

to give you any such estimate because of the uncertainty as to the reaction which foreigners may have to such tax and the fact that a large number of bank deposits are held as working balances by corporations which do not bear interest and hence would not be affected by the bill.

In response to the third question Mr. Surrey replied that, making numerous assumptions, a rough estimate of the total revenue which would be derived from taxing the interest would be \$22,500,000. However, inasmuch as one of the assumptions he made was that foreigners' time deposits held in 1972—the date when the provision would go into effect—would be equal to those held by them today, and he had already stated that the effect on foreigners' holdings of time deposits was unknown, this estimate would appear to be of little reliability.

Let us, then, examine what we know. We know that the amount of deposits affected totals \$2,250 million. But we do not know how much additional revenue would be generated, nor how many dollars worth of deposits would be withdrawn. It would seem, then, that we are legislating in the dark.

We can speculate on human nature, however. It is obvious that if a country suddenly imposes an income tax on the interest received by someone who is neither a citizen nor a resident of that country, he is going to look for another place to put his money. So we can most surely assume that there will be large-scale withdrawals of funds. At a time when we are still in a period of difficulty over our balance of payments, it is unwise to look for new troubles in this regard. This money from foreign countries on deposit in American banks is used in America; this capital helps relieve our money shortage. Its withdrawal would worsen our tight money problems. In my opinion it is fiscally unsound to drive this money out of the country. Many other countries would welcome these deposits within their boundaries.

One of the principal arguments given in justification of the change is that we would then be adopting the policy followed by other countries.

But when questioned on this point, Secretary Fowler said, at page 39 of the Senate hearings, that no such taxes are imposed in France, Germany, and the Netherlands. In the United Kingdom, although the law appears to impose a tax, in practice the United Kingdom apparently exempts interest on bank deposits, a tribute to the British talent to muddle through, no doubt. Secretary Fowler says that taxes are imposed in Italy, Switzerland—although at only a 5-percent rate—Canada and Japan. So there appears to be a 50-50 split in the policies of the other major countries with sizable foreign bank deposits. Thus the argument that we should act this

way in order to follow the practice of other countries does not appear sound, since the other major countries are about equally divided.

All the financial experts who testified on this part of the bill were opposed to it. I am unable to find any support for it in the hearings.

Mr. John H. Perkins, senior vice president of the Continental Illinois National Bank & Trust Co., representing the American Bankers Association, testified as follows:

We believe that enactment of the two provisions in the act referred to above will do irreparable injury to the economic position of the United States. If these provisions are enacted, undoubtedly there will be a widespread withdrawal of foreign dollar balances from this country. This will add to the problems brought on by our balance-of-payments position and will result in substantial additional outflow of gold from the United States. Any assumption that delay in the effective date in the imposition of income taxes until after 1971, postpones immediate concern is erroneous. I think I would like to emphasize that, that the very passing of that act will trigger a reappraisal of banking relationships by the nonresident aliens affected. This reappraisal will lead to near-term action in many cases. As a matter of fact, commercial banks already are receiving inquiries from their foreign depositors concerning the pending legislation. Also, the estate tax on foreign held deposits would be effective at once, that is, with respect to taxable years beginning after December 31, 1966. Consequently, if the legislation is enacted there could possibly be a massive outflow of funds before the end of the year which could seriously affect our international financial position for this year. On the basis of transactions during the first half of this year, our payments position, without taking into consideration any movement of funds that may result under this legislation, will be much more unfavorable than originally anticipated at the beginning of the year. I might add too any outflows triggering from the passage of this act would take effect immediately, whereas the benefits from the other parts of the act would take some time to affect our position.

The action proposed in the pending legislation is inconsistent with previous action by the Congress in dealing with foreign bank deposits in this country. The importance of retaining such funds in this country from the standpoint of our balance of payments and U.S. gold position was considered an important factor by the Banking and Currency Committee in its report on H.R. 5306, 89th Congress, 1st session (Rept. No. 336), a bill to continue the authority of domestic banks to pay interest on time deposits of foreign governments at rates differing from those applicable to domestic depositors. The committee, in recommending passage of H.R. 5306, stated that "the object of the bill is to extend existing provisions of law designed to encourage foreign governments and monetary authorities to maintain dollar accounts in this country rather than convert these dollar accounts directly into gold or to transfer the funds to other financial centers, whereupon they could be acquired by official institutions of other countries and be converted into gold."

Bringing our international payments into