

Under currently prevailing practice a substantial portion of the net new reserves acquired by foreign central banks is converted into gold. The concern both here and abroad about the continuing drain on our gold reserves needs no comment.

Moreover, some foreign holders of dollars would not be prepared to hold these dollars on deposit with a bank outside the United States for various reasons, including transfer risks political risks, and credit risks.

Faced with a tax liability, such owners of dollars may decide to repatriate them. That means to convert them into their own domestic currency by selling them. The ultimate purchaser of these dollars is often a foreign central bank, so that the end effect of this transaction is again a potential drain on our gold supply.

We believe that these provisions of H.R. 13103 proposing to tax bank deposits do not recognize that the dollar is a major international reserve currency; that a major portion of international trade is done in dollars and that, as a result, the United States has become the financial center of the world.

Since this is the case, and because foreign deposits have always provided an important part of the financing of our own foreign trade, any action to force foreign holdings of dollar deposits to accounts at foreign banks is clearly contrary to our national interests. There can be no doubt that the provisions with regard to bank deposits in H.R. 13103 adversely affect the status of foreign dollar holdings.

In summary, we believe that the present exemptions from income and estate tax on bank deposits granted to nonresident aliens should be continued for (1) the taxes proposed by H.R. 13103 on such deposits will create a less favorable climate for foreign investment in the United States; (2) they will drive foreign deposits out of the United States and thus yield only negligible tax revenue; (3) they will lead to a potential further drain on the U.S. gold stock of menacing proportions; and (4) they are particularly damaging to the normal business operations of those U.S. banks, including many smaller banks which have no foreign branches.

Thank you, Mr. Chairman.

(The prepared statement of Mr. Ray follows:)

STATEMENT OF WILLIAM F. RAY, ON BEHALF OF THE BANKERS' ASSOCIATION FOR FOREIGN TRADE, ON H.R. 13103

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 We believe that the exemptions from income and estate tax on bank deposits granted to nonresident aliens in the Revenue Act of 1921 should be continued for (1) the taxes proposed by H.R. 13103 on such deposits will create a less favorable climate for foreign investment in the United States; (2) will drive foreign deposits out of the United States and thus yield only negligible tax revenue; (3) will lead to a potential further drain on the United States gold stock of menacing proportions, and (4) are particularly damaging to the normal business operations of those United States banks, including many smaller banks, which have no foreign branches.