

balance is difficult, particularly in light of the present magnitude of U.S. Government commitments in support of world peace and development. As an emergency expedient, American businessmen and bankers have been enlisted in a voluntary program of restraints on U.S. capital outflow to eliminate the deficits. This effort should not be undermined by introducing penalties on foreign deposits with American banks. The original proposal of tax legislation in this area at this time was to create a more attractive climate for foreign investments in the United States. Even the threat of the contemplated action is harmful, affecting foreigners' decisions to open or maintain accounts with American banks.

In addition to the effect which the withdrawal of foreign balances could exert on our balance-of-payments position, there is also the effect on our general economic position. Balances in U.S. banks maintained by non-resident aliens represent assets that have been voluntarily brought into this country for one reason or another, but usually from the standpoint of safety. The U.S. dollar is, and has been for many years, the strongest currency in the world, and this has led foreigners to transfer part of their wealth to the United States for safekeeping. This has been encouraged because such assets in the form of bank deposits have not been

[P. 25373]

subject to our estate taxes; the income on such deposits has not been subject to our income taxes, and there are no impediments to the withdrawal of the deposits from the United States.

We do not have precise figures available which show the aggregate amount of the funds currently on deposit, but it is conservatively estimated that they amount to several billions of dollars, which I think our figures are consistent with those which have been given in the last few days here.

We believe that on balance, the United States has a great deal more to lose than can ever be gained from what little taxes that might be collected under the pending legislation from these sources because, as pointed out above, owners of these funds are free to move them elsewhere. Legislation of this character is apt to have an unwholesome immediate effect on investor psychology and we can look to a prompt outflow of funds seeking investment outlets in other countries. It is recognized that the act provides that the amendments made by it are not to apply where application would be contrary to any treaty obligation of the United States and that there is a 5-year period before the income tax would be effective on bank deposits. However, this is offset by the immediate imposition of the estate tax. And I would like to add it is offset by the immediate psychological effect on these foreigners who already are concerned about this and who will not wait, in our opinion, until 1971 at all to make their moves.

Accordingly, we strongly recommend that the committee amend the act and retain the present provisions of the Internal Revenue Code which exempts from the U.S. estate and income taxes deposits held by nonresident aliens in U.S. banks and the interest paid thereon.

Senator ANDERSON. Thank you, Mr. Perkins. Is there any possibility that the banks might feel differently if the estate tax provision was postponed until 1972?

Mr. PERKINS. I don't believe so, Senator. Our feeling, and we have talked to a number of bankers about this in a number of areas, our feeling is quite strong that the banking relationship is built up over a long period of years. When a new tax comes in, whether it is the estate tax or the deposit tax, the people owing the funds and their lawyers and their financial advisers and all start looking at this, start worrying about it and they don't think of waiting until that day in 1971. They start trying to analyze whether or not they ought to change their banking relationships because of this tax, and if they conclude to do that, they will go ahead and start making these moves now.

So, I don't think the idea of an effective date really has as much bearing as might seem from the date it is. In other words, we feel that this would trigger a certain amount of action immediately and not postpone action until 1971 when we could get another look. Obviously, there would be those who would wait until 1971 to make a move, I grant you that, but we think there would be some effects immediately and then over the next few years, month by month.

Mr. Alfred W. Barth, executive vice president, the Chase Manhattan Bank, said:

We are dealing with large amounts. The proposed change in tax treatment would, in our estimate, directly affect \$2 to \$2½ billion of deposits. Once these deposits are shifted to a foreign bank abroad, that bank will, in turn, almost surely lend them to foreigners. The foreign borrowers are all too likely to convert the dollars into local currency. The dollars thus will end up in the hands of foreign central banks which can turn them in to the U.S. Treasury for gold.

I know from personal conversations with customers abroad that our foreign banking competitors are already seizing upon the provisions of H.R. 13103 as a lever for encouraging the transfer of deposits to them.

I cannot forecast precisely the time and volume of deposit withdrawals, but I do feel certain that significant withdrawals will occur. I would like heartily to endorse the proposal that the provisions relating to bank deposits of nonresident foreigners not doing business in this country be deleted from the bill.

Mr. Charles H. Bartlett, Jr., representing the Arizona Bankers Association, stated:

The amount of deposits attracted by Arizona banks from foreign corporations is quite limited. For the most part, our foreign deposits come from individuals who are attracted by this country's record of political stability and very excellent reputation for preserving the value of money in comparison with that of most other parts of the world. Higher after-tax yields can be obtained in many other countries.

But there is a limit to the price foreigners will pay to keep money in our country. This year, we have noticed a loss of deposits to other countries because of their higher interest rates. If to this we add a 30-percent tax rate, there can be no question but that the flow of money to other countries would be accelerated. Many countries with favorable political climates now have strong financial institutions which actively solicit U.S. dollar deposits. It is interesting to note that foreign depositors who transfer money out of the United States for the most part do not