

GOVERNMENT INTERVENTION IN BUSINESS DECISIONS, AFFECTING PRIVATE INVESTMENT ABROAD*

The report of the Council of Economic Advisers acknowledges, as we all do, that the United States continues to confront a serious problem with respect to the U.S. balance of payments. Secretary Fowler has subsequently issued a report on the status of our balance-of-payments situation. There is a central aspect of the situation involving the balance of payments, however, which we feel is not receiving sufficient attention from a Government policy viewpoint. Once again, a part of the problem is the fact that national policymaking is undertaken on a piecemeal basis and only infrequently is the big picture placed in perspective.

The fact is that partly on the grounds of balance-of-payments considerations, and in the judgment of the institute partly because of what appears at times to be a predilection of the Government to employ controls in this area, this country has been drifting toward a policy of Government intervention in business decisions affecting private investment abroad and the flow of capital on an international scale.

THE INTEREST EQUALIZATION TAX ACT

It is perhaps most illustrative to deal with this question in terms of the Interest Equalization Tax Act, for a proposal for extension of that law and enlargement of its penalty provisions is now before the Congress. The President and the Treasury have asked Congress for legislation to extend the Interest Equalization Tax Act for 2 years (until July 31, 1969) and to authorize the President, when conditions warrant, to vary the statutory rates between zero and a rate double the existing rates. This proposal of an interest equalization tax was first made in 1963 on the basis that it would be a temporary one-shot legislative action. This was not only the basis upon which it was introduced; there were clear and unambiguous assurances from the administration that it was a temporary measure and would not require extension.

To be sure, sophisticated observers of the Federal scene are somewhat skeptical of such assurances because temporary legislation—e.g., excise taxes, renegotiation, etc.—has a way of becoming laid in concrete in our statutory structure. So, the interest equalization tax was extended for 2 years beyond 1965 and the Congress is now being asked to extend it for another 2 years—not only to extend it but to make its bite more severe.

To suggest that the enactment and continuation of an interest equalization tax is inconsistent with the national policy of this country toward free and uninhibited movement of trade and capital is to state the obvious. Moreover, it appears that through this measure, coupled

*Supplemental statement of Machinery & Allied Products Institute on certain additional economic issues.