period of time. If the Administration is unwilling to acknowledge its mistake, scrap the mandatory system of controls and revert to voluntary controls or none at all, then it should dismantle the present structure of controls and do the job all over again, allowing sufficient time and thought to develop something a great deal more equitable in concept and workable in practice. The notion of segmenting the globe into schedules of countries should be scrapped. In restructuring the controls, if they are to be continued, a group of incentives should be built into the system. For example, a bonus or special allowance for private investment abroad—in terms of increased investment quotas or reduced repatriation requirements—might be granted to the company which improves its export position. Some direct allowances or bonuses in the system should be given to increases in royalties and licensing fees which are returned to the United States. In brief, a company's total performance in contributing to improvement of the nation's balance of payments should be given direct and express recognition.

5. *Tax aspects of the required repatriation of foreign subsidiary earnings.*—In his message on the balance-of-payments problem the President reported that he had directed the Secretary of the Treasury, in effect, to consider the possible desirability of legislative proposals to induce or encourage the repatriation of accumulated earnings by U.S.-owned foreign businesses. We understand from the Administration testimony before this Committee that the Treasury Department has looked into the problem and apparently has decided not to make any such proposals, at least not at this time. We think that this is unfortunate because there are obviously a number of things that can be done to encourage American companies to repatriate pre-1968 accumulated earnings which are not subject to the requirements of the mandatory direct investment control program. These same measures could also be used to lessen the tax impact on current earnings that are subject to the mandatory controls.

The Department of Commerce regulations require what it describes as repatriation of earnings. So far as we know, there is no requirement that such earning necessarily be remitted in the form of dividends. This apparently means that loans or advances from the subsidiary to the American parent company would satisfy the requirements of the Commerce regulations. However, in many situations the payment of such advances or loans would be impossible or impractical from the viewpoint of the foreign subsidiary because of the laws or policies of the country within which it is located and also because of financial and other operating considerations relating to the subsidiary itself. In any event, we think that certain things might well be done by the United States government to make it easier for companies to comply with repatriation requirements. We suggest that the Treasury and the Internal Revenue Service should issue an official announcement to the effect that interest-free advances from a subsidiary to the parent would not be considered "constructive dividends," at least to the extent that such advances were made pursuant to the direct investment control program. In addition, the Treasury might well attempt to persuade foreign governments to follow policies which would permit companies within such jurisdictions to make loans or advances to American shareholders in connection with the U.S. balance-of-payments program in cases where such loans or advances might not be permitted at the present time.

Where because of foreign law or because of other circumstances the repatriation of funds must be in the form of a dividend, it certainly would be appropriate to permit deferral of the U.S. tax on that dividend. Such deferral might extend for a stated period of time such as five years or possibly even for a period of time that would be determined for each individual company on the basis of its past experience with respect to dividend payments from foreign subsidiary earnings. Here we are talking about dividends from foreign subsidiary earnings that are not "foreign base company income" and therefore are not taxable to the American parent company until received in the form of dividends. If for some reason it is determined that such deferral is impractical or undesirable, the government should consider granting some type of tax reduction with respect to foreign subsidiary dividends.

6. *Tax incentives for exports.*—Just over two years ago the Action Committee on Taxation of the National Export Expansion Council, chaired by Mr. Carl A. Gerstacker, Board Chairman of the Dow Chemical Company, presented to the Department of Commerce and the President a series of proposals relating to taxation and designed to encourage U.S. exports. In brief, these proposals were as follows: