

with certain other actions of Government to be discussed in a moment, we are well on our way to controlling private flows of trade and capital across international borders. It is ironic, of course, that at the very time that this country contemplates a further extension of the Interest Equalization Tax Act, it is frustrated and discouraged by the futile performance of the Kennedy Round of negotiations for further tariff reductions. When in this country are we going to pull the pieces together from the standpoint of national policymaking and decide that the United States on any given issue or national goal cannot march off in several directions at the same time?

But if the interest equalization tax were the only element in this picture of interference with movement of trade and capital across international borders, one could take comfort in the proposition that Government must be flexible and exceptions to a fundamental policy may at times become necessary because of such a sensitive and important problem as the balance of payments. The fact is, however, that the Interest Equalization Tax Act is only a symptom of a much more serious condition. Let's examine the other symptoms briefly.

FOREIGN SOURCE INCOME TAXATION

The foreign earnings provisions of the Revenue Act of 1962 represent the most punishing step that this country recently has taken toward free international trade movements. At the time of enactment, it was taken on the premise that foreign investment contributed materially to our unfavorable balance of payments; a proposition which we feel has been largely debunked since that date. The provisions of the 1962 act impose direct taxation on certain types of foreign subsidiary income but permit a deferral of taxation on manufacturing income. The law discriminates between investment in developed and underdeveloped countries, giving favored treatment to the latter. There is no question that both negatively and affirmatively the foreign earnings provisions of the Revenue Act of 1962 impinge upon private business decisions; indeed, they are intended to restrict private investment abroad through influencing the relative profitability of different investments. Further, since the enactment of the law, American business has been confronted with the problems of administration of these provisions including the issuance of a series of restrictive regulations.

VOLUNTARY PROGRAM OF DEPARTMENT OF COMMERCE

There is another aspect of the tendency toward a desire on the part of the Federal Government to meddle in international business transactions and in international business decisionmaking. Once again the trigger seems to be the balance-of-payments problem. We now have in the United States and have had for some time a so-called voluntary program with respect to investment abroad administered by the Department of Commerce. One can, of course, look upon this program as something better than we might have had as an instrument of national policy; for example, the voluntary program obviously is considerably preferable to a formal system of exchange and investment controls. But that hardly is the way to look at national policy questions. The fundamental question is whether we should have it at all.