

costs because of the problems of the additional costs of movements and returning dependents, et cetera.

The only circumstances under which there would be budgetary savings would involve a second question of whether, if bringing them home, you would demobilize those divisions and reduce the forces. Unless you did that, there would be no budgetary saving.

This is as much as I think I should say at this time insofar as the trilateral discussions are concerned. After these discussions are completed between the three countries, I should say, of course, that any results would be considered with our other allies in the context of the entire NATO establishment.

Representative BROCK. Thank you very much, sir.

Mr. Chairman, I would like to have unanimous consent to insert in the record at this point an editorial in the Washington Post on interest equalization.

Chairman PROXMIRE. Without objection, it is so ordered.
(The article referred to follows:)

[From the Washington Post, Feb. 4, 1967]

MORE INTEREST EQUALIZATION

In 1963, during a period of great consternation over the balance of payments, Congress levied a special tax—the Interest Equalization Tax—on foreign securities purchased by Americans from foreign sellers. The object was to stanch the outflow of capital by making it more costly to float security issues in this country where interest rates were much lower than in Europe, hence the term “interest equalization.”

This newspaper opposed the tax as an unwarranted interference with the free flow of capital and a disguised form of dollar devaluation which, by perpetuating differentials in international levels of interest rates, would prove counterproductive in the long run. Now the Administration proposes a far more reprehensible tax, one that would grant the President unprecedented power to raise or lower the tax rate on foreign investment without the consent of the Congress.

The new tax proposal gives the President the authority to raise the interest paid on foreign bonds from zero to two percentage points. On a bond of 28.5 years maturity or more, this amounts to a 30 per cent tax or double the rate under the present tax with its fixed levy of one percentage point. Under the new proposal the President would be able to vary the rate over a two-percentage-point range and in reducing the tax rate, he would be empowered to make the cuts retroactive.

Why are these extraordinary powers being requested? The logical explanation is that flexibility in setting the rate is required in the event that the differential between interest rates in this country and in Europe should narrow or widen. But in practice there would be a tendency for the rate to be set at the maximum of two percentage points. If it were lower, American investors, fearing a higher rate, might sharply increase their purchases of foreign securities and increase the outflow of dollars. And such anticipatory purchases are not likely to be affected by the prospects of rebates through retroactive tax reductions.

If one assumes that investors are so naive as not to anticipate increases in the IET rate, then investing in foreign securities becomes something of a lottery where, because of unforeseeable changes in the IET, no one can know what a bond will really yield.

In addition to compounding the uncertainty with which investors must contend, the IET runs counter to this country's policy of integrating the international capital markets and thereby diminishing interest rate differentials. By insulating the United States capital market, the IET works in the opposite direction. Moreover, in granting the President the authority to vary tax rates, it threatens a prerogative which Congress is properly jealous in guarding.

In a recent speech, Mr. M. A. Wright, the president of the United States Chamber of Commerce, asked pointedly whether our balance of payments restrictions do not involve costs, reckoned in terms of diminished efficiency, that far exceed any benefits conferred. The new IET proposal falls into that category and ought to be rejected by the Congress.