

drive of recent years, 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 the foreign lending guidelines of the Federal Reserve System (which include loans to finance exports). The tax provisions of HR 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.

EFFECT ON DEPOSITS AND ON OUR GOLD SUPPLY

We believe that the shift in deposits which will take place if HR 13103 is enacted in its present form will seriously diminish the functions of the United States 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 is moreover 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 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.

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 is, 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.

In addition, these provisions of HR 13103 proposing to tax bank deposits do not seem to 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 interest. There can be no doubt that the provisions with regard to bank deposits in HR 13103 do adversely affect the status of foreign dollar holdings.

SUMMARY OF CONCLUSIONS

In summary, we believe that the exemptions from income and estate tax on bank deposits granted to non-resident aliens in the Revenue Act of 1921 should be continued for (1) the taxes proposed by HR 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.

UNITED STATES MEMBERS, BANKERS' ASSOCIATION FOR FOREIGN TRADE, JULY 21, 1966

APPENDIX A

Akron, Ohio: First National Bank of Akron
Atlanta, Georgia:

The Citizens & Southern National Bank
First National Bank of Atlanta
The Trust Company of Georgia