmadge.

Senator TALMADGE. Thank you, Mr. Chairman.

Mr. Barth, as I understand it, this bill is designed to provide equitable tax treatment for foreign investments in the United States, and to particularly try to correct the balance-of-payments deficit. Do you believe in its present form it will aid in correcting the balance of payments or will it worsen it?

Mr. BARTH. In its present form?

Senator TALMADGE. Yes, sir.

Mr. BARTH. In its present form I cannot help but say that I believe it will worsen it.

Senator TALMADGE. Do you consider a gold drain in the dollar deficit at the present time a very serious problem affecting our country?

Mr. BARTH. Yes, I consider this a very serious problem.

Senator TALMADGE. If you had a completely free hand to correct the gold drain, what corrective measures would you take?

Mr. BARTH. Well, if I had a completely free hand I would consider that the banking fraternity as such has reduced the balance-of-payments outgo considerably; business has also done so, and I would believe that we could help our balance-of-payments deficit considerably if we would permit the opulent and affluent society of Western Europe to kind of look out for themselves, and to bring some of our troops back, reduce some of the expenses.

Senator TALMADGE. I have heard various reports from a very senior member of the Appropriations Committee that our six divisions in Western Europe caused a dollar deficit of \$2½ billion, but the Secretary of the Treasury testified when he was before this committee that it contributed a dollar deficit in the amount of \$750 million. I think that if some arrangements whereby Germany would buy certain arms from us this would have some countereffect on the \$2½ billion. Do