

(a) It imposes extraordinarily high rates of taxation on people of even modest means who travel outside the Western Hemisphere before September 30, 1969. For those who can conveniently travel only within that period, owing to the pattern of their lives, the cost of the trip would be increased at a savage rate. The 15% tax on expenditures over \$7 a day and 30% on expenditures over \$15, including transportation bought abroad and all purchases, plus a 25% customs duty on whatever he brings back above the \$10 allowance, all of which comes on top of federal and state income taxes on the income spent for the trip, brings the total to 55% or more on services and goods consumed abroad and 80% or more on whatever he brings back, once he gets into the over-\$15 per day category. The low federal income tax rate of 20% and a state income tax rate of 5% is assumed, the former of which is apt to be higher.)

(b) This tax should be regarded as semi-permanent while the present attitudes prevail, since there is no realistic prospect that the balance of payments will improve enough by 1969 to permit its removal.

(c) Trips abroad are among the most cherished features of many people's lives, and one of the chief purposes of a monetary system is to permit foreign travel.

(d) Calculations about the tax on every expenditure during the trip, keeping records to satisfy tax-gatherers, fears of penalties if one spends more than expected or makes mistakes, etc., along with the problem of paying the tax, would be enough to mar the whole trip for many people.

(e) Flight departures and arrivals would be turned into galling ordeals, owing to the tax enforcement red tape.

(f) Evasion would be easy. As already publicized, anyone can send funds abroad which he can pick up over there. Foreign fellow travellers could be asked to bring goods in for taxed Americans. U.S. citizen or resident A can make a gift to U.S. resident B, who makes a gift to foreign resident C, who then pays for services abroad for D, who is a relative or friend of A, or who may be A himself. The Treasury rejoinder that such evasions will not be used extensively, because Americans are conscientious taxpayers seems a gross abuse of that quality. This tax deserves to provoke widespread evasion and increased contempt for the Treasury, the Government, and U.S. laws.

(g) The important groups exempted—travellers in the Western Hemisphere, ship and plane crews, military personnel, U.S. employees on official trips (including Members of Congress), students and businessmen staying more than 120 days—will make other travellers feel sharply discriminated against and incur resentment.

(h) Whatever effects the tax has in depressing foreign travel will injure not only the U.S. travel business but also the travel industry abroad.

An entirely different approach to American tourist expenditures is recommended in the following section.

A BETTER BALANCE OF PAYMENTS PROGRAM

The present outcry at home and from financial spokesmen abroad for the United States to end its balance of payments deficits is a drive in the wrong direction arising from some basic misapprehensions. If the latter are overcome, perhaps among a relatively small number of men in Washington, the travel expenditures tax, and the drastic new curbs on foreign direct investment and retention of foreign earnings to finance essential growth, and a welter of pointless fear about the dollar and international financial collapse can be discarded.

The main misapprehensions include:

1. That it is the "Bretton Woods system" or the International Monetary Fund system which has enabled the world to expand production, trade, and standards of material welfare in the last two decades as never before, and that the United States and the dollar must abide by its rules and the need to balance its international payments just like everyone else.

On the contrary, it is the U.S. Government's policies and the U.S. dollar which deserve the credit, and different rules should and must apply to them.

The IMF system—of establishing fixed exchange rates and providing limited, repayable, relatively short-term borrowing facilities to meet "current account" deficits in members' balances of payments—would have fallen flat on its face soon after its birth if the United States and the dollar had not made the system workable. The latter have also been performing functions of financing capital account transactions hardly contemplated in the IMF system.

Aside from the U.S. subscription of \$2,750,000,000, the Fund started with about \$.8 billion of gold from other countries and about 3.7 billion dollars worth of