

to move additional deposits. This experience seems to illustrate the fact that the proposed estate tax is contrary to one of the purposes of H.R. 13103, to encourage the investment of foreign funds in the United States.

The facts are that it is too easy to move such funds to dollar accounts in foreign banks outside the control of the United States, or to have the deposit made through a closely held foreign corporation and, therefore, the estate tax revenues from this source to our Government would be miniscule—the Treasury estimate, I believe, is \$300,000 per year—and not worth the risk of potential loss of dollar deposits.

The tax changes affecting bank deposits of foreigners as proposed in H.R. 13103 could be particularly damaging to 115 of our American members that have no branches abroad, which might be able to acquire some of the deposits shifted from this country.

The loss of these deposits would do serious damage to such banks. Large banks with foreign branches may be able to attract some of these departing deposits back into these branches, and the depositor would then be free of tax. Some of us without foreign branches may have to consider opening such branches in order to avoid the extinction of our foreign business. Others simply cannot do that and the loss of these deposits would do serious damage to these banks.

Business related to these deposits would presumably also be lost when the deposits were transferred to other banks or branches abroad or simply repatriated. Many of these smaller banks have spearheaded in their communities the U.S. Government's export promotion drive, in many cases through newly established or revitalized international banking divisions built around export financing. Their ability to make these efforts self-supporting has necessarily been reduced by the present tightness of money and by the foreign lending guidelines of the Federal Reserve System, which include loans to finance exports.

The tax provisions of H.R. 13103 affecting time deposits will hamper the ability of some of these banks to develop their facilities for export financing by reducing the earnings and the deposit base of their international banking divisions.

We believe that the shift in deposits which will take place if H.R. 13103 is enacted in its present form will seriously diminish the functions of the U.S. banking system as a depository of dollar holdings of foreigners. We recognize that some of the deposits now on the books of American banks in the name of nonresident foreign individuals will simply be shifted to the accounts of foreign banks, and thus remain deposited in the United States. However, the effect of moving these deposits to dollar accounts of banks outside the control of the United States is to intensify the danger to our monetary reserves. The foreign bank would not have the same obligation that an American bank would feel for taking part in any program of the United States for voluntary cooperation and restraint, and the foreign bank, moreover, is not subject to our laws and regulations.

Consequently, the foreign bank will seek the best return available on its funds consistent with safety and liquidity wherever that may be, and it will have no hesitation in selling the dollars it holds for other foreign currencies. Dollars thus sold are likely to wind up in the hands of foreign central banks, where they constitute a direct claim on our gold supply.