ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS

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HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

SECOND SESSION

ON

ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS (INTERNATIONAL TICKET TAX, TRAVEL EXPENDITURE TAX, REDUCTION OF DUTY-FREE EXEMPTION FOR RETURNING TOURISTS)

FEBRUARY 5, 6, 19, 20, 21, 22, 23, 26, 27, 28, 29, AND MARCH 1, 1968

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ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS

MONDAY, FEBRUARY 19, 1968

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. A. Sidney Herlong, Jr., presiding.

Mr. HERLONG. The committee will please be in order.

The purpose of this meeting this morning is to continue the public hearings on the legislative recommendations of the administration with respect to the balance-of-payments situation.

It will be recalled that the administration's witnesses appeared before the committee on the fifth and sixth of this month. We are commencing today with our receipt of testimony from the interested public.

It may also be recalled that various references were made during the hearings which we conducted on this subject with the administration officials on February 5 and 6, 1968, to the recommendations submitted to the President by the Industry-Government Special Task Force on Travel. These recommendations were submitted by the task force chairman, Ambassador Robert M. McKinney, on February 15, 1968. Without objection, I would like to include in the record of the hearings at this point the text of those recommendations.

(The McKinney report follows:)

89-749 O—68—pt. 2——2

Report to the President of the United States

FROM THE

INDUSTRY-GOVERNMENT SPECIAL TASK FORCE ON TRAVEL

February 1968

(427)

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LETTER OF TRANSMITTAL

FEBRUARY 15, 1968.

DEAR MR. PRESIDENT:

On November 16, 1967, you appointed the Industry-Government Special Task Force on Travel to make specific recommendations on how the United States can best increase foreign travel to this country, thereby improving our balance of payments. You directed that our report be submitted by early summer. In your Message to the Nation of January 1, 1968, you asked us, in view of the urgency of our balance-of-payments problem, to report within 45 days on immediate measures that can be taken, and to make our long-term recommendations within 90 days. We undertook to accelerate our efforts further by covering both immediate and long-term factors in the present report.

The Task Force, with the support and collaboration of Federal agencies and private industry, has initiated actions which should lead to a substantial cost reduction affecting travel to and within the United States. Domestic air fares, railroad fares, hotel and motel rates, intercity bus fares, car rental charges and package tour prices are affected. International air carriers and steamship lines serving the North Atlantic are also seeking approval of low-cost directional fares to the United States.

The 1968 budgets of U.S. travel-related businesses and associations for promotion, advertising, and sales abroad have already been increased sharply and focused on the purposes of the Task Force. Foreign-flag airlines and steamship lines are expanding their efforts to promote travel to the United States. International travel organizations have transmitted to the Task Force unprecedented offers of cooperation.

Thus, within 45 days of your January 1 message, action on the two elements which could realistically be expected to have the most dynamic impact in carrying out your program to increase foreign tourism to the United States this year—cost reductions and increased promotion—have been initiated without calling for legislation or spending Government funds.

With these actions already started, we submit our report. In doing so, we emphasize that we have borne in mind your charge to build into our program ways and means to insure that foreign visitors learn to know our country and our people. Our primary purpose has been to create a more propitious international economic climate, while at the same time to foster greater understanding by the peoples of the world of our Nation's ideals and aspirations.

As might be expected, the Task Force has a diversity of opinion with respect to the administration's proposals to institute taxes on tickets and expenditures in certain foreign areas. In this report, we have avoided a systematic review of these measures or their effect on international cooperation as related to this program. Consequently, nothing said or unsaid in this report is intended to represent any departure from the views individual members may hold on this subject.

We wish to thank the 153 members of our 12 working parties and many other individuals, firms, organizations, and Government agencies who have helped us in our work.

Respectfully,

ROBERT M. MCKINNEY,
Chairman.

DONALD G. AGGER.
JOHN W. BLACK.
DANIEL J. BOORSTIN.
ANDREW F. BRIMMER.
JOHN A. BURNS.
EDWARD E. CARLSON.
HOWARD L. CLARK.
ARTHUR FROMMER.
FRANK HILDEBRAND.
FRANK N. IKARD.
JOHN H. JOHNSON.
WINTHROP KNOWLTON.
WILLIS G. LIPSCOMB.
WINSTON V. MORROW, Jr.
CHARLES S. MURPHY.
WILLIAM D. PATTERSON.
GERALD SHAPIRO.
HARRY M. SHOOSHAN.
ANTHONY M. SOLOMON.
LEW R. WASSERMAN.

ROBERT G. PELIKAN,
Executive Director.

THE PRESIDENT,
The White House.

Objectives and Summary

OBJECTIVES

- To determine practical steps which can be taken quickly to produce early improvement in the travel sector of the balance of payments.
- To determine medium and long-term measures to bring U.S. travel expenditures and receipts into better balance, with recommendations on the necessary steps that should be taken in both the private and Government sectors to accomplish this objective.
- To determine how best to help foreign visitors improve their knowledge and understanding of the United States and the American people through firsthand experience, thus providing a new bridge of understanding through tourism between the United States and other countries.

SUMMARY

Here we summarize the more important actions and recommendations which have emerged from the work of the Industry-Government Special Task Force on Travel.

1. Actions to reduce the cost of travel by foreign visitors to the United States:

- 25% discount on round trip fares to the United States on tickets purchased in Europe.[1]
- 50% reductions in regular domestic airline fares, effective April 28, making these fares the lowest available anywhere in the world.[1]
- 25% discounts in railroad fares.[1]
- 10% discounts on charter coach rates on trips involving 400 miles per day, effective May 1.[1]
- 10% discounts in rates by the three largest United States car rental companies, effective immediately.
- Reduced steamship fares to the United States.[1]
- Up to 40% reductions in regular rates in seven major hotel-motel chains, effective immediately.

2. Actions to stimulate foreign travel to the United States:

- U.S. flag transatlantic and domestic air carriers will spend $16.5 million outside the Western Hemisphere in 1968 to promote travel to the United States, a $5.5 million increase over 1967.
- Foreign-flag air and sea carriers will take immediate steps to accelerate the development of European travel to the United States.
- U.S. air carriers will bring more than 2,000 travel agents, tour operators, and travel editors to the United States for familiarization tours in 1968.
- Other U.S. industries and news and entertainment media will significantly increase promotional efforts abroad to attract foreign visitors to the United States, effective immediately.

3. Recommendations which would:

- Waive visas for tourists and businessmen.

[1] Subject to approval by the appropriate regulatory body.

- Simplify and consolidate entry procedures; make possible one-stop inspection; enable the pre-clearance of visitors.
- Issue special foreign visitor hospitality cards, evidencing eligibility for discounts and price reductions on a wide range of travel-related expenditures.
- Coordinate price reductions providing package tours for group and individual travel; design tours for special activity travel.
- Intensify travel advertising and promotion abroad through coordinated efforts of government and the private sector.
- Vastly improve banking, insurance and credit facilities for foreign visitors.
- Facilitate travel of non-English-speaking visitors by utilizing multilingual students in the United States; expanded reception centers; multilingual telephone service; and foreign language guidebooks.
- Mount a nation-wide campaign to intensify hospitality towards visitors within the United States.
- Work through governors, mayors, and other community leaders to promote foreign travel and improve services.
- Improve the image of the United States as an attractive tourist destination area.
- Intensify and broaden market research and tourist motivational studies in prime travel markets abroad.

4. Expanded role of the U.S. Government:

- A new dynamic national travel policy.
- A strong national tourist office to coordinate the U.S. foreign tourism effort by 1969, starting with an annual budget in the range of $30 million.
- A national convention bureau.
- A $1.7-million budget increase for the U.S. Travel Service for the remainder of fiscal year 1968.

Introduction

INTRODUCTION

While our country has always been a prime destination for world-wide travelers, the United States in recent years has increasingly become a point of departure. Each year this disproportion becomes more striking; it is likely to accelerate in the future unless we take steps now to insure a two-way flow of international travel.

The U.S. Passport Office estimates that by 1970, new passport issues and renewals will increase by 60 percent over last year, and will double last year's figure by 1975. If this outbound travel surge continues, the United States must mount an even greater effort to draw foreign visitors to this country.

The rise in our own standard of living which has put foreign travel within the reach of millions of Americans and our spectacular technological advances in air transportation will pose special problems. New supersonic transports and jumbo jets are apt to be more effective in carrying unprecedented numbers of Americans abroad than in bringing people from other countries to visit us. Should this trend continue, by 1975 our annual travel deficit could range between $2 and $5 billion.

The most satisfactory way to arrest this increasing gap is not to limit American travel abroad but rather to stimulate and encourage foreign travel to the United States.

Our financial problem, which is immediate and urgent, requires prompt, specific steps. But our studies have convinced us that the long-term problem is even more serious. Thus, our basic solution must rest on a sustained, substantial increase in foreign visitors over a period of years. This can only be accomplished through new long-term policies implemented by an effective new national tourist office, an organization which would coordinate the effort of varied segments of the U.S. travel industry and direct the national purpose.

Today we must take action, long overdue, to launch a strong and positive national effort to increase travel to the United States. We believe that if the recommendations in this report are fully implemented with supporting programs by private industry and Government, there will be a significant and rapid increase in travel to the United States. This will assist the United States in keeping its balance of payments deficit within manageable proportions.

There are millions of families in other countries, particularly in Western Europe, who can afford reasonably priced trips to the United

States. Substantial reductions in cost would increase these numbers. The reductions in travel costs, described in subsequent pages of this report, could decrease the cost of tour packages by approximately 20 percent. Even more can be done.

People all over the world want to know more about us. But to do so, they need to be told how to plan trips to the United States. They need realistic facts about costs, especially about inexpensive ways to travel here. They need to be told about the variety and spectacular nature of America. They need to know in advance that they will be warmly welcomed by all Americans.

Much can be done to make the way of the visitor easier and more pleasant. We must organize the myriad attractions we already have, making them more accessible and appealing. And, we must devise ingenious and imaginative new attractions.

American enterprise—with the cooperation of Federal, State, and local governments—and with the help and stimulus of our hospitable countrymen, should welcome the opportunity to show America to the world. That so many travelers have come, despite the absence of coordinated efforts to attract them, despite obstacles unthinkingly put in their way, is remarkable. Now is the time to take down the barriers. Now is the time for action.

We, therefore, recommend a seven-step program. It includes actions already taken and longer term measures.

1. **Lower the cost of travel to and within the United States.**—We must break through the vicious circle of low volume and high cost, by immediate measures of price reduction and by further strong coordinated efforts.

2. **Launch a massive, energetic, and imaginative new program appealing to prospective tourists abroad.**—This program should be commensurate with the American genius for advertising. It should express the great and persuasive enthusiasm which Americans feel for their country.

3. **Remove barriers to the entry of travelers and to their free and pleasant movement around our country.**—Our border formalities must be reduced or in some instances removed, and in all cases made more hospitable. Language barriers must be reduced.

4. **Change attitudes within the United States.**—Displace the national apathy toward foreign tourists by a desire to make our country a destination for the peoples of the world. Individual citizens and private industry, aided by Federal, State, and local governments must vie with one another in showing American hospitality.

5. **Improve services of food, lodging, and entertainment, and widen the appeal of special attractions.**

6. **Initiate more meaningful research programs to analyze the most promising new markets for selling travel to the United States.**

7. **Coordinate all these and other efforts, and develop new measures by means of a strong national tourist office.**—Such an organization would pull together the diverse efforts of private industry; coordinate the multiple functions and interests of Federal agencies and State and local governments; utilize more effectively our foreign language resources; provide central themes for promotional efforts; shift policy emphasis as conditions warrant; and focus our efforts in the more promising and potentially productive areas.

The task force, therefore, suggests that the President and people of the United States invite the citizens of the world to discover America for themselves. And that in doing so, positive steps be taken to insure that all visitors, of all the diverse backgrounds and beliefs, be made to feel welcome. These people must be given an opportunity to see the full breadth and scope of our Nation, enlarging their horizons and ours, renewing their faith and ours, and fostering the friendship we as a freedom-loving Union of 50 States have always sought.

Immediate Measures

Chapter I

LOWERING COSTS

OBSERVATIONS

A great potential exists for attracting more visitors. But the cost of coming to and traveling within the United States as compared with alternative destinations is a deterrent. The potential tourist to the United States is also confronted with high hotel, food and entertainment bills. He is perplexed by an uneasiness over hidden costs and believes that all prices in the United States are high. Thus, part of the problem is a lack of knowledge.

If the U.S. is to compete in the international travel market, substantial cost reductions must be implemented. The prime effort should be to obtain reductions which will meet the needs of middle income families abroad—a significant potential foreign visitor category. Furthermore, the nature of the cuts should be such that the U.S. travel industry would show increased rather than reduced profits.

A recent German survey shows that less than one percent of West Germans who vacation outside their country come to the United States. However, the United States would be the most popular destination if the price were right; sixteen percent saying they would visit the United States if travel costs were lower. Surveys in France and the United Kingdom show a similar pattern.

The price of visiting the United States must be attacked within each area of expenditure, if potential tourist markets are to be tapped more effectively and profitably. Package tours, a concept familiar to Europeans and Asians, which enable visitors to know their costs in advance, offer a promising opportunity.

Because of the urgency for action on costs, the Task Force concentrated on exploring with the travel industry the possibility of offering price reductions. The response has been enthusiastic. In the past few days the railroads, domestic and international air carriers, car rental agencies, bus companies, steamship lines, and package tour operators have agreed to lower prices for foreign visitors if the approval of pertinent regulatory bodies can be obtained.

These reductions in the total cost of trips to this country, should, if adequately promoted, increase significantly the number of foreign visitors who feel they can afford vacations in the United States.

Among the most significant cost reductions for foreign visitors are:

Already in Effect

—Up to 40 percent reduction of regular rates in certain hotels and motels.

—10 percent discount in the regular schedule of rates of the three largest car rental companies.

—25 percent discount for visitors on sightseeing bus tours of one-day's duration or less during 1968 and 1969.

Pending Approval of Regulatory Bodies

—50 percent reduction in the regular cost of domestic airline fares. (These will be the lowest available rates anywhere in the world.) Application will be filed with the Civil Aeronautics Board on February 20, 1968 for approval.

—25 percent discount on round-trip airline fares to the United States on tickets purchased in Europe. Transatlantic carriers are meeting February 20 to try to reach agreement on a proposal to submit to the International Air Transport Association for its agreement and subsequent approval by appropriate governments.

—Round-trip railway fares at approximately 75 percent of present one-way coach or first-class schedules. Application is being filed with the Interstate Commerce Commission. If the ICC does not object, new fares will become effective April 29.

—Reduced directional steamship fares to the United States. The International Committee of Passenger Lines will seek approval at the Atlantic Passenger Steamship Conference meeting during the week of March 10.

—10 percent discount on charter coach rates for international travelers on trips involving 400 miles per day. Application is being filed with the Interstate Commerce Commission. If the ICC does not object, the new rates will become effective May 1.

—Significantly reduced prices for packaged tours from Europe to the United States will be made immediately available by major U.S. tour operators as soon as cost reductions become effective.

Because of the importance of industry-wide rate reductions, they are described in detail in the following section of this chapter.

ACTIONS INITIATED

1. At the request of the Task Force, the *United States scheduled airlines* have developed dramatic new discounted fares for travel between points in the United States, designed solely to encourage those

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residing outside the Western Hemisphere to visit the United States. The new fares will provide almost unlimited travel opportunities within and across our nation at one-half the cost of published regular first class and coach fares, encouraging extended visits in the United States and increasing visitor expenditures. Subject to approval by the Civil Aeronautics Board, the new fares will become effective for use between April 28 and December 15, 1968; they will be the lowest available anywhere in the world, about one-fourth the cost of air transportation in Europe.

The new scheduled domestic airline fare for visitors will be 50 percent of regular first class and coach fares subject to a minimum payment of $79 for adult travelers. In the interest of attracting family groups, the 50 percent discounted fare will be discounted another 50 percent for children under 12 years of age with the minimum payment in this case being $40. The new fares will be applicable to residents of countries outside the Western Hemisphere whose travel originates and terminates in such countries. It will also be applicable to American citizens, including U.S. government and military personnel, residing in such countries for visits to the United States since their travel expenditures here, rather than abroad, will improve our balance of payments position. Travel within the United States under these new fares must not be completed in less than 14 days or more than 40 days and a minimum of three cities other than the city of arrival and departure must be visited. Tickets under this program may be purchased abroad or within 30 days of arrival here for round-trips and circle trips over the routes of one or more participating airlines. These tickets will also be applicable to trips which originate and terminate at different U.S. points, as long as such points are on the same coast.

The new fares will complement other tourist-generating programs already being offered by the U.S. airlines for travel within the United States. These include special "Visit USA" 25 percent discount fares and other special flat fares for unlimited travel such as the $150–21 day plan of the regional U.S. airlines; they will continue to be available to visitors from other countries including those in the Western Hemisphere.

2. As a part of the Task Force program the *two United States flag transatlantic air carriers*, Pan American World Airways and Trans World Airlines, have taken the lead in pressing for the establishment, through the machinery of the International Air Transport Association, of new reduced directional fares across the Atlantic designed to attract foreign visitors to the United States. Such a directional fare would be lower for movement to the United States from Europe and the Mediterranean countries than the fare from the United States to those countries.

According to international law, each nation can determine what aircraft may come into its territory, and the conditions under which these aircraft may come. Through multilateral and bilateral arrangements nations have established the conditions on which international air transport is conducted. In order to provide for flexibility in rate making, machinery has been established by which IATA, which has as its members virtually all international airlines, reaches agreements on fares and recommends these fares to the governments concerned for their approval or disapproval.

While IATA rate-making procedures are necessarily complex, they can work quickly. At the urging of the Task Force, and with the full cooperation of Director General Knut Hammarskjold of IATA and his headquarters staff, a meeting has been called of the traffic and marketing vice presidents of the carriers actually engaged in transporting transatlantic traffic for February 20, in New York City. This meeting will consider the establishment of directional fares across the North Atlantic. If agreement can be reached at this meeting on a specific fare proposal, it will then be promptly submitted by mail to the approximately sixty air carriers who are members of the North Atlantic Traffic Conference. If there is no objection to the proposal so submitted, the rate agreement will then be submitted to governments for approval, and can be made effective as early as mid-April.

The Task Force has been informed of three directional rate proposals which will be submitted to the February 20 meeting of the International Air Transport Association for consideration—one from Air France, one from Trans World Airlines, and one from Pan American World Airways.

Air France will propose:

(1) Sale of tickets in Europe-Middle East for travel to U.S.-Canada and return, applicable only this year as from April 1.

(2) Applicable to: (a) affinity groups, (b) inclusive tour groups, (c) charter groups, and (d) youths in the age 12 to 25 group.

(3) Fare level 2.718¢ mile.

(4) Conditions of sale: (a) minimum of 25 fares sold at bulk, price established as per above fare level, (b) sale of additional seat allowed at above fare level, (c) total blocked off seats not to be more than 75 per flight.

(5) Conditions of travel in economy class: (a) for affinity groups similar to Resolution 088, (b) for Group Inclusive Tour (GIT) as per Resolution 087 but validity extended to one month with no minimum stay, (c) for youths and own use governing conditions similar to Resolution 088.

(6) All trips return or circular except for groups of youths where one-way travel authorized at above fare level. Since the above fares are to be applicable for only one year, Air France is also studying more complete proposals the application of which would be for 1969 in the same direction.

Trans World Airlines will propose special promotional fares for westbound originating traffic from Europe and the Mediterranean area to the United States, to be effective as soon as possible and to be valid through March 31, 1969:

A 25 percent reduction in the existing 14–21 day excursion fares, in the group inclusive tour fares and in the affinity group fares with the following conditions:

(1) The 14–21 day excursion fares will be extended to cover a period of 14–28 days.

(2) The only blackout period for these new fares will consist of a prohibition against westbound originating travel during the period August 16 through September 15, 1968.

(3) These fares are calculated on a basis of London to New York fares with appropriate adjustments to be made for trips originating east of London.

(4) No fare reduction shall produce a new fare less than $200 net. For example, the present $300 London to New York excursion fare would become $225 and the present $230 group inclusive tour fare would become $200.

Pan American's proposal will call for basically a 25 percent reduction in all round-trip fares originating in Europe to the United States, only certain types of group fares being subject to a slightly lesser reduction. It contemplates that the normal first-class and economy-class fares would apply on a year-round basis, subject to the following restrictions:

(1) No eastbound (return) travel would be permitted during June or July, and

(2) No westbound (outbound) travel would be permitted during August or September.

During these limited restricted periods the present fares would continue to apply; however, the fares may be combined on a half-round trip basis applicable to the direction of travel. In the case of the 14–21 day excursion fares, present periods of application would continue subject to the above directional restrictions. However, the excursion fares may also be combined on a half-round trip basis using the fare applicable to the direction of travel. The group inclusive tour fare would apply during the same periods as at present—i.e., the $200 level throughout the year except for the periods of excursion fare "blackouts" when $250 would apply.

It is Pan American's view, based on elasticity data for transatlantic travel by European residents, that the proposed 25 percent fare reduction, if adopted, should increase the number of European visitors to

the United States by approximately 30 percent over and above the level that could be projected without the fare decrease.

Pan Am notes that traffic projections are subject to many variables; nevertheless, Pan Am feels that the foregoing demonstrates that its fare proposal will result in a dramatic increase in the number of European visitors to the United States and a significant contribution toward an improvement in the balance of payments—by Pan Am's estimate approximately $156 million.

3. The *passenger-carrying railroads* of the United States telegraph the Task Force that unless disapproved by the Interstate Commerce Commission, they will make effective April 29, 1968, new specially reduced fares for overseas travelers visiting the United States. These round-trip fares will be established on the basis of 75 percent of one-way coach or first-class fares in each direction. (Present rates to foreign visitors are 85% of one-way fares.) This same basis will apply for open gap fares where passengers enter via one port and return via another; also for passengers flying into international airports who use rail only one way. (Additional discounts are offered for group coach travel.)

The passenger-carrying railroads report their support for the President's program to increase foreign travel to the United States and their willingness to cooperate with other commercial agencies in support of locally sponsored programs to attract foreign visitors.

4. *Avis Rent A Car System, Inc.*, telegraphs that, in reply to the Task Force's request, it will grant to properly certified foreign visitors from outside the Western Hemisphere special ten percent discounts from its usual rates. With the understanding that airlines and the Travel Task Force are considering certain means of identifying such visitors, Avis states that granting of the above discount would be dependent upon the establishment of such standards and the visitors qualifying thereunder.

National Car Rental System, Inc. telegraphs that, in response to the request of the Task Force, it will extend a 10 percent discount on all car rentals made by foreigners at any of its locations in the United States, whether these rentals may have been sold at foreign sources or upon presentation of identification that the renter is a foreign traveler.

Hertz Corporation has responded to the Task Force with an offer to reduce their regularly established rates by 10 percent to foreign visitors.

5. *Seven major hotel and motel chains* report that, to further Task Force objectives, they will extend substantial additional rate reductions

to foreign visitors, either throughout the year, or during periods of low occupancy.

The Hilton Hotels Corporation telegraphs it will: (1) Develop specific group tour package programs for the summer months in cities of interest to foreign travelers at even greater discounts than Hilton's present Visit USA rates which reflect twenty-five to forty percent discounts. These cities are: New York, Buffalo, Washington, Boston, Detroit, Chicago, Denver, Dallas, Houston and Los Angeles. (2) Extend existing Visit USA rates through 1969 in 60 hotels in 52 cities. (3) Establish a Visit USA group tour rate of $5 per person in twin-bedded accommodations at the New Yorker Hotel in New York City. Hilton Hotels Corporation has approximately 30,000 hotel rooms which will be available under its discount plan.

Realty Hotels Inc., will make price concessions at the Biltmore, Roosevelt and Commodore Hotels in New York City in addition to special Visit USA tariff rates for 1968 previously posted. The Corporation will offer a further reduction, or commission to its operators, of 10% on groups of 15 to 50 persons and 15% on groups of 50 or more persons. These reductions will apply on special reduced Visit USA rates published some months ago. This means that groups of 50 or more will enjoy a reduction of approximately 50% off regular rates. Additionally, Realty Hotels Inc. plans to make its net group rates available to tour operators on a 10% commission allowance for individuals traveling independently on package tours. Realty Hotels Inc. is also prepared to make 2,000 of its 5,000 air-conditioned rooms available to travelers from overseas at the special rate of $6 per person, basis two in room, during the period June 20 to September 8, 1968. These rooms will have a value up to $27.95 at the Commodore, Biltmore and Roosevelt Hotels.

The Hotel Corporation of America telegraphs that it is initiating in all HCA Charter House Motor Hotels and Hotels America a discount plan extending to foreign visitors a 25 percent discount on rooms, beginning June 1 and carrying through September 30, 1968. This discount will affect 4,525 hotel and motel rooms.

Knott Hotels Corporation telegraphs that it will offer at the Hotels Berkshire and Westbury in New York City a 25% discount on all room rates during July and August to all qualified foreign tourists. Approximately 300 rooms per day will be available under Knott's discount plan.

Loew's Hotels advises the Task Force that it will give a 15 percent discount off established rates offered to tour operators at the

Hotel Ambassador, Chicago, during the forthcoming tourist season starting at the end of June and terminating at the beginning of September. When space is available during the same period, Loew's New York Hotel will offer the same discount as indicated for Chicago. At the Traymore Hotel Atlantic City (except July and August and United States Holidays) rates of ten dollars double occupancy when available.

Western International Hotels advises that it will offer 10% discounted rates on a space availability basis for foreign group tour packages of 15 or more persons at twelve of its hotels.

Pick Hotels have agreed to grant a 10% reduction on their 1968 group and individual travel rates in seven hotels to accredited foreign visitors.

6. A meeting of the *Atlantic Passenger Steamship Conference* will be held during the week of March 10, at which time reduced directional fares will be discussed as incentives for additional traffic to the United States. Members of the International Committee of Passenger Lines include: Canadian Pacific, Clipper Line, Cunard Line Ltd., French Line, Greek Line, Holland-America Line, Home Lines, Incres Line, Italian Line, National Hellenic America Line, North German Lloyd, Norwegian America Line, P & O Lines, Inc., and Swedish American Line.

7. *The National Bus Traffic Association* advises the Task Force it will propose that its members establish, effective May 1, an international group rate tariff to be issued authorizing sale of 38 one-way or round trip tickets for the price of 35 (except $99 international fare) provided tickets are purchased outside of the continental U.S. or Canada. Further, NBTA will propose that its members file an international tariff authorizing a 10 percent reduction on charter coach rates for international travelers on trips involving at least 400 live miles per day average, provided arrangements have been made outside of the continental U.S. or Canada.

The intercity bus industry will continue during 1968 the $99 international fare which provides unlimited travel anywhere in the U.S.A. for one month, and up to three more months for only $33 each additional month. Tickets must be purchased outside of the continental U.S.A. and Canada. The intercity bus industry will also continue the international round trip of 165 percent one-way fare on tickets purchased outside of the U.S. as compared to 180 percent of one-way for round trip purchased in U.S.A.

8. *The Gray Line Sight-seeing Companies Associated Inc.* advises the Task Force that it will inaugurate immediately half-day sight-

seeing programs in Niagara Falls, Boston, New York, Philadelphia and Washington that will reduce the cost to foreign visitor group tours by $10 or more. The new fare will be $20.

Subject to action by public utilities commissions, the sightseeing industry is considering offering to overseas visitors city-to-city programs in 1968 and 1969 at 25 percent discounts on all tours of one-day duration or less.

Gray Line will continue its regular "Visit USA" programs of unlimited sightseeing embracing 79 cities throughout the U.S. The 15-day program sells for $52.00 and the 21-day program for $62.00.

9. *American Express Company* advises the Task Force that if the substantial fare reductions being considered by domestic and international airlines are effected and if they are supplemented by lower rates now under discussion by other segments of the industry, American Express expects to be able to restructure significantly the cost of its package tours from Europe to this country. For example, an American Express 14-day all-expense tour from Paris to New York and then around the USA which formerly was sold at $842 could be sold at around $670, a 20% decrease in the present price.

Given the proper lead time, the proper promotional effort, and the proper international cooperation, American Express believes that the maximum cost reductions noted in earlier sections of this report could have resulted in an increase of foreign visitor expenditures in the United States during 1966 of between $123 million and $149.8 million from Europe and the Mediterranean countries alone. American Express has used 1966 as a base year because the 1967 statistics are incomplete.

Tour companies operated by *Greyhound Bus Lines* will establish tour rates for overseas passengers to the USA in relationship to reductions obtainable from the component tour services, i.e., transportation, hotels, sightseeing, etc.

RECOMMENDATIONS

1. Results of temporary price reductions for foreign visitors should be evaluated by October 1, 1968 and extended if they have proven to be effective in improving the U.S. balance of payments.

2. The U.S. Government should exert its influence to enlist the cooperation of United States and foreign air carriers and foreign governments to secure approval within the International Air Transport Association of inbound, directional, transatlantic fares. After these reduced fares have been agreed upon within IATA, steps should be taken to obtain agreement on similar reduced directional fares from other areas of the world.

3. The U.S. Government should continue discussions with U.S. railroads, begun by the Task Force, concerning establishment of a

"Eurail Pass" system for unlimited 60 day railway travel in the United States.

4. Federal, state, and local governments should be requested to waive admission charges for foreign visitors at publicly owned parks, museums, national monuments, beaches, camp grounds, lodges and on local transportation. Major tourist attractions should reduce or eliminate admission charges for foreigners. These special privileges would be granted on presentation of a valid "hospitality card" (as described in Chapter 2).

5. Air, bus and railway industries should develop special reduced combination fares allowing foreign visitors to cross the U.S. in one direction by air and return by rail or bus.

6. The hotel-motel and car rental industries should develop more package programs offering foreign visitors vacations in the United States with unlimited mileage in rented cars and accommodations at a greatly reduced flat rate.

7. Car rental companies should be asked to increase the discount allowed foreign visitors subject to the waiving of airport fees charged on car rentals by foreigners.

8. All special price reductions available to foreigners only if purchased abroad should also be made available to foreign visitors if purchased within the United States, subject to appropriate safeguards.

9. U.S. international carriers, with the support of the Civil Aeronautics Board, should urge the International Air Transport Association to relax "group inclusive tour" and "charter" regulations for inbound traffic to: allow the airlines to carry one escort free of charge for every 15 paying passengers; create nonaffinity directional group and charter fares; and allow split-group charter flights.

10. The U.S. Government should take every appropriate opportunity, including bilateral negotiations, to encourage air fare proposals designed to increase traffic to the United States.

11. The U.S. Government should seek to secure the necessary uplift rights in Europe and the Far East for charter flights to the United States by U.S. air carriers.

REMARKS

The Task Force considered the feasibility and desirability of recommending that foreign visitors be exempt from all Federal, State and local excise taxes. Our studies revealed that on the average, such taxes were only 3 cents on the dollar. In view of the complicated and costly nature of such action, exemption was not deemed practical.

The Task Force also received suggestions involving government subsidies both to portions of the travel industry and directly to foreign visitors. It was decided that other solutions should be given time to prove themselves before considering subsidies.

Chapter 2

PROMOTION

OBSERVATIONS

Although the United States has been able to exert influence as a world leader in many diverse areas, it is generally conceded that, in the field of tourism promotion, the United States is underdeveloped.

On the other hand, present promotional competition that confronts the United States is formidable. In 1967, foreign tourist offices in the United States spent approximately $14.7 million for promotion in U.S. communications media. In addition, U.S. and foreign carriers spent about $35 million in the same media to encourage American citizens to travel abroad.

A campaign must be mounted at once in the most attractive tourist markets of the world to convince millions of potential foreign travelers that America is an economical, manageable, and attractive tourist destination. The promotional campaign should make potential visitors aware of the substantial cost reductions obtainable in transportation fares, hotels, car rentals, etc. It should point out that trips to the United States are no longer prohibitively expensive, but well within the means of budget-minded international travelers.

Our efforts must encompass a broad spectrum of domestic and international private industry and all levels of Government. A saturation campaign is called for, pursuing all avenues and employing all media.

The campaign should have two simple goals:

—to convince potential visitors that, during 1968 and 1969, they can visit the United States at a cost they now finally can afford—possibly cheaper than ever again.

—to convince them that their travels will be easy, comfortable and pleasant—a memorable event.

ACTIONS INITIATED

U.S. Airlines

1. Twelve U.S. trunk and international air carriers advise that they are now substantially increasing "1968 Visit U.S.A." advertising and promotion budgets outside the Western Hemisphere. Collectively

they will spend $16.5 million for advertising and promotion overseas, an increase of $5.5 million or 53 percent over 1967.

2. U.S. international airlines have, at the Task Force's request, changed their advertising abroad to emphasize promotion of the United States as a tourist destination, as opposed to individual competitive airline advertising. U.S. domestic airline advertising abroad is already destination in character. The volume of this copy will be expanded.

3. Eight U.S. airlines will send special high-level sales teams to Europe and the Far East to develop new sales plans and additional activities on a coordinated basis.

4. The Civil Aeronautics Board has been petitioned to permit U.S. airlines to exchange air transportation for advertising and promotion abroad.

5. Pan American, Trans World Airlines, Braniff International, and Northwest Orient Airlines have applied for Civil Aeronautics Board approval to bring 2,000 or more active travel agents, tour operators, and travel editors to the United States in 1968–69, gratis, for 10- to 14-day educational tours of this country. At least four cities or resort areas of the United States will be visited by each group.

6. Twelve regional scheduled airlines, comprising a coast-to-coast network and linking more than 500 cities, offer adult foreign visitors a 21-day air fare at $150 per person, with accompanying children (age 2 to 21) at half price. This fare allows unlimited flights in any part of the country during the 21-day period. They have informed the Task Force of their intentions to promote this program.

Foreign-Flag Airlines

1. The presidents and chief executives of 16 major scheduled airlines of Europe—Aer Lingus, Air France, Alitalia, Austrian Airlines, British European Airways, British Overseas Airways Corp., Lufthansa, Finnair, Icelandic Airlines, Iberia, KLM Royal Dutch Airlines, Sabena, Scandinavian Airlines System, Swissair, Transportes Aereos Portugueses, and Turk Hava Yollari—cabled the Task Force on February 10 that their ". . . presidents assembled here have decided to take immediate measures to accelerate the development of European travel to the U.S.A. . . . to associate themselves with all other efforts designed to promote travel to the U.S.A. . . . and are exploring for individual or collective action other avenues designed to ensure the normal flow of traffic from the U.S.A. to Europe, with due consideration to the present balance of payment problem."

2. Scandinavian Airlines System, Inc., Air France, and Swissair have separately advised the Task Force of their specific plans to promote travel to the United States.

International Organizations

1. *The European Travel Commission*, official central body of 21 national tourist offices, has informed the Task Force of its intent to encourage two-way tourism traffic and its desire to cooperate with the enlarged U.S. promotional effort.

2. *The International Union of Official Travel Organizations*, Geneva, consisting of 102 member countries, telegraphed the Task Force of its willingness to assist and advise any agency of the U.S. Government on the development and promotion of tourism to the United States.

U.S. Travel Organizations

1. *The American Society of Travel Agents* will urge its foreign-born members to promote "Visit U.S.A." programs on trips to their home countries. In coordination with the air transport, hotel, and sightseeing industries, ASTA will encourage its members in Canada and Mexico to take advantage of travel facilities and events in the United States.

2. *The National Association of Travel Organizations, Inc.* advises the Task Force that it will request its private industry members to urge all States to provide more adequate State promotion and advertising budgets. Its affiliated sales organization will join with tour producers to promote and sell travel within the United States. NATO has agreed that, should the United States open travel offices in Canada and Mexico, it will urge its members to supply travel literature in quantity for distribution at these offices on behalf of its membership.

3. *Discover America, Inc.*, reports that the primary emphasis of its program to date has been to stimulate and increase domestic travel. However, various members of Discover America have actively promoted travel to the United States. The organization has agreed to strengthen these efforts with a specific Discover America program abroad.

4. *The Association of Retail Travel Agents* advises the Task Force that it has set in motion a "Promote America Crusade in Europe" to spearhead task forces of American travel agents and tour operators who will participate in a concentrated program of illustrated sales talks to clubs and organizations in Western Europe.

5. *The Pacific Area Travel Association* meeting in Taipei February 12–16 resolved to initiate the following programs designed to increase travel to the United States: the annual publication of the association's travel promotion magazine, *Pacific Travel News*, on Pacific coast gateway cities of the United States, will be translated into Japanese and Chinese and will include information on tourist facilities and services; a program of research on current and potential

Pacific visitors will be started; essay contests will be initiated; an industrial tours handbook will be compiled; assistance will be given in arranging industrial tours; North American film festivals will be organized throughout the Pacific; and seminars on U.S. travel will be staged through chapters of PATA.

Other U.S. Firms

1. *American Express Co.* advises the Task Force that it will intensify its campaigns in Europe to increase the impact of the across-the-board fare and price reductions described earlier in this report. The company believes that the number of Europeans visiting the United States under American Express auspices will increase by 20 percent in 1968 and up to 40 percent in 1969.

2. *Avis Rent A Car System* advises the Task Force that it will energetically promote "Visit U.S.A." tours in all foreign countries where it has operations. Avis will establish each of its overseas offices as a "Visit U.S.A." headquarters to further promote travel to the United States. *National Car Rental System, Inc.* will immediately institute through the services of its affiliated network overseas a strong promotional program to excite and induce travel by foreigners to the United States. *Hertz Corporation* will utilize overseas offices in encouraging travel to the United States.

3. *The Seaboard Coast Line Railroad* telegraphs the Task Force of its special interest in promoting travel by foreign visitors on its streamlined trains serving the heavily traveled routes between the Northeast and Florida.

4. *The American Petroleum Institute* advises the Task Force that it has developed a "Visit U.S.A." tour planning kit and is distributing copies to travel agents in Canada. API has urged its members to examine promotional budgets to see whether immediate "Visit U.S.A." promotion programs can be launched by Canadian affiliates.

5. *Hilton Hotels Corp.* advises the Task Force that it: has appreciably increased its overseas advertising and promotion budget for 1968; has established information desks in its international hotels to tell the overseas travelers about the United States; distributes to 9,000 agents special interest articles on "Visit U.S.A." promotions; conducts overseas workshops and seminars; accommodates overseas travel writers and agents sponsored by U.S. Travel Service; and participates in travel agency workshops and seminars for overseas agents, wholesalers and carriers in cooperation with international airlines. *Realty Hotels, Inc.*, will accelerate advertising and promotion in Europe and other foreign areas to attract substantially increased foreign visitors. *Hotel Corporation of America's* European advertising and international marketing offices will concentrate on U.S. travel promotion.

6. The ocean steamship carriers, through the *International Committee on Passenger Lines*, advise the Task Force that they will step up efforts to develop westbound travel and will extend and improve their literature and advertising to promote travel to the United States.

7. Members of the *National Bus Traffic Association* advise the Task Force that they will materially step up their promotion outside the United States to develop foreign travel to the U.S.A.

News and Entertainment Media

1. *Mrs. Lyndon B. Johnson* and *Vice President Hubert H. Humphrey* advise the Task Force of their willingness to participate in a series of 1-minute public service television commercials designed to encourage the more than 33 million Americans of first and second generation foreign descent to invite friends and relatives to visit the United States in 1968 and 1969.

2. *The Motion Picture Association of America, Inc.*, telegraphs the Task Force that it will coordinate an industrywide effort to obtain the voluntary services of noted U.S. entertainment personalities of foreign birth. Actors born in Canada, Mexico, Great Britain, France, Germany, Italy, Japan, Holland, Switzerland, Belgium, and Spain will make short films, in their native languages, for distribution to television outlets abroad. Voice tracks taken from these films will be used on radio. *Universal City Studios* in Los Angeles, Calif., has agreed to make its facilities available for this program. Films and voice tracks will be used during donated or purchased public service time. U.S. airlines have expressed an interest in sponsoring such programs abroad.

3. *Newsweek* magazine telegraphs the Task Force that it will submit a detailed prospectus on existing and proposed means for promoting U.S. travel. This report will cover U.S. news magazines in general, Newsweek in particular, and will focus on this medium as one of the new means available for reaching maximum numbers of realistic U.S. travel prospects abroad.

4. *The Reader's Digest* telegraphs that it will cooperate with the Task Force in encouraging tourism from abroad. It will propose specific projects which might involve some or all of the Digest's international editions in 13 languages. It will explore and report to the Task Force on publication of material on new opportunities for travel in America, and on publication of a booklet containing outstanding Reader's Digest articles on American cities, national parks, beauty spots, etc. As a marketing service it will make available to the U.S. Travel Service names of buyers of its new Reader's Digest Book of World Travel now being published in Europe and Australia.

RECOMMENDATIONS

1. The United States Travel Service should issue and distribute to foreign visitors hospitality cards entitling holders to discounts on expenditures in this country.

The card should be wallet size and attractively designed. It would be issued to the traveler while en route to the United States and would contain space for his signature and passport number. Upon a visitor's arrival, his card would be validated and would expire 90 days from the date of validation. The card would identify the bearer as a guest of the United States.

The visitor would use the card for free admission to municipal buses, subways, museums, tourist attractions, national parks and forests, and toll roads. The card would be used to obtain discounts offered to foreign visitors by airlines, hotels, motels, retail stores and bus, train, and car-rental companies.

The hospitality card should be used as the central theme of a major promotional effort abroad, especially in Europe. The card itself, and the specific price reductions it will produce, should be the objects of an advertising campaign through such media as magazines, newspapers, and posters. Transportation companies serving the United States and hotels will be able to use the hospitality card as an effective promotional device for their new price reductions.

2. United States-based international corporations should be encouraged, through a personal letter from the Secretary of Commerce, to devise financial and professional incentives, including assistance with vacation arrangements, for group and individual travel of foreign employees to the United States in 1968 and 1969. The letter should also request that these corporations tie their public relations and product advertising campaigns to themes that can spark interest in travel to the United States and distribute promotional literature overseas. IBM World Trade Corp., Texaco, Standard Oil Co. of New Jersey, Union Carbide, Continental Can Co., Campbell Soup, General Precision Equipment Corp., Texas Instruments, Inc., Monsanto Co., Lummus Co., and Alcoa advise the Task Force that they will subscribe to the above recommendation.

3. The Administration should appeal to the individual State governors to increase their promotional budgets and appropriately gear them toward attracting foreign tourists. The States should also be requested to group regionally, rather than working individually, to better promote the foreign market.

4. The U.S. Travel Service should promote travel by foreign professional and "special activity" groups to the United States, and assure that qualified travel agents are offering specific, attractive package tours for this purpose. Specific tours should be built around America's cultural attractions and events.

5. The National Park Service, Forest Service, and the Bureau of Indian Affairs should prepare travel brochures and translate them into foreign languages so that they can be distributed worldwide by air carriers, travel agents, tour operators, etc. The Interior Department should exercise the authority granted it by Congress in 1940 to engage in such promotion.

6. The U.S. Travel Service, air carriers, and travel organizations should publicize widely abroad the applicability of standby domestic fares to foreign youths.

7. All U.S. Government agencies, their employees and families, operating abroad should be directed, in cooperation with the U.S. Travel Service, to encourage and facilitate the flow of foreign visitors to the United States. These efforts should include speeches and representational events. The U.S. Information Agency, through all the media at its disposal, should be directed to build travel to the U.S.A. themes into its worldwide programs during 1968 and 1969. This could be done within the Agency's existing legislative authority.

8. The travel industry and the U.S. Travel Service should vigorously promote side trips or stopovers in the United States by international visitors drawn to Mexico City by the 1968 Olympic games.

9. To encourage Canadian travel agents to promote the sale of transportation to the United States, regulations of the Air Traffic Conference of America should be amended to give the same commission to Canadian agents as extended to U.S. agents.

10. Ethnic groups in the United States should mount letter campaigns to relatives and friends abroad informing them of the new economy and facility of travel to and in the United States, inviting them to visit America in 1968–69.

11. Particular attention must be given to launching intensive promotion programs in Canada and Mexico to attract more visitors to the U.S.A. The opening of U.S. travel offices in principal Canadian cities is especially recommended. In addition, State, local governments, and industry should intensify their efforts in these two prime markets.

12. The American Bankers Association should: (1) initiate a program by which bank officers charged with relations with U.S. international corporations encourage travel to the United States by foreign employees of overseas subsidiaries, (2) through the Association of Bank Travel Bureaus encourage travel bureaus operated by foreign branches of U.S. banks to emphasize the sale of travel to the United States; and (3) encourage their members in the U.S. to speak before local clubs and organizations on the role individual Americans can play in inviting foreign relatives and friends to visit the United States.

REMARKS

On January 22, the task force cabled the following American chambers of commerce abroad: Buenos Aires, Sydney, Brussels, Rio de Janeiro, Santiago, Taipei, Santo Domingo, Paris, Frankfurt, Guatemala City, Dublin, Milan, Tokyo, Mexico City, Casablanca, The Hague, Okinawa, Lima, Manila, Barcelona, London, Montevideo, Caracas, Saigon, Bangkok, and Zurich, requesting recommendations for ways American firms overseas might help in promoting more travel to the United States by foreign nationals. The Task Force has up to now received replies from the following cities: London, Santiago, Brussels, Guatemala City, Barcelona, Montevideo, Sydney, Casablanca, Zurich, Bangkok, Santo Domingo, Milan, Tokyo, The Hague, and Frankfurt. Their recommendations were reviewed for inclusion in this chapter.

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Chapter 3

REMOVING BARRIERS

OBSERVATIONS

Present entry procedures for vacation and business visitors to the United States are outmoded. They serve only to project an adverse image of this Nation's willingness to receive foreign guests. They are overly defensive and bespeak an unfriendly attitude based upon feelings of suspicion.

The delays and uncertainties frequently associated with entry procedures are a special problem for tourists who make last-minute decisions to travel. This could become a major factor in 1968–69 as impulse travel is stimulated by increased efforts to attract foreign visitors to the United States.

At a time when first impressions of the United States are being formed, visitors are subjected to unnecessarily complicated and time consuming delays which almost appear designed to discourage the potential traveler. In order that the United States rid itself of this stigma, a dramatic new policy of simplified procedures must be adopted, specifically geared to the short-term visitor.

We must also press for the removal of the discriminatory restriction on duty-free allowances imposed by the Canadian Government on its residents returning from the United States—the single most important barrier to increased tourism from that country.

RECOMMENDATIONS

1. Existing immigration laws which authorize the Secretary of State and the Attorney General to waive the visa requirements for citizens of contiguous countries and adjacent islands should be implemented to the fullest.

2. U.S. laws and regulations should be changed for business and pleasure visitors. Legislation has been drafted which would grant the Secretary of State and the Attorney General broad authority to waive visa requirements for business and pleasure visits of up to 90 days on the basis of reciprocity or for other reasons determined by the Secretary of State to be in the national interest. Foreign visitors entering without visas would be required to hold nonrefundable round-trip tickets.

3. Existing health, immigration, customs, and agricultural inspection functions at ports of entry should be consolidated to provide a one-step entry procedure for foreign visitors. Special counters should be reserved for foreign visitors to avoid congestion.

4. The Bureau of Customs should adopt procedures for oral declarations by foreign visitors. It should also adopt a policy under which personal possessions of arriving international travelers would be subject to examination only on a selective basis.

5. Special entry facilities should be provided for group visits. Procedures should be adopted to clear group tours through entry formalities without requiring individual inspection.

6. Appropriate U.S. Government departments should be instructed to accelerate adoption of automated information handling techniques for entry clearance procedures. Travel documents should be redesigned to fit the needs of automated handling. Such modern data techniques could simplify the verification of departure of visitors admitted under waiver procedures and could be combined with the issuance of hospitality cards.

7. The favorable treatment granted to Canada in regard to the proposed duty-free allowances, expenditure tax, and ticket tax should be withheld until Canada grants substantial reciprocity with regard to duty-free allowances granted by the United States to its residents returning from Canada.

8. Preclearance procedures should be instituted at international terminals abroad whenever it is determined by industry and Government to be advantageous in facilitating the clearance of passengers entering the United States. The reciprocal exchange of administrative support between different governments' inspection agencies should be explored.

9. The U.S. Department of Agriculture should undertake a substantially expanded educational program abroad to inform visitors of those agricultural products whose import is prohibited. The Department of Agriculture should also be directed to devise new procedures to expedite agricultural inspection.

10. The U.S. Government should press for acceptance by all member governments of the Organization of Economic Cooperation and Development of those provisions of the Code of Liberalization, without reservation or derogations, which call on all member countries to allow their citizens at least $700 of travel expenditures per trip.

11. U.S. Government agencies should make every effort to eliminate the necessity for visas for East Europeans attending international conferences in the United States, so that the United States can compete in the international convention market with nations that do not require visas.

12. To encourage the inclusion of U.S. ports in cruise itineraries, Federal regulations should be amended to permit steamship operators to schedule cruises from abroad to include visits to two or more ports in the United States. Under regulations now in effect, foreign flag vessels carrying passengers and U.S. flag cruise operators may not remain in U.S. ports longer than 23 hours; this has the effect of substantially reducing cruise passenger expenditures in the United States.

Chapter 4

CHANGING ATTITUDES

OBSERVATIONS

The benefits of increased tourism to the United States will be temporary at best if there is no one working to make the tourists' stay pleasant and stimulating. Much remains to be done if we are to make the peoples of the world feel welcome. Americans are not accustomed to a mass influx of visitors with whom they have no common language bond. Visitors, because of their unfamiliarity with the English language as with American transportation, lodging and sightseeing facilities, may appear to be over-demanding, and thus elicit impatient reactions. Americans must be instilled with the knowledge that the foreign visitor is a guest of the United States, and that by making him feel welcome much will be done to increase his understanding of the country.

The Task Force believes that in the short run, this can best be accomplished by an intensive public service advertising campaign and by special Presidential appeal. This campaign must be primarily directed toward the people with whom the foreign visitors may be expected to have the most contact: policemen, taxi drivers, air, rail and bus employees, hotel and motel staffs, Government employees at all ports of entry and personnel at tourist attractions. However, for the campaign to be successful every American should be prepared to render assistance to foreign visitors.

RECOMMENDATIONS

1. At the request of the Task Force, The Advertising Council, Inc., has agreed to mount a major public service campaign urging:

—all Americans to be friendly and hospitable to foreign guests;

—U.S. residents to invite foreign friends and relatives to be guests in their homes this summer; and

—a special orientation campaign addressed to business firms and organizations.

The council, using "New York is a Summer Festival Campaign" as a successful example, will initiate a "Festival USA 1968–69" promotion which would list and publicize all pertinent information concerning the various festivals, sporting events, etc. throughout the United States. This would be done so that Americans can have the informa-

tion on which to base invitations to friends and relatives abroad. The U.S. Travel Service has earmarked $75,000 to cover the cost of materials in this campaign, the total cost of which would ordinarily be about $5 million.

2. The President, on nationwide radio and television, should inform Americans of the importance of their being friendly hosts to foreign visitors and request them to invite friends from abroad to visit the U.S.A. in 1968 and 1969.

3. U.S. Government inspection agencies should instruct officials that meeting, greeting, and processing international visitors as quickly and courteously as possible is a responsibility equal to any other responsibility they have.

4. The Governors of the 50 States should be asked to issue proclamations urging all citizens to be courteous and helpful to foreign visitors. In addition each Governor should appoint a staff member to act as coordinator for a continuing program implemented by public and private organizations within his State. Press, radio and television should be asked to report successes or failures in this campaign.

5. The American Bankers Association should launch a nationwide program to educate the American public on the importance of handling foreign visitors with the utmost courtesy and cooperation. The ABA has already agreed to prepare and disseminate information in a sustained program of continuous communication with the public in local communities through work of bankers as members in religious, fraternal, social, and political organizations.

Chapter 5

IMPROVING SERVICES

OBSERVATIONS

Services create atmosphere.

And the services rendered a foreign visitor in the United States will bear most importantly on his lasting impressions of this country. They are, in fact, the single most important element in influencing a person to return.

Services are our greatest selling point. All the advertising, promotion, and cost reductions cannot erase the impressions conveyed from one person to another. It is therefore essential that the United States make every attempt to improve its visitor services, and that in doing so it foster a campaign in which the message to the peoples of the world is that a visit to our country is an inexpensive, easy, comfortable, exciting, and educational experience.

A portion of these services are provided by guidebooks, brochures, etc. Another element involves breaking down language barriers. A third factor is creating an atmosphere of security. Ease of mind comes with the knowledge that help, of any kind, is but a telephone call away. But in the long run, the most important aspect is people—for people provide the services. The fact that help is but a telephone call away is made possible by people. So is friendship, courtesy, and warmth.

The task that lies before us in this area is overwhelming. Much needs to be done. And to do it requires the full support of all Americans.

RECOMMENDATIONS

1. A program must be initiated to improve the foreign language facilities at major U.S. ports of entry, municipal reception centers, etc. While in the long runs this responsibility should be coordinated by the new national tourist office, the following should be implemented immediately:

a. The National Student Association, in conjunction with the Council on International Educational Exchange and foreign student associations, should organize and make available a list of the over 100,000 students currently in the United States, plus American students with speaking proficiency in foreign langu-

ages, categorized by location and availability for employment during peak tourist seasons.

b. The lists of people with foreign language ability should be made available to Federal and State employment offices. Placement of students should be made with the following priorities: (1) port of entry services, (2) large metropolitan reception centers, (3) tourist telephone services, (4) tour operators, (5) major tourist attractions, (6) hotels and restaurants.

c. Personnel with language capability should be identified in a manner that would be uniform throughout the Nation and easily recognized by foreign visitors. This could be accomplished by wearing pins representative of the foreign language spoken. Police officers who speak one or more foreign languages should also wear these symbols.

d. The Conference of Mayors of the United States should organize through its members a system of easy-to-dial local numbers that would put foreign visitors in communication with persons who speak their languages and can render assistance.

e. Ground hosts who speak foreign languages should be stationed at consolidated inspection points at ports of entry. They should also wear identification pins.

f. Sightseeing operators should expand services to provide sightseeing buses with multilingual tape cartridges, interpreters, and tour material printed in foreign languages.

2. Low cost, short-term medical insurance should be made available for foreign visitors. At the request of the Task Force, Blue Cross Association has agreed to provide comprehensive medical and hospitalization coverage for foreign visitors at a rate in the neighborhood of $10 per month for adults and $5 per month for minors. Benefits will include 120 days of hospitalization coverage, a high level surgical medical program, and major medical insurance.

3. A comprehensive guidebook of the United States should be published and translated into major foreign languages. It should come in several volumes according to regions of the United States. Mobil Oil, Inc., has agreed to contact other oil companies and guidebook publishers to undertake translation and production of multilingual guidebooks of the United States.

4. A national steering committee drawn from women's associations should be appointed to organize volunteer hospitality groups throughout the country. The committee would appoint state chairwomen to institute "pilot" hospitality programs. Local committees would extend invitations to foreign visitors by working through private steamship companies, airlines, travel agencies, tourist offices of foreign governments and the U.S. Travel Service. These committees should concentrate on extending hospitality services to the average visitor, often

missed by existing programs such as the "American-at-Home," "People-to-People," "Sister Cities," and the Department of State's exchange programs.

5. The American Bankers Association should be asked to implement programs to: (1) Expand foreign exchange facilities to cover all international arrivals at international ports of entry; (2) assure that foreign currencies and traveler's checks can be promptly exchanged by foreign nationals at U.S. banks on a nationwide basis; (3) honor reputable foreign credit cards throughout the United States.

6. U.S. insurance companies should provide automobile insurance at nominal cost for varying periods from 15 to 90 days for foreign visitors who wish to buy and drive automobiles in the United States.

7. Airports, rail and bus terminals, hotels, motels, and tourist attractions should adopt standardized informational and directional symbols such as those developed by the Air Transport Association.

8. The National Association of University Presidents should request educational institutions throughout the United States to provide a wider variety of short courses during summer sessions that would be attractive to foreign students, teachers, etc.

9. The Civil Aeronautics Board should authorize U.S. air carriers and foreign charter carriers to charter aircraft to foreign tour operators for tours destined for the United States.

10. The U.S. Travel Service should request the chambers of commerce of 50 key cities throughout the United States to develop a short list of clean, comfortable hotels and motels that would offer special rates to foreign visitors, or whose present rates would be attractive to budget-minded travelers. These lists should be made available to carriers, travel agents, tour operators, guidebook publishers, etc.

11. Publicly sponsored reception centers should be established at all major international arrival terminals and in major urban centers to provide foreign visitors with travel information and assistance, including finding accommodations on short notice. The U.S. Travel Service authority should be immediately broadened so it could perform this task. (European and Asian cities with a major tourist market operate official or semi-official accommodation bureaus which offer low-cost accommodation information for arriving tourists. They are in daily contact with hotels, motels, pensions, and private homes.) The centers could be further utilized to collect and forward data to overseas accommodation clearing centers.

12. The Airport Operators Council International should request that international airports prepare and maintain a telephone directory of multilingual personnel employed at their facilities for use in assisting foreign visitors. The Hotel-Motel Association should implement a similar program in key tourist centers throughout the United States.

13. The Association of American Colleges should ask its 900 members to make available low-cost housing for foreign students, including dormitories, fraternity houses, and youth hostels. The Association has agreed to ask the cooperation of the 1,500 member American Council on Education to draw up a list of available accommodations for use by the travel and transportation industries.

14. Steamship lines, shipping terminal operators and port authorities should improve the appearance of terminals and provide adequate facilities to eliminate delays, congestion and the generally unfavorable first impression foreign tourists have on arriving in the United States by sea.

15. To facilitate the creation of tour packages, hotels and restaurants on tour routes should establish and publicize to tour operators standard fixed-price menus for all three meals, offering typically American menus or, alternatively, menus designed to the tastes and diets of specific tour groups.

REMARKS

Since first impressions are usually formed at points of arrival in our international airports, the Task Force has been most interested in assuring that airport services be as helpful and as adequate as possible. On January 22, the Task Force sent a telegram to each of the following air terminals: El Paso, Los Angeles, Boston, San Antonio, San Francisco, San Juan, Chicago, Dallas, Seattle-Tacoma, Detroit, Honolulu, New Orleans, Philadelphia, requesting information concerning the extent of foreign visitor services now in existence at these air terminals and what additional provisions should and could be made on both a long-term and short-term basis. The Task Force received replies from Honolulu, Boston, San Antonio, San Francisco, Chicago, Seattle-Tacoma, San Juan, Philadelphia, and Detroit.

The majority of the air terminals replying have installed multilingual signs, money exchange facilities, and foreign visitor reception desks. Two air terminals, Boston and San Francisco, had prepared language telephone directories listing employees at the airport who have fluency in a foreign language. Three airports—San Antonio, Honolulu, and Boston—had begun to adopt signs prepared by the airline-airport technical group of the Air Transport Association. Boston and San Antonio particularly recommended simplification of customs procedures and San Antonio expressed need for increase in number of customs agents.

Chapter 6

STUDYING MARKETS

OBSERVATIONS

With the present jet fleets of the international air carriers, and the sizable number of jumbo jets which will come on line by 1970, capacity will be available for a very substantial increase in foreign visitors. Market studies are urgently needed to take advantage of this available capacity, and of the cost reductions that are already taking effect. More and better information is needed to formulate programs that will induce travelers to come to the United States. Attracting tourists is basically a question of competition. This challenge requires constant analysis of the changing tastes of potential customers and a thorough knowledge of what the competition is doing.

Market research is obviously an indispensable tool for deciding how and where promotional funds should be spent, what budget levels are required, and how and where the travel industry can provide better services and facilities for visitors. Broad socioeconomic market surveys have been made, but what is needed now are many more practical, result-oriented studies.

Further improvement is also needed in the quality of statistics which are used in estimating the travel accounts in our balance of payments. An important element is improved response by travelers in filling out and turning in travel questionnaires. International travel data and statistical projections will influence important decisions affecting large public and private expenditures on travel-related programs, including aircraft developments.

RECOMMENDATIONS

1. The U.S. Travel Service should devote a portion of the budget increase recommended in chapter 7 for urgent market research in Western Europe, Canada, and Mexico. Research efforts should be designed to support the short and long-term actions initiated by the travel industry in lowering costs and facilitating travel to the United States.

2. A marketing questionnaire should be handed to foreign visitors when they receive their blank hospitality cards with the request that they be filled out and handed to appropriate officials upon leaving the United States.

3. The United States should seek the cooperation of other governments and segments of the private travel industry in developing market data, and in researching the potential markets for regional, multicountry tours from Europe and the Far East to North America and the Caribbean area. Canada, Mexico, and the United States have agreed to share the cost of a market survey in the Federal Republic of Germany. Bids on the study are now being considered. In addition, the European Travel Commission and the Tourism Committee of the OECD have agreed to work with the U.S. travel industry in developing market data. Numerous other European travel organizations say they will cooperate in this effort.

4. In April 1965, a report of the Review Committee for Balance of Payments Statistics to the Bureau of the Budget (the "Bernstein Report") recommended a number of measures to improve estimates of travel expenditures and receipts in the balance of international payments. Progress has been made in carrying out the Committee's recommendations, but much remains to be done. The following are among the measures which were recommended, and actions already taken:

(a) "*The Balance of Payments Division should explore means of improving the quality of the sampling of expenditures by U.S. travelers to areas other than Canada.*" More progress is needed on this recommendation, and the present situation has been complicated by the elimination of the arrival-departure form, I–94, which was a basic element in the sampling procedure. Questionnaires are now distributed 1 week each quarter-year, to returning U.S. residents when they enter the United States. If response rates can be raised, the results of the new distribution method—now being tested—could show some improvement over the mail sample formerly used.

(b) "*The Balance of Payments Division should seek to improve the sampling coverage of questionnaires distributed to overseas visitors by the distribution of more questionnaires and by more effective means of soliciting cooperation, such as the distribution through overseas consular offices now being tested.*" This recommendation has been implemented, but the results have not appreciably improved our statistics. Consular offices abroad now regularly give travel questionnaires to intending visitors to the United States. The response rate remains unsatisfactory. Other alternatives such as mail surveys abroad have been discussed, but not tested.

(c) "*The Balance of Payments Division should resume, through appropriate channels, discussion with the transportation companies of the question of distributing questionnaires to travelers in the course of their return journeys.*" This recommenda-

tion has resulted in several unsuccessful attempts to secure the assistance and cooperation of steamship and airline companies.

(d) "*The Balance of Payments Division should explore the feasibility of an international agreement for the joint collection of travel data.*" This recommendation is being pursued, but progress has been slow. A member of the Balance of Payments staff participated in a U.N.-sponsored meeting which dealt with the comparability of international travel statistics, where the question of international agreements was discussed. A meeting of experts under OECD auspices is scheduled for late February, offering a forum for further discussion of the prospects for multilateral or bilateral agreements to cooperate in estimating travel payments and receipts.

5. Funds should be provided to enable the Office of Business Economics to carry out the Bernstein Report's recommendations on improving travel account data.

6. The U.S. Government alone cannot collect the travel statistics that are urgently required. All international transportation facilities and carriers serving the United States should cooperate more fully with the Department of Commerce in distributing and collecting questionnaires needed in gathering balance-of-payments data.

Longer Term Measures

Chapter 7

NATIONAL TOURIST OFFICE

The recommendations in this report should have an immediate favorable impact on the U.S. balance of payments. It is imperative, however, that these benefits be sustained and expanded over the long run. To accomplish this, an organization must be created to coordinate and direct the entire U.S. travel effort. It must have the backing of industry and government. It must be so strongly funded and constructed that it would have wide public and congressional support and then given the power to do the job.

The structure and power of this organization will determine, in the long run, how successful the United States will be in competing in the international travel market. To succeed, it cannot be merely as good as the travel development organizations of other countries. It must be better and more effective. At the same time, it has to be tailored to meet the needs of the United States and reflect U.S. traditions and attitudes. In this regard, the task force does not discount the past efforts of the U.S. Travel Service, working in close cooperation with the travel industry, to increase the number of visitors from abroad. The U.S. Travel Service has accomplished a great deal with its limited resources.

There has been a wide range of recommendations made to the Task Force on the form the organization should take:

(1) A private industry travel association.
(2) A joint Federal Government/industry corporation.
(3) A Federal Government corporation.
(4) A commission.
(5) An expanded version of the U.S. Travel Service with its director at assistant secretary level.
(6) A new independent government agency.

It has also been variously suggested that, if the organization remains a Government office, it remain in the Department of Commerce, or be shifted to the Department of the Interior, or the Department of Transportation.

Whatever the organization's structure, it should be responsible for the following type functions:

(1) Continuous market research: The United States needs to know much more about what markets should be promoted, in what sequence and why; what financial rationale should be followed; what U.S.

areas and attractions appeal to which markets; the size and structure of inbound tourism, where it comes from, where it goes to, and what it spends. This information should be distributed regularly throughout the business community and government agencies.

(2) A vastly stepped-up balanced tourism promotion program pointed at the most promising markets, and concentrating on those U.S. points of interest and attractions that have special appeal to such markets.

(3) Cooperation with State and local organizations, banks, and Federal agencies concerned with, or involved in, the financing of transportation facilities, accommodations and special attractions.

(4) Improved handling of foreign travelers. This includes improving operations and services at points of entry and elsewhere, overcoming language barriers, and helping to develop additional and better things for foreign tourists to do, see, and buy.

(5) Assist in or sponsor training facilities for services needed at points visited by foreign tourists.

(6) Coordinate the widespread activities of the Federal Government affecting the international travel business. At the same time, the organization should work with and through State organizations, local or community groups, and trade associations.

In determining the structure of the organization the following should receive consideration:

(1) The travel development program must be based on an extremely close working relationship between Government and private business. The Government has authority over transportation facilities, controls immigration procedures, collects taxes on the travel industry, runs the national parks and forests, administers certain tourist sites, etc. Private industry owns and operates airlines, shipping companies, travel agencies, and hotels. Moreover, it has special skills in travel promotion. Therefore, blending of these facilities and operations, cohesion of public and private interests and a joint use of technical personnel have advantages.

(2) A format in which both the business community and the Government contribute funds and manpower to the overall travel program and organization. An organization with this structure could also generate income from market research and other travel-related studies, from advertising placed in its publications, and from other promotional services.

(3) An organization in which the board of directors would include both public and private representation. If desired, Government could

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exert control by having a majority on the board, or by controlling funds.

(4) An organization of maximum operational flexibility in which its director is given sufficient authority to run an effective program. His prestige must be great enough to command support in both Government and private industry.

(5) An organization whose head is a presidential appointee under the Civil Service System would be able to officially speak for the United States and would be privy of Government councils.

(6) The majority of countries have found it preferable that their travel organizations be governmental agencies. There are, however, outstanding examples of countries, among which the United Kingdom is pre-eminent for the size of its annual budget, that operate successful travel organizations as industry-government partnerships. Among others in this category are: Austria, Denmark, Netherlands, Switzerland, Hong Kong, and Thailand.

It is the view of the Task Force that analysis of the problem, testing of business community reactions, settlement on a specific organization, and drafting of legislation could be completed in 90 to 120 days. During this period, it would also be possible to draw up budget recommendations for the travel development program. We have received varied budget recommendations, but detailed backup material has not yet been developed on such basics as: the amount of funding necessary to permit the United States to compete effectively in selected travel markets; a rational priority system in promoting selected markets; the portion of the budget, if any, that might be obtained from private sources.

Because of the large scope of domestic travel business, and the diverse nature and characteristics of domestic and foreign travel, the Task Force believes that, at least initially, the work of the proposed organization should be limited to travel by foreign visitors.

The Task Force recognizes that it will take some months to carry out the work described above, and to set up the proposed travel development organization. Meanwhile, we recommend that the budget of the U.S. Travel Service be increased, and its functions be expanded to permit it to launch an immediate promotion program abroad and to strengthen its existing operation. If it is to play the needed role in carrying out an increased program to complement activities in the private sector described in earlier sections of this report, the Task Force believes that the U.S. Travel Service requires its full authorization of funds, necessitating a supplemental appropriation of $1.7 million before June 30, 1968, to complement the $3 million already appropriated. The money would be used for market surveys, research, promotion, advertising, and necessary expansion of offices and public

relations activities abroad. The amount proposed is modest, but the period until June 30 is short and the funds are promptly needed to be effective before the summer travel season.

For fiscal year 1969, the Task Force recommends that the authorization for the U.S. Travel Service be increased to $30 million. Its appropriation should be developed within that limit as is needed. The appropriation should be transferred to the new tourist office if it becomes operational during fiscal year 1969. Timely availability of these funds is essential if the needed work for the 1969 travel season is to be undertaken and produce results. The increased promotional effort by the U.S. Travel Service should be concentrated in countries with the largest potential for increased travel to the United States.

When the new travel development organization is launched, we recommend that the USTS be incorporated into it.

Chapter 8

OTHER RECOMMENDATIONS

1. Private industry, with the support of the national tourist office, should develop a tour coordinating network based on the latest computer techniques. Detailed information should be readily available on low-cost rooms, special rates, special tour arrangements and other data necessary for foreign tour operators to effectively plan programs for prospective tourists. This information should also be available at reception centers for use by individual travelers.

2. Long-range promotion of forthcoming special events should be initiated well in advance and continually stressed. Liaison between the organizers and the national tourist office must be established at the very inception of such events to assure maximum foreign visitor attendance. An example is the "Bicentennial of the United States 1976." A concerted promotional program for that celebration, in which both Government and private industry efforts are coordinated under the aegis of the national tourist office, should begin within the next 2 years. Lesser events should be publicized at least 2 years in advance.

3. A U.S. Convention Bureau, working closely with existing convention bureaus, should be established within the framework of the national tourist office. Emphasis should be placed on contacting secretariats of international organizations in order to fully promote the United States as a site for international meetings. The U.S. Convention Bureau should also undertake studies of possible sites for new facilities and stimulate their construction.

4. Duty-free zones in the various outlying possessions of the United States could become tourist meccas. Studies of the long range development potential of such prime areas as Guam, American Samoa, and the U.S. Pacific Trust Territories should be undertaken. Pacific America is within reasonable travel distance of several million people located in the Pacific Basin, with incomes high enough to be able to contemplate such trips.

5. Tax free shops selling U.S. goods at international ports of departure should be expanded and more effectively promoted.

6. The Department of State should continue its efforts to devise and to have adopted by all governments a card-type passport susceptible to efficient machine handling. A necessary preliminary to the adoption of such a passport is the authority to waive U.S. visa requirements.

7. Road traffic signs throughout the United States should be standardized in accordance with the internationally recognized signs in use throughout most of the world.

8. Federal, State, and local laws should be amended to exempt from the excise tax automobiles purchased by foreign visitors for use in the United States and eventual export.

9. Federal Government long-term lending agencies should adopt loan and guarantee policies encouraging: (*a*) the development of new accommodations that would cater to foreign travelers; (*b*) the expansion or renovation of existing facilities for this purpose; and (*c*) the international hostel program.

Mr. HERLONG. Our first witness this morning is Mr. Clarence A. Arata, president, National Association of Travel Organizations. Mr. Arata, would you please take the stand?

If you will identify yourself for the purposes of the record and proceed in your own way we will appreciate it.

STATEMENT OF CLARENCE A. ARATA, PRESIDENT, NATIONAL ASSOCIATION OF TRAVEL ORGANIZATIONS; ACCOMPANIED BY JAMES GROSS, EXECUTIVE DIRECTOR

Mr. ARATA. Thank you, Mr. Chairman.

Mr. Chairman and distinguished members of the committee, my name is Clarence A. Arata. I am executive director of the Washington Convention and Visitors Bureau. I appear before the committee today in my capacity as president of the National Association of Travel Organizations.

BACKGROUND ON NATO

"NATO," as we will refer to ourselves in our testimony, is the national trade association representing all segments of the U.S. travel industry. Members include the State, city, and area travel-promotion organizations; public carriers; accommodations; travel attractions; petroleum representatives, and other businesses involved in the sale, service, or conduct of travel in these United States.

I would like to say, Mr. Chairman, that I have with me Mr. James Gross, who is executive director of the National Association of Travel Organizations.

NATO's membership totals over 800 top travel organizations throughout the country. NATO is headquartered in Washington, D.C., at 1100 Connecticut Avenue NW. The purpose of our association is to increase travel to and within the United States.

THE ROLE OF NATO IN THE U.S. TRAVEL INDUSTRY

Through our work since NATO's founding in 1941, at which time there were only about 20 States with official travel promotion offices, we have stimulated the creation of travel promotion offices in all States, along with Puerto Rico, the Virgin Islands, and the District of Columbia.

In 1941, total travel expenditures in the United States amounted to over $10 billion. Today, the travel industry is reported by economists to be a multibillion dollar one—many times the $10 billion figure—our Nation's third largest business. At the present growth rate, travel could very well become this country's No. 1 industry in the next decade, providing Government and industry work closely together in developing action programs of a positive nature.

This industry, if this is the proper nomenclature for the varied type of member organizations we serve, is made up of service businesses, which this year will spend over $200 million in promoting travel to and within the United States. The stimulation of travel in this country creates increased employment, particularly in unskilled and semi-skilled labor markets. The travel dollar benefits almost everyone in an area. It has a multiplier effect. In addition, the visitor pays

taxes, and this is almost clear profit to an area, since the traveler is not a major tax consumer.

To further the flow of travel dollars to the United States, NATO, in 1953, recognized the long overdue need to establish our country as a host nation to foreign visitors. To implement action, NATO launched the now well known "Visit U.S.A." program.

In 1961, we supported the creation of the U.S. Travel Service, which Government agency has had prime responsibility for promotion of travel to the United States, but has been sadly underfinanced.

In 1963, at the request of the late President Kennedy, NATO established the "See the U.S.A." campaign which has now evolved into the "Discover America" program. NATO supports the "Discover America" program wholeheartedly.

In 1965, Congress passed a joint resolution calling upon the President to issue a proclamation urging our citizens and those of other lands to travel in these United States. In part, the purpose of this effort was to deal with our troublesome balance-of-payments deficit. Congress extended this resolution in subsequent years.

IMBALANCE IN OUR TRAVEL ACCOUNT AND PROPOSED TRAVEL TAX

NATO recognizes and is concerned with the present dollar crisis. Certainly none of us wants to stand in the way of constructive efforts to improve our Nation's dollar position. But NATO submits that the travel industry is being made a whipping boy in this present serious balance-of-payments situation.

NATO has historically been a leader in supporting the principle of unrestricted worldwide travel. We, therefore, are opposed to the proposed travel tax to inhibit travel to nations outside the Western Hemisphere.

We suggest that statistics used by the administration are being misinterpreted to blame the tourist for the dollar gap caused by other Government spending and by the war in Vietnam.

We believe that any restrictions, negative and discriminatory in nature, not only violate Americans' inalienable right to freedom of travel, but also could have dire consequences through the imposition of retaliatory measures by other countries.

Such restrictions, if imposed, would reduce the amount spent in the United States by tourists from overseas, and more importantly, by importers of those countries who would not then have the money to buy goods from the United States.

Additionally, American industries leaning heavily on export—such as aircraft manufacturers—would suffer immediately—not only the prime aircraft builders, but the electronic industries spread throughout the United States and which support the basic aircraft industry.

NATO believes there is an imbalance in promotion of the United States abroad as compared with the total of what other governments are spending on advertising and promotion to attract our people to their respective travel areas. For example, Spain's total travel budget in 1966 amounted to over $12 million compared to $3 million for the U.S. Travel Service.

RECOMMENDATIONS TO INCREASE TRAVEL TO THE UNITED STATES OF AMERICA

NATO submits the following positive, short-range recommendations to increase travel to the United States of America:

1. The administration should, at the Governors Conference in Washington on February 29 urge that all States provide for more adequate State travel promotion and advertising budgets. This will permit them of course to influence overseas visitors to come to the United States as well as develop inter-American travel.

2. NATO will request that all its private industry members make supplementary efforts in 1968 to support this undertaking by the States.

3. While recognizing that within the United States we have the capability of producing all types of travel services, these services are not being sufficiently packaged and sold to the fullest by existing travel sales outlets. All sales organizations should join with producers to promote and sell travel within the United States.

4. Though the travel agent can get reduced transportation rates in the United States, the bona fide travel writer usually cannot obtain the same favorable arrangements. This disparity should be eliminated.

5. The domestic travel coverage by news media should be brought into balance with present editorial emphasis on foreign travel.

6. Tours to Europe by leading personalities of the United States should be encouraged in order to motivate travel to the United States.

7. Foreign travel writers and agents should be invited to visit the United States with greater frequency and in greater numbers.

8. The United States should encourage all foreign carriers to give proper balance in sales efforts to "Visit the United States" promotions.

9. The United States should invite and encourage the 2,000 international conventions to meet in the United States. I might say parenthetically only about 10 percent of those conventions are even being considered for meeting in the United States.

10. The United States should open travel offices in Canada and should begin to vigorously promote travel to the United States in both Canada and Mexico. If such offices are established, NATO will urge its members to supply travel literature in quantity for distribution at these offices and would coordinate such activity.

11. The efforts of the "Discover America" program should be commended and aided in every way possible.

On a long-range basis, NATO proposes the following: We recognize that the business of increasing travel to the United States is not one that can be developed overnight. Crash programs and one-shot efforts may be useful, but to succeed, what we need is a sustained 5- to 10-year program.

As yet, there is no general agreement among people in the travel business about what precise functions should be included in such a program. Nor is there, as yet, a general agreement on the exact kind of organization that should be responsible for running such a program, or how such an organization should be set up.

Because there is not yet a consensus on these points, NATO is apprehensive about recommending today any precipitous action that could result in the formation of a travel development organization

that would be improperly set up, or one that would not be able to operate at maximum effectiveness.

For example, NATO is impressed by the work that the U.S. Travel Service has been able to do even though it is handicapped in many ways. And we appreciate that the USTS would very well be converted into a more effective organization if its budget were increased. But whether this step is taken, or whether a new organization is formed, we feel that it would be a mistake to believe that a Federal Government agency by itself, or a Federal Government department by itself, can do the job alone. To succeed, the program must depend in large part on the active cooperation of the business community.

Experience has shown that such cooperation is most likely to occur if the business community can be induced to make a financial contribution to the official travel development organization. Such a contribution could then be "matched" (under preagreed terms) by money appropriated by the Federal Government. This kind of organized cooperation between government and business has been worked out successfully in Hawaii, in the United Kingdom, in the District of Columbia with District of Columbia funds, and elsewhere. In other words, the precedent exists.

Before this possibility can be pursued further, however, NATO feels that there are two points that need to be examined with some care.

The first is whether an organization such as the USTS is legally able to accept private contributions and if so, under what conditions. If this cannot be readily worked out in the Department of Commerce, it may be that the USTS should be transferred into a department where it is possible. Or alternatively, the USTS could be converted into a travel development organization set up outside the Federal Government, but financed by it. This might take the form of a Government corporation with broad powers, or it might be in the form of a private or semiprivate corporation.

The second point that needs to be examined is the extent to which the business community can, in fact, be induced to make regular financial contributions to a travel development organization. This approach needs to be tested to determine what private funds can be obtained and under what circumstances.

When these two points have been clarified, legislation could then be drafted reflecting the most promising but practical alternative with respect to (1) where and in what form the organization should be established and (2) how it could best be financed.

NATO believes the "moment of truth" for the travel industry is here. It is time for the United States to compete in international travel, not to retreat behind protective restrictions.

The CHAIRMAN. Mr. Arata, we thank you, sir, for bringing to the committee the views of the National Association of Travel Organizations.

Are there any questions? Yes, Mr. Ullman.

Mr. ULLMAN. Mr. Arata, it has been my pleasure to work with your organization. I am pleased to see Mr. Gross here with you whom I have known for many years and I know of your great interest in the problems of travel in the United States.

As the author of the "See the U.S.A." resolution in the Congress during the past 4 years I have had a great interest also in promotion

of travel within the United States. Do you hold out any great prospects for large increases of travel within the United States in the immediate future?

Mr. ARATA. Mr. Ullman, we certainly expect there will be. We think that, through NATO's efforts and through all the efforts of those people, many of whom are represented in this room, in the "Discover America" program, there can and will be a continuing growth of travel within the United States by Americans.

I think that our main thinking in terms of the legislation which you are considering now is the effort should be made to bring more people from overseas to the United States and have them enjoy the opportunity of visiting in this country.

Mr. ULLMAN. I certainly agree with you. In my judgment we need to make some rather drastic changes in the format of travel to this country. One of the main stimuli for Americans traveling abroad is the package travel tour. We just haven't had a comparable kind of economy tour from Europe over here.

Let me ask you, are travel agents members of your organization?

Mr. ARATA. Some, yes, sir; mainly the wholesale travel agents, Mr. Ullman.

Mr. ULLMAN. And what I am talking about on this specific problem should be better directed I imagine, at the association of travel agents who would be putting together the package.

Mr. ARATA. I would think so, sir, but if you recall, in this statement here we did mention that we would hope that package tours originated by the travel agents and with the participating interests in this country in the travel business can be effectively accomplished such as they are in Europe and I think this would be the answer to a lot of our problems, to effectively bring and interest more people in coming to the United States.

Mr. ULLMAN. Now let me get this straight. You people do represent hotel associations, and airline associations, and so on, do you not?

Mr. ARATA. Practically everybody.

Mr. ULLMAN. So your association would be very much concerned with establishing travel package tours which would include hotel facilities, airlines, busses, et cetera.

Mr. ARATA. That is correct, sir, plus the fact, Mr. Ullman, that, as you know, NATO has within its organization a representative in each State, the travel director of each State of the United States, who can be the effective liaison person in my opinion to try to wrap all these programs together to get them effectively produced, and packaged, and sold to the people overseas.

Mr. ULLMAN. I want to say that I think this country has been very backward in travel promotion and particularly in setting up all-expense package tours including hotel, some meals, travel within the country as well as across the country.

We have a great job of catching up to do, in my judgment. This has been my philosophy in promoting the "See the U.S.A." program in Congress and working with you people on your "See the U.S.A." program and on the "Discover America" program.

The private sector of the economy can do a great deal—a lot more than it has done up to this point, in stimulating travel within the United States and I certainly would hope that you will redouble your own efforts.

I would just say that I have been somewhat disappointed in the results so far. The reason I sponsored "See the U.S.A." way back in 1964 was because of the imbalance in our travel account, hoping that we could restore some balance.

Although I think the program has been very worthwhile, I have been somewhat disappointed in the fact that it has not slowed down the imbalance in the travel account. Isn't that true?

Mr. ARATA. I think you are right. I think what Mr. Mills and your committee are doing here is focusing attention on exactly what you are saying, Mr. Ullman. I don't think we need this legislation for restrictions, but I think the emphasis that has been placed on the travel business in this country will more speedily affect the things that you are talking about now and I might say to you that we in NATO are extremely grateful for your interest and your help in all the phases of this "Travel America" program.

We would be very hopeful also, as we said in this testimony, that greater funds could be made available to a U.S. agency such as USTS to help promote travel from overseas to the United States.

As we mentioned here, we are way down at the end of the totem pole in terms of funds available to the various countries to promote travel from outside their country into their own country, as we gave a for instance here, $3 million spent by the United States as opposed to $12 million by the country of Spain to bring foreign visitors to their country.

I think this is one of the big problems that has been facing this effort to bring more people into the United States.

Mr. ULLMAN. There is certainly a tremendous potential in the developed nations of the world of people who want to come to the United States. I think this is where most of the people would like to come, but they have been discouraged because there has not been, up to this time, the right kind of package programs to bring them here. I can understand the disillusionment of people who come from other nations in the world who land in one of our great cities and are up against all of the problems, the high cost of living and so on, that you run into here. It just seems to me the only way around that dilemma is to establish all-expense travel package tours.

Mr. ARATA. I think there are two points that you have very well taken, Mr. Ullman. One, I think you will see sometime in the relatively near future efforts made to accomplish these package tours so that the individual coming or planning to come from a foreign country to the United States will know exactly what his dollar expenditures are going to be, and even more importantly than that, I believe that you will see shortly efforts being made to show the overseas visitor that he can travel in the United States more cheaply than a citizen of the United States can travel here.

Those two points I think will have a terrific impact on these people who might be planning to come from overseas to the United States.

Mr. ULLMAN. You have had cooperation and are getting it from the airlines?

Mr. ARATA. Certainly, yes, sir.

Mr. ULLMAN. And are we getting it from the bus companies?

Mr. ARATA. Bus companies already have their setup. As best I can recollect it they still have this $99 package which now is good for 30

days, but they can travel extensively for that $99 or as far as they can go for $99 and 30 days.

Similarly, just within the past several, well, weeks really now since the formation of the task force on travel I am definitely under the impression that the hotel industry and the motel industry are going to effect reductions for overseas visitors, and Jim Gross just recently caused a check to be made among the major attractions of this country as to whether or not they would reduce their rates to bona fide overseas visitors and the preliminary results of that survey are very encouraging, up to 50 percent reductions in some cases on the major attractions in the United States.

Mr. ULLMAN. I think this is very important. I am most hopeful that you are successful in establishment of that kind of a policy in our hotel industry.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Curtis.

Mr. CURTIS. Following this colloquy and also referring to your testimony, particularly on page 6 where you state:

> We recognize that the business of increasing travel to the United States is not one that can be developed overnight.

One would almost believe that the United States isn't the biggest host country in the world today. I am correct in that statement, am I not. The United States is the biggest host country.

Mr. ARATA. To my undersanding that is correct.

Mr. CURTIS. Then we need to say it, don't we?

Mr. ARATA. That is correct, sir.

Mr. CURTIS. What about the statistics? This is what I would like to know. Haven't we been increasing our role as host in a very substantial way from, say, 1946 to the present?

Mr. ARATA. Yes, sir.

Mr. CURTIS. Do you have the statistics?

Mr. ARATA. I don't know what they are in the past, Mr. Curtis.

Mr. CURTIS. I would like to have them for the record because your testimony to date has not shown this. I will read your sentence again:

> We recognize that the business of increasing travel to the United States is not one that can be developed overnight.

I am saying that it has been developing, and of course I am very anxious to have it continue to develop, possibly faster, but in order to do this let's get a clear idea of what's been happening and put our plans in context.

Mr. ARATA. Our comment on that, Mr. Curtis, is the fact that, sure, we recognize that through efforts like USTS——

Mr. CURTIS. No, not through efforts like that. I am going to get to that. This business of coming to the Government to spend the money is just too easy. I am more interested in what has been going on without the Government. I am not at all sure that coming to the Government hasn't fouled you up.

So let's talk about that. That is the easy way. I am more interested in what is being done and has been done to date apart from Government. But to understand it we have to get the statistics.

Mr. ARATA. There are statistics that I can give you only for the year 1967 and it is my best recollection there were about 1½ million visitors who came from overseas to the United States in 1967.

Mr. CURTIS. And you probably have statistics as to what they spend per capita, too.

Mr. ARATA. In the barnyard figure about $500 per visitor is the best estimate we now have.

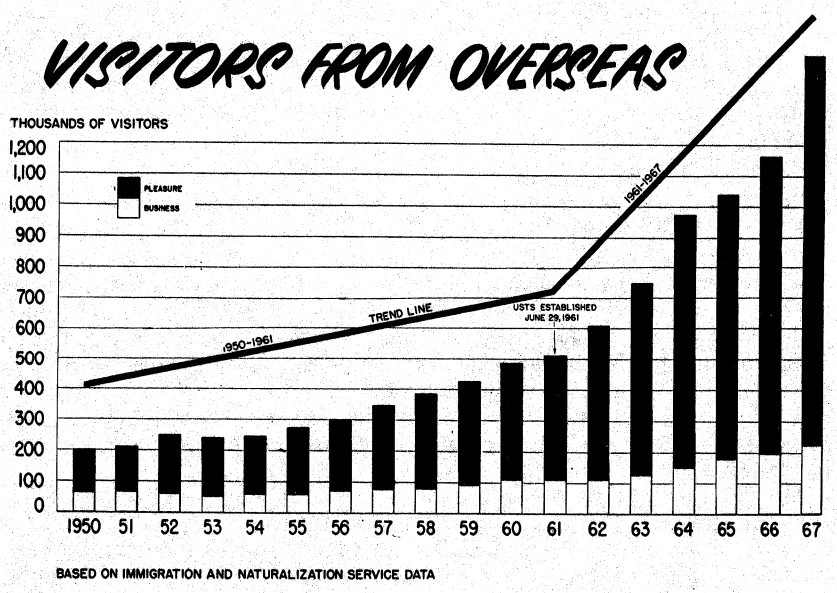
Mr. CURTIS. Do we have a benchmark that will give us an idea whether this is moving up—perhaps 1960?

Mr. ARATA. I would like to go back and furnish you that, but the best recollection I have is I think it was about a half million. I think I am correct in that. In 1960 or 1961 it was about a half million overseas visitors.

(The following information was received by the committee:)

In 1950, the United States had 200,000 overseas visitors; in 1960, about 500,000 and in 1967, a million-and-a-half overseas visitors. The attached chart based on Immigration and Naturalization Service Data shows breakdown on visitors to the U.S.A. for all the years between 1950 and 1967.

In 1961 the average expenditure per overseas visitor in the United States was $391; in 1967 that figure rose to $400. These expenditures are exclusive of transportation to and from the United States.



Mr. CURTIS. It is one thing to talk as if nothing has happened. It is another thing to put it into the context of what really is happening. I think two things are true. No. 1, we are the largest host country. No. 2, there has been a very substantial—I don't want to use the word "substantial." I don't want to use adjectives. I want to use figures.

There has been a growth. We need to know what it is. I suspect that this growth is very directly related to the increased standard of living curves of the Western European countries and Japan. This is the primary area.

Mr. ARATA. Yes, sir.

Mr. CURTIS. This business of starting off as if nothing has happened is misleading. You say in your next sentence which I didn't read:

> Crash programs and one-shot efforts may be useful, but to succeed what we need is a sustained 5- to 10-year program.

I suspect that there is such a program. It may not be formalized, but I think it has been going on and this business of pushing the panic button, as I think the administration has done in respect to the international balance of payments, is wrong. The deficit has been going on for some time and many of us have been trying to warn about it and avoid approaching it in a way that really in my judgment will create more damage than good. I don't regard as a very good solution your organization coming in and suggesting that the Federal Government spend more money in this area.

I don't think the Federal Government spends money very well in most areas and I suspect that you people can do a better job if you will get away from relying on Government and direct your attention to what will bring about travel here.

This leads me to a further line of questioning because nothing is said in your statement on this point. Government frequently is impending growth which otherwise would come about in the private sector. One impediment that needs removal in my judgment results from our visa laws.

At No. 9 you say:

> United States should invited and encourage the 2,000 international conventions to meet in the United States.

Mr. ARATA. Yes, sir.

Mr. CURTIS. I understand one of the main reasons they don't meet here is that our visa laws are such that if the organizations happen to have members of their international convention who are citizens of Yugoslavia, or Czechoslovakia, or a similar country, our visa laws make it pretty difficult for them to come in.

Well, now, this is an area where the Federal Government could remove an impediment. But I don't see any recommendations from you in this area.

Mr. ARATA. Well, implicit within that statement about the 2,000 conventions, Mr. Curtis, rather than expand the testimony here there are a number of us in this country who represent convention bureaus who have made repeated efforts in Europe to get intercontinental conventions to come to the United States and there has been some success in this area, but I thoroughly agree with you——

Mr. CURTIS. Is this one of the impediments?

Mr. ARATA. This certainly is.

Mr. CURTIS. Now, this is the legislative body of Congress. If these are impediments that might be removed, they should be considered. Maybe legislation isn't needed. Maybe the administration needs to get to work instead of doing a lot of big talking.

These laws were put in I think to guard against espionage, et cetera. While I think they are really archaic myself, on the other hand they have to be viewed with this purpose in mind. But let's get the matter out in the open and see what the problems are.

You don't want the Federal Government to spend money so much as you want the Federal Government to update its laws. This doesn't

require spending money. As a matter of fact, modernizing and updating our visa laws would save a little bit perhaps, wouldn't it?

Mr. ARATA. Yes, sir; and there are two phases of that which would accomplish what you are driving at. One would be to bring the international conventions here per se and the other would be to permit anybody throughout the world who wanted to visit a U.S. convention, an American convention, to come here and take part in this particular convention. This is a growing field and we feel that you can move more bodies in this type of endeavor than you can by individual tourists coming in or groups of tourists.

Mr. CURTIS. But you are getting me off the track. This isn't what I am talking about. I am talking about the actions of the Federal Government which are in this instance a deterrent, an impediment, to bringing conventions here. I was then going to move on to consider the problems of the individual tourist coming over to the United States.

Again, as I have heard the story, it is these laws that we have that seem to be one of the main deterrents. Is this true?

Mr. ARATA. I wasn't trying to get you off the track. That is true. I was just trying to supplement what you were saying.

Mr. CURTIS. You see, even in your prepared statement you don't say anything about these laws. So I am the one who has to bring them out. This isn't as forceful as if you had said something about them in the beginning.

I don't want to draw these things out from reluctant witnesses. I am trying to get the picture. If the picture indeed is that the Federal Government, through obsolete visa laws, is one of the drags in this area, I would think somebody would come in and testify and raise the question, "Why not do something?"

Instead you have devoted a lot of effort explaining why you want us to have the Federal Government spend more money. This leaves me cold, I will tell you.

Well, let me get one other thing, if I can, from you. You say on page 2:

> This industry, if this is the proper nomenclature for the varied type of member organizations we serve, is made up of service businesses, which this year will spend over $200 million in promoting travel to and within the United States.

I wanted to be sure. Is this $200 million that is spent to promote travel to and within the United States by people from abroad, or does this term "within the United States" include money spent to promote travel by Americans around the States?

Mr. ARATA. Both.

Mr. CURTIS. Then break it down, because for our purposes here I want to know what you might be spending to promote travel to and within the United States by people from abroad. What is that figure? How much of the $200 million?

Mr. ARATA. I will have to supply it for you because I do not have the breakdown.

(The following information was received by the committee:)

> Regarding our visa laws, we believe that making overseas visitors from friendly nations obtain a visa for travel in the U.S.A. serves as an impediment. We would recommend the elimination of all visas with respect to visitors from friendly nations and a reassessment of procedures presently used for

citizens from Eastern European Nations, particularly, as it relates to delegates that wish to attend international conventions held in the U.S.A.

The $200 million figure we used to illustrate the total amount of money presently being spent to promote travel by all segments of the industry is for promotion of travel in the U.S. to our citizens.

In respect to overseas travel promotion to the U.S. in 1967, for example, the airlines alone spent $39.9 million. During 1968 the amount spent by the airlines for media advertising and promotion materials is expected to increase by 50%.

In spite of this amount being spent by the airlines alone, coupled with the $3 million budget of the U.S. Travel Service, the fact remains that more promotion by the Federal Government will obviously increase the number of foreign visitors to the U.S.A. and ultimately bring the number of overseas visitors to the U.S. to a point equal to the number of Americans going abroad.

Mr. CURTIS. You see, here we are. I don't want to be overly critical, but honestly if witnesses are going to come here and take the time of the committee they should come with data and information that bear on the issue.

The CHAIRMAN. Any further questions?

If not, Mr. Arata, we thank you again for coming to the committee.

Mr. ARATA. Thank you.

The CHAIRMAN. Our next witness is Mr. Wallace J. Campbell.

Mr. Campbell, please come forward. Mr. Campbell for purposes of our record please identify yourself by giving us your name, address, and capacity in which you appear.

STATEMENT OF WALLACE J. CAMPBELL, PRESIDENT, AMERICAN TRAVEL ASSOCIATION; ACCOMPANIED BY WARREN BROWN, EXECUTIVE VICE PRESIDENT

Mr. CAMPBELL. Thank you very much, Mr. Chairman.

Mr. Chairman, my name is Wallace Campbell. I am here in my role as president of the American Travel Association. My full time occupation, however, is as president of a foundation for cooperation housing, which is devoted to the development of low-cost housing in the United States.

I brought with me Mr. Warren Brown, who is executive vice president of the ATA and is manager of our associated organization, Associated World Travel.

The CHAIRMAN. We appreciate having both of you with us. You are recognized, Mr. Campbell.

Mr. CAMPBELL. Thank you very much. The American Travel Association appreciates the opportunity to present to your committee its views on the proposals presented by the administration for a series of taxes and tariffs designed to limit U.S. travel abroad as a factor in the balance-of-payments problem.

The American Travel Association (ATA) is an association of national and regional membership organizations—trade unions, farm organizations, cooperatives, civic and educational organizations—interested in purposeful international travel. Among its member organizations are the Industrial Union Department of the AFL–CIO, the Cooperative League of U.S.A., National Farmers Union, United Automobile Workers, National Education Association, American Federation of Teachers, Americans for Democratic Action, Histadrut, International Union of Electrical Workers, Credit Union National Association (CUNA International), the Michigan Credit Union League, and others.

A complete list is enclosed herewith. (See p. 493.)

I have gone into some detail to show that ATA is not a travel agency or part of the travel industry as such. It works closely with all branches of the travel industry but is really an organization of consumers of travel.

We are sorry to have to oppose the President on this matter. But we believe the decision was made without adequate information and consultation. For it is economically unsound and a backward step in national policy as it moves away from international cooperation and development toward greater isolation.

ATA was established in 1952 as an organization devoted to purposeful travel. It was our belief that every effort should be made to encourage average citizens to travel abroad and to meet with fellow members of cooperatives, trade unions, teachers organizations, and similar groups, that in addition to seeing the Tower of London, the Eiffel Tower and the Leaning Tower of Pisa, the average American should see the headquarters of the U.N. Food and Agriculture Organization in Rome, the U.N. Center in Geneva, UNESCO in Paris, the cooperatives in Scandinavia. That they should have an opportunity to break bread with trade union members and with Members of Parliament in England and to see NATO factories and methods of agriculture as well as the Riviera in Southern France.

The program has been successful. Group travel is a good way to visit a foreign country—at least for the first time. And there are substantial educational opportunities as well as economies in such travel.

Now to the problem at hand. The board of directors of ATA at their meeting in January voted to ask the appropriate committees of the House and Senate for an opportunity to present the organization's position in opposition to the administration proposals.

Here, briefly, are our fundamental points:

First. The proposals will hit hardest the little people—the U.S. traveler who has saved for his "once-in-a-lifetime" trip, and the service people in the countries visited by U.S. tourists.

Second. The cutting of U.S. travel abroad will hurt the nations we want to help and bring a cutback of foreign spending in the United States that may leave us worse off in balance of payments than before we started.

Third. Restriction of travel is a move backward in foreign policy which, tied with restrictions in trade, can put us on the track back to scarcity and isolationism.

Fourth. The answer to the balance-of-payments problem lies in greater stimulation of travel to and in the United States accompanied with growing international travel, plus continued and expanded sale of U.S. goods abroad, including continuing large-scale sales of planes and equipment to foreign carriers.

It is possible to solve the balance-of-payments problem if we are willing to balance the payments at zero. But none of us would advocate that answer.

A FEW BASIC QUESTIONS

Here, Mr. Chairman, are a few basic questions. We understand that the two largest U.S. airplane manufacturers, Boeing and Douglas, have orders on their books for $2.13 billion worth of equipment for

sale to foreign carriers. How much of that can they hold if we curb U.S. travel abroad?

People in service industries abroad will suffer first and hardest by the cut. These are the people in low and middle incomes we were taught we wanted most to help.

And what will happen to auto workers and other production people in the United States if there is a cutback on orders for planes and equipment by countries abroad from the United States?

The Scandinavian countries have a $50 million balance of payments with us. They expect to expand that in 1968. How can a cutback of travel to the Scandinavian countries help our balance of payments?

The Scandinavian countries are paying a higher percentage of per capita income for international development abroad than we are paying through our AID program. Will a cutback in our travel in Scandinavia and a cutback in our trade start a wave of cutbacks that may hurt us more in the long run?

Does it make sense to help Britain bolster the pound sterling with one hand and cut off her travel business with the other? Our good friends in Italy are likely to lose the most of all. And what about Israel? There are more new developments in agriculture and business and science to show our people than in any comparable nation. But we are asked to slam the door on travel.

U.S. travel abroad is already a declining percentage of our total trade expenditure. It dropped from 7.9 percent in 1963 to 7.7 percent in 1964 and 7.6 percent in 1965—the last year for which such percentages are available. Are we lashing out at only the most visible element of our balance-of-payments problem and not at the basic problem?

We don't believe that the specialists on the balance-of-payments problem in the administration are aware of the dynamics of tourist trade.

A POSITIVE APPROACH

It is not commonly known that the United States has the largest influx of visitors from abroad of any nation in the world, the point that Congressman Curtis was making just a minute ago. But we never have fully developed our facilities to exploit properly the beauties and exciting features of America as tourist income resources.

Last year the percentage of visitors to the United States from Western Europe increased by 35 percent. A part of this was a free windfall of visitors to Canada's "Expo '67". But it was a great leap forward. Visitors from the United Kingdom last year were 231,000—nearly a quarter of a million—up 17 percent. Western Germany sent 118,000 visitors here—that is an increase of 28 percent.

France sent 115,000—up 85 percent, Japanese visitors to the United States totaled 69,000 in 1967. Visitors from Italy totaled 47,000, up 27 percent. Little Switzerland supplied 39,000 visitors to the United States.

The U.S. Travel Service reports that the total of visitors for business and pleasure to the United States in 1967 was 1,485,000. This was an increase of 322,000 people. These people who visit the United States are not just units in a computer. Most of them like the United States

and go home with a greater sympathy and understanding. We can use more friends in the world today.

The economic factors are very great. How many more visitors to the United States would it take to balance the $500 million the administration want to cut off the equation? A little simple arithmetic will give you a clue. If the visitors brought only $100 each, we would have to attract 500,000 more people to the United States. If they spend $500 each in the United States (a more likely amount) it would take only 100,000 more vistors to the United States each year to balance this $500 million that the administration wants.

Isn't our problem the need for expansion and not for contraction? We would make more friends abroad. And we would keep the business for our aircraft makers and jobs for our autoworkers. We may lose both by adopting these travel restrictions.

Greece spends more money to attract tourists than we do. So do Turkey, Spain, Ireland, and Italy.

The job has to be done effectively quickly. Fortunately we have had about 5 years experience on a very, very small scale in the U.S. Travel Service. But there are people in USTS who could help the administration meet this challenge—right away.

Why don't we put our money on a constructive answer. Why don't we back our pride in the beauties and wonders of America—the Rockies, Niagara Falls, Yosemite Falls, the Grand Canyons of the West, and of Manhattan, Broadway, and Wall Street, San Francisco, and Washington, D.C., New Orleans, Detroit, and Chicago. The list is endless.

There are millions of people who would like to visit America. There are hundreds of thousands, at least, who not only want to but could afford to. We have failed in our marketing job because we have not been willing to devote resources to it equal to the amount spent for tourist promotion by countries with less to promote.

We sincerely hope the Ways and Means Committee members will take a positive approach to this problem.

With the permission of the committee, we would like to include for the record a copy of our letter on this matter to President Johnson.

We deeply appreciate the opportunity to express these views to the committee. Thank you, Mr. Chairman.

The CHAIRMAN. Without objection, Mr. Campbell, the membership of your organization as well as the letter addressed to the President will be included in the record, the membership reflected on the bottom of page 1 to which you alluded in your statement.

Mr. CAMPBELL. Thank you very much.

(The information referred to follows:)

AMERICAN TRAVEL ASSOCIATION,
Washington, D.C., February 1, 1968.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: The Board of Directors of the American Travel Association wishes to express to you our concern at the proposed restrictions of the rights of Americans to travel freely outside of our own country. ATA is a cooperatively owned, consumer-oriented travel association, the ownership of which is vested in 27 public interest organizations. Among the owners are the Cooperative League

of the USA, Industrial Union Department AFL–CIO, United Automobile Workers, American Newspaper Guild, Greenbelt Consumer Services, National Education Association, Americans for Democratic Action, CUNA International, etc. Representing the interest of the vast membership, the ATA Board met earlier this month and discussed the problem of the balance of payments as it relates to travel.

Fundamentally, we believe in the right of Americans to travel freely throughout the world as their business, interest or pleasure moves them. Moreover, as you stated in your message on International Tourist Year, ". . . the importance of promoting international good will through travel . . . is worthy of our highest efforts and the unqualified support of all nations." It was with such a belief in the value of international travel that led the above-mentioned public interest organizations to create ATA. Indeed, the exchange of persons and ideas through person-to-person contact has been a basic component of American foreign policy for the past two decades. In our view, this represents such a vital interest to the United States that diluting this approach is unwarranted by the present circumstances.

To severely curtail the expenditure of Americans abroad would damage the economies of countries to whom we have supplied millions of dollars in aid. Tourism has increasingly become a major factor in the economies of many developing countries, as it has long been for such nations as Italy, Switzerland, Great Britain and others. Tourism in Israel, for example, is a vital part of the health of the national economy. But dint of hard work and considerable investment, it is becoming increasingly important to several Middle East and Asian countries. Much of the income brought by tourism to these countries goes directly to the employment of service personnel, so that the most immediate effect of restricted travel would be increased unemployment for the people most in need of work. The political effects of this cutback in those countries is hard to appraise.

The effect within the United States would be to curtail travel for those with the smallest incomes. It is not likely that any form of head tax, or daily tax, or tax related to expenditures would in fact seriously limit travel by those spending large sums of money abroad. The people who would be most affected are students and teachers, middle income people who travel on very small sums, and retired people who have saved and planned for years for their trips abroad. This is particularly dismaying for the average American citizens who have for years been encouraged to go abroad to increase their understanding and knowledge of the world with which we must now live so closely. The exemption of students and teachers underlines the importance of this basic point.

Beyond philosophical considerations, we feel several pragmatic points militate against any imposition of curbs on travel. Primarily, the whole concept of the "travel gap" is unrealistic. It is beyond the scope of our letter to deal in detail with this; however, fundamentally, *many of the dollars spent by Americans traveling abroad are paid to American travel agents, American hotels, American airlines and a whole range of services supplied by American firms. Indeed, even when foreign-owned carriers are used, it is usually American aircraft and equipment that keeps them going.* And the money spent abroad is most often money that becomes almost immediately translatable into the purchase of American goods and equipment by the recipient. We believe that reduction of tourist expenditures would, in a very short time, produce greater losses in the form of reduced direct and indirect "exports" than would be saved by having the traveler stay home.

There is also room for belief that any restrictions are unenforceable or admintratively impractical. The mind boggles at the question of deciding which person buying a ticket to Montreal (and thence by some other carrier to Europe) would be taxed and which not. Or determinating which days are business or pleasure when spent abroad. A flat sum taxed on each traveler would be highly discriminatory both to the legitimate businessman and to the aforementioned middle-income person or senior citizen of modest means.

Much more useful and desirable on all counts, it seems to us, is a return to the prior Administration position of *encouraging an increase of travel to the United States.* The small steps taken in this direction, or an annual U.S.T.S. budget of $3 million have yielded tremendous dividends. Properly financed, the U.S. Travel Service could undoubtedly end the tourist dollar gap in a short time, given the excellent basic work that now has already been done in doubling the flow of people into the United States in the last few years. The real effort must now be to devise a pattern of government and industry cooperation to increase drastically

the promotional efforts of the Visit USA program, and to improve the tourist plant of the United States. The government's part of this effort would begin with a realistic budget for U.S.T.S., which would be beyond that authorized in the original legislation, and a re-affirmation of the former Administration position that our efforts would be directed to stimulating and encouraging foreign travel to the United States in the belief that "increased opportunities for contracts between Americans and visitors to the United States will inevitably and beneficially broaden the areas of mutual understanding between the peoples of the world."

Sharing this belief, we urge that consideration be given to the positive approach of bringing more money into the United States as a means of righting the balance of payments problem rather than to restricting that fundamental right of Americans to travel abroad freely. We urge that you provide leadership in this direction.

Sincerely yours,

WALLACE J. CAMPBELL, *President.*

AMERICAN TRAVEL ASSOCIATION MEMBERSHIP

American Federation of State, County and Municipal Employees, Americans for Democratic Action, American Newspaper Guild, Cooperative League of Puerto Rico, Cooperative League of U.S.A., CUNA International Inc., D.C. Credit Union League, Eastern Cooperatives, Inc., Greenelt Consumer Services, Group Health Mutual, Histadrut, Industrial Union Department, AFL–CIO, Int'l Cooperative Petroleum Assn., International Union of Electrical, Radio and Machine Workers, Michigan Credit Union League, Midland Cooperatives, Inc., National Conference on Social Welfare, National Education Association, National Farmers Union, National Housing Conference, Nationwide Insurance Companies, Peoples Travel Service, Virginia Council on Human Relations, United Automoile Workers, United Federation of Teachers.

Affiliated with: International Federation of Workers Travel Associations, and Cooperative League U.S.A.

The CHAIRMAN. Are there any questions of Mr. Campbell?

Mr. CURTIS. Yes.

The CHAIRMAN. Mr. Curtis.

Mr. CURTIS. Mr. Campbell, I appreciate some of the data that you gave relating to 1967. Any further data along the lines I asked the other witness I would appreciate. Do you have any knowledge of how much is spent in the private sector promoting travel to this country?

Mr. CAMPBELL. Mr. Congressman, I do not have myself. We can supply it, but you have in the witnesses who will follow, people who are specialists in this field and I have been assured by other witnesses——

Mr. CURTIS. That we will have this matter.

Mr. CAMPBELL (continuing). That this data will be provided in complete form.

Mr. CURTIS. We would like to have the data first so we could interrogate on the basis of it, but I will wait for that. Again I notice that you refer to the USTS. I hope we get, and I will see to it that I get here, the latest report on what it has been doing with the money it has spent. But I am fearful, as is usually the case, it would be supplanting private investment rather than supplementing it.

What recommendations might you have in regard to exempting travel promotion money from the investment restrictions that the administration presently has in effect and those that it is proposing? Have you given any thought to that in your organization?

Mr. CAMPBELL. We have not given thought as an organization to that specific proposal, but I have seen it discussed in the press and there are certainly very valid reasons for certain tax exemptions in order to encourage promotion of travel to this country.

Mr. CURTIS. Let us go further into the tax-exempt aspects. I am talking now about simply exempting this kind of private money from the restrictions that the administration is imposing. I don't know how much is spent now, but I would like to know. I would like to have some information.

Certainly if travel promotion money is going to increase, some of that will be capital investment abroad. To me it is a very strange thing when the administration in its package talks about cutting back on private investment abroad and yet, in this area of travel, talks about increasing Government spending, which of course has to be spent abroad if it is going to be effective in promoting travel into this country.

Mr. CAMPBELL. That is right.

Mr. CURTIS. And it is necessary to know what is being done in the private sector. What are the plans? I am sure that those who are in the business of promoting travel to the United States have ongoing plans. I have in front of me from one of the witnesses who is going to testify later, a little publication entitled "Open Road," which is used abroad to promote travel to the United States. They must have some working organization in order to have current expenditures. They probably have capital investments abroad.

I don't know what their plans on expansion may be, but certainly if nothing is done about it, we will cut back on their plans for expansions as well as those of other groups that might be planning to expand their operations to encourage travel into this country.

Mr. CAMPBELL. Mr. Brown points out that Mr. Robert E. Short, national chairman of Discover America, is one of your witnesses coming later in the week, I think it is. They are the people who are spending money abroad on this program and I am sure he will be a good witness to talk to, among others.

Mr. CURTIS. Do you happen to know though, because you are testifying as a group, whether or not there have been or are there plans, on the part of not only that group but others, for expanding their efforts in this area?

Mr. CAMPBELL. I believe there are, Mr. Curtis.

Mr. CURTIS. As I see it, this is the gist of what this committee should be getting into. Well, I guess I will have to wait. I do appreciate your views of why this is a very backward step. I couldn't agree more.

One other thing simply to complete the record. What about the impediments that the Federal Government presently has on people coming to this country; namely, our, what I think are obsolete, visa law? Do you identify this as an important deterrent?

Mr. CAMPBELL. Yes, this is certainly an important factor. Certainly when people are coming to the United States on a package tour of 3 weeks or in that neighborhood there is no necessity for the strict controls that we would have for people coming for longer periods and I think that many of the controlling factors in the visa law could be waived for people coming in this way.

Mr. CURTIS. How about conventions? I understand that international conventions that might be planned here get sidetracked pretty quickly because of this problem that I expressed to the other witness. Have you all looked into that?

Mr. CAMPBELL. Yes, and we find that one of the great factors if it could be secured in getting people from behind the Iron Curtain to come to this country for conferences and conventions is that they would change their minds about a great number of the things that they have been told about the United States.

Mr. CURTIS. I am not thinking of that as much as the fact that the bulk of the people that would be coming to the international conventions would be from Western Europe. As it currently stands, just because they have a few members or even officers who happen to be from behind the Iron Curtain the whole convention can't be held here.

Now, the key question is, is legislation needed to get this changed, or can the President do this by Executive order? Has your organization studied that?

Mr. CAMPBELL. I think most of this could be done by Executive order, Mr. Curtis.

Mr. CURTIS. What have you done as an organization to get the President to do this by Executive order?

Mr. CAMPBELL. We have not as an organization, but the industry people have been working on it.

Mr. CURTIS. When I interrogate them I can get some information on this point?

Mr. CAMPBELL. Yes, sir.

Mr. CURTIS. I hope so. Thank you.

The CHAIRMAN. Any further questions?

If not, Mr. Campbell, again we thank you for coming to the committee.

Mr. CAMPBELL. Thank you.

The CHAIRMAN. Mr. Frankel. Mr. Frankel, if you will identify yourself by giving us your name, address, and capacity in which you appear we will appreciate it.

STATEMENT OF IRVIN M. FRANKEL, IMMEDIATE PAST PRESIDENT, AMERICAN SOCIETY OF TRAVEL AGENTS, INC.; ACCOMPANIED BY PAUL S. QUINN, LEGAL COUNSEL, AND GEORGE FICHTENBAUM, EXECUTIVE VICE PRESIDENT

Mr. FRANKEL. Mr. Chairman, I have with me Mr. Paul Quinn, legal counsel, and Mr. George Fichtenbaum, ASTA's executive vice president.

The CHAIRMAN. We appreciate having all of you with us and you are recognized, Mr. Frankel.

Mr. FRANKEL. Mr. Chairman, I have submitted a written statement. I ask that it be inserted in the record.

The CHAIRMAN. Without objection, Mr. Frankel, the entire statement and the materials appended to it will be included in the record at this point.

(Mr. Frankel's prepared statement and appended material follow:)

STATEMENT OF IRVIN M. FRANKEL, IMMEDIATE PAST PRESIDENT, AMERICAN SOCIETY OF TRAVEL AGENTS, INC.

Chairman Mills and members of the committee, my name is Irvin M. Frankel. I am the owner of the Travel Mart, a travel agency in Atlanta, Georgia. I am the immediate past president of the American Society of Travel Agents, Inc. (ASTA) and Chairman of its Governmental Affairs Committee. I also am Chairman of the Technical Committee of the Universal Federation of Travel Agents' Associations (UFTAA), composed of the travel agency associations of the world.

ASTA, a trade association with headquarters at 360 Lexington Avenue in New York City, is the world's largest organization representing the industry of travel and tourism with more than 7,500 members composed of active travel agents, tour operators, air, sea and surface carriers, hoteliers and all of the other elements involved in travel and tourism.

Thus, I not only appear before you to speak on behalf of the United States travel agent but of the industry and, at the risk of appearing somewhat presumptuous, also on behalf of our clients, those Americans who have the most at stake in proposed travel restrictions—the average American traveler.

ASTA is fully aware that the balance of payments deficit creates a serious problem for our economy. An early solution is our national goal. Our objective, therefore, is the same as that of Secretary Fowler, but our solution is a positive one while his proposals are negative.

Where he would discourage travel by U.S. citizens, we would encourage travel by residents of foreign countries to the United States. This is the only sound solution—both immediate and long range.

It is our conviction that the proposals to restrict tourism by U.S. citizens outside the Western Hemisphere currently pending before this Committee are not only highly undesirable, but are unnecessary. Moreover, it is only in the absence of these restrictions that a positive solution can be effective.

I will attempt to develop for the Committee the following points:

1. Severe resrictions of the inherent right of our citizens to travel to destinations of their choosing are repugnant to the very essence of a free society.

2. Tourism is one of the most important single items in international world trade and there is widespread misunderstanding and misinformation as to the nature and extent of the so-called "travel gap."

3. The Administration's travel restriction proposals would be so costly and complex that they would effectively prevent the great majority of our citizens from traveling outside the Western Hemisphere.

4. The sharp curtailment of travel which would result would be self-defeating and would adversely affect the economies of this country and many of our friendly allies.

5. Our common goal can be achieved through diligent and imaginative programs of cooperation between industry and government to promote tourism to and within the United States and we will outline specific proposals which have been made and are being implemented.

1. *Severe restrictions of the inherent right of our citizens to travel to destinations of their choosing are repugnant to the very essence of a free society.*

The recognition of an individual's right to travel emerged in Anglo-Saxon law as early as the adoption of the Magna Carta in the eleventh century. A long line of United States Supreme Court cases specifically recognizes that this right has the protection of our Constitution. In 1957, writing for the Court, Mr. Justice Douglas stated:

"The right to travel is a part of the 'liberty' which the citizen cannot be deprived of without due process of law under the Fifth Amendment. . . . Freedom of movement across frontiers in either direction, and inside frontiers as well, was a part of our heritage. Travel abroad, like travel within the country may be necessary for a livelihood. It may be as close to the heart of the individual as the choice of what he eats, or wears or reads. Freedom of movement is basic in our scheme of values."[1]

In 1964, the then Mr. Justice Goldberg, now United States Ambassador to the United Nations, stated:

[1] *Kent, et al.* v. *Dulles,* 357 U.S. 116, 125–126.

"Last year approximately 2,750,000 traveled abroad. . . . This phenomenal amount of travel not only demonstrates curiosity about things foreign and the increasing importance of and indeed often necessity for travel, but it also reflects the long history of freedom of movement which Americans have enjoyed. Since the founding of the Republic, our government has encouraged such travel." [2]

Thus, Mr. Chairman and members of the committee, the legislative proposals submitted to you on February 5 would have the effect of denying our citizens the opportunity to exercise their constitutionally-guaranteed right to travel freely to other areas of the world.

2. Tourism is one of the most important single items in international world trade and there is widespread misunderstanding and misinformation as to the nature and extent of the so-called "travel gap."

World travel generated $13 billion in international commerce in 1966, accounting for 7% of all trade between countries. 85 million people traveled internationally.

In reviewing the United States portion of this commerce, we found that there was no valid statistical basis for the reported imbalance of $2.085 billion.

We are not alone in these doubts. The Interim Report of Working Party I of the President's Industry-Government Special Task Force on Travel stated flatly:

"It was the concensus of members working on statistical material that the statistics in the travel field, especially from the United States Government, leave a great deal to be desired. Major decisions of national policy are being made on the basis of statistics on the national travel gap, etc. that expert observers believe have a high degree of error. . . . The samples taken by the Office of Business Economics of the Department of Commerce for calculating the inbound and outbound volume of travel expenditures from which the so-called 'travel deficit' is derived are regarded by your Working Party as inadequate, neither well balanced nor large enough, not taken frequently enough, suffering from an undue time lag, and using antiquated sampling and tabulating methods."

Furthermore, the entire concept offered as a basis for the $2.085 billion deficit is challenged for not taking into account other major elements affecting the balance of payments involved in travel.

These are: More than half a billion dollars of the travel deficit represents a "transportation deficit." That is, the difference between the amount U.S. residents paid out to foreign airlines and steamship companies and the passenger revenues which American carriers received from foreign residents during 1965.

Technically, this may be a deficit, but it's a bookkeeping deficit, because it doesn't take into consideration (1) the more than $3.4 billion in U.S. manufactured aircraft, including spare parts and engines purchased by foreign commercial airlines during the years 1960–67, inclusive. In 1967 alone, they purchased an estimated $921 million worth of our equipment; and (2) the millions of dollars spent here annually by foreign government tourist offices and by foreign airlines and steamship companies doing business in this country. In 1966, European airlines alone spent more than $192 million in the U.S. for staff, advertising, airport charges, communications and commissary expenses.

$607 million of the remaining $1.5 billion is attributed to travel to Canada and Mexico. At least 50% of the remaining $898 million would be classified as essential business, government and military travel. Therefore, the area to which the proposed restrictions are being applied generated total "tourist gap" of $360 million, only 17% of the $2 billion U.S. travel deficit.

It is our understanding that other witnesses will testify further concerning receipts, realized by the United States in connection with international tourism. However, it is interesting to note the followng:

In the years 1946 to 1966—a twenty year period—passenger sales in the U.S. by 17 European airlines amounted to $2.079 billion.

During the same period (1949–66) foreign airlines bought $2.57 billion in aircraft, engines and spare parts.

In the years 1946 to 1966, the 17 European airlines further spent $1.64 billion on promotion, advertising, offices, payroll and other items in the United States.

In other words, during the years 1946 to 1966, these 17 foreign flag carriers spent $2.1 billion more in the U.S. than they earned through passenger sales.

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[2] *Zemel* v. *Rusk*, 381 U.S. 27 (1964). See also concurring opinion in *Aptheker* v. *Secretary of State*, 378 U.S. 520, 521 (1963).

3. *The Administration's travel restriction proposals would be so costly and complex that they would effectively prevent the great majority of our citizens from traveling outside the Western Hemisphere.*

Although the details of the legislative program are known to the Committee, I would like to list them here for the purposes of reference.

They would briefly:

1. Impose a five percent tax on all transportation for travel beyond our borders, reagrdless of destination. This would be permanent on air travel and expire September 3, 1968 for sea travel;

2. Reduce to $10 the present $100 per prson duty-free exemption on goods bought abroad by travelers returning from all countries except Canada, Mexico and the Caribbean; and reduce from $10 to $1 the exemption accorded to unsolicited gifts purchased abroad; and

3. Impose a per diem tax on all non-Western Hemisphere travel expenditures over an exempt $7 a day; the next $8 would be taxed at 15% and all above that amount at 30%.

The last proposal would impose upon the traveler a monumental burden of paper work. On departure for a trip outside the Western Hemisphere, the traveler would make an estimated foreign expenditure tax declaration accompanied by a prepayment, and a declaration of how much cash and travelers checks he is taking with him, "subject to verification at the point of departure by Customs officials or other Treasury officials." Failure to comply involves a $200 penalty.

The traveler must pay within 60 days after his return any amount due beyond his estimated tax payment. He would include in his expenditures not only the difference in cash and travelers checks on leaving and returning, but also all advance payments, any personal checks cashed abroad, any credit-card expenses, any money received abroad (from home or foreign sources, such as banks) and any bills paid after returning.

In preparing to appear before this Committee, we studied carefully the statistics offered by Secretary Fowler on February 5 in support of his program. The real impact which it would have on the average American tourist is not apparent from these, specifically because they did not coincide either with our experience as an industry or with statistics which ASTA has assembled regarding expenditures on various types of travel overseas. In addition, they do not provide a sound criteria upon which to base such a punitive program. This obviously makes suspect the statistics offered by Secretary Fowler.

Let us, as a case in point, take the statement that U.S. travelers in the $5,000 and under group spend $9.63 per day on the average. In reading the statement one would assume that this group constituted a significant portion of all travelers. Actually, people with family incomes in this group constitute just under 10% of the travelers. And of particular interest is the makeup of this specific group held forth as a model.

Our investigations reveal that it is composed largely of the traveler who is visiting relatives in a European country, and whose principal expenditure is for transportation because he or she is staying with these relatives, and who, because of the cost of transportation involved, stay longer than the average traveler, thus making for the "average longer stay of 51 days" cited. This provides no basis for measuring the expenditures of the average traveler.

In estimating costs upon which the tax is based, the Treasury Department has overstated the cost of transportation and understated the per diem expenditures.

Under the actual proposal of the Treasury Department, the 5% transportation tax would be levied from the United States to the first port of entry where the traveler, after spending 12 hours, will come under the 30% rate for the rest of his travel, including transportation, in Europe.

The 5% will apply to his travel only from the United States to the point of entry, and from the departure port to the United States.

But in making the estimates of the effect of the 5% tax, the Treasury Department has used the basis of the farthest point of the trip and make no allowance for interim stops.

Thus, we see an example of an unrealistic estimate which tends to make the tax appear less severe.

There exists also a practical problem connected with the 5% transportation tax. Since the tax does not apply on transportation purchased outside the United States, some people are likely to go to Canada, Mexico or some other

point to purchase the transportation and thus evade the tax. This would, of course, not assist in accomplishing the stated purpose and would in fact add to the dollar drain. This is not just theory. There is historic precedent for such evasion.

ASTA questions whether the reduction in the duty-free allowance and the mailed gift procedure would produce positive benefits outweighing the tremendously-increased administrative costs which would be necessary to police the new exemption. Added to these costs is the obvious adverse effect on the industries of various countries which are popuular with American tourist and which supply the majority of the goods purchased under the existing regulations. Therefore, it is doubtful that such a proposal is advisable.

We also call the attention of the Committee to the fact that tourists making purchases abroad would be subject to gross discrimination since they would have to pay a 30% travel expenditure tax on top of a 25% duty for a total tax burden of 55%—an amount greatly in excess of duty levels for goods imported and subject to regular duty. We hope that the Committee will consider these questions carefully in its study of the package proposal.

But the most obnoxious and discriminatory provision suggested to the Committee is that which would subject United States citizens, for the first time in their history, to the payment of substantial tax penalties on expenditures incurred while traveling outside the Western Hemisphere.

As we have indicated, the statistics which accompanied the recommended legislation are misleading in that they do not accurately reveal average expenditures by middle income tourists traveling abroad. This group constitutes 45% of all U.S. citizens who traveled to Europe. It is they who will be the victims if these proposals become law.

The proposal would cause the very result which the proponents of the plan said they were trying to avoid.[8]

We base our conclusion on our own experience in making overseas travel arrangements for our clients—and this includes not only transportation, but hotel accommodations, sight-seeing tours and incidental expenses.

This is substantially confirmed by ASTA's nationwide survey of the travel agency industry to obtain figures on the average length of the overseas stay, realistic estimates of the average amount of expenditures per day and the average tax which would have to be paid by the middle income traveler under the Treasury Department proposal.

Tabulation of the responses reveals that the average length of stay was 26.81 days (Treasury used 33 days); and the average per diem expenditure was a realistic $27.36 ($16.73 was used by the Treasury Department). Thus, the average total expenditure abroad, exclusive of transportation and personal purchases, is $733.52. The per diem expenditure tax alone on this average trip would be $130. When we add to this the 5% transportation tax to port of entry and 30% on intra-continental travel, the total tax bill would range from $175 to $200 per person.

The proposal also imposes an unconscionable and unnecessary burden of record keeping, presents a possibility of errors in tax computation, and in tax pre-payment with the ever present threat of criminal accusation.

Misjudging the amount of anticipated expenditures by more than 20% would result in the imposition of an additional fine on the traveler.

Inherent in the policing procedures is the threat of physical searching of travelers to be certain that they are not misrepresenting. This is a particularly objectionable procedure for any American to face.

All of these demeaning procedures are, ironically, designed to penalize the citizen of modest income who is taking an infrequent, perhaps even a once-in-a-lifetime, trip abroad. Less honest individuals, on the other hand, have an easy means of cheating. Even normally honest persons, taking into account the tremendous tax burden to which they would be subjected, might be persuaded to flaunt the law. On the other hand, persons of substantial wealth or with access

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[8] "Other forms of taxes—such as a flat tax per trip, a relatively high ticket tax, or a flat tax per day—which require every traveler to pay a specified amount regardless of his expenditure level, necessarily have their greatest impact at the lower income levels where the amount of tax is a proportionately higher percentage of the total funds available for expenditure than at higher income levels. They would achieve the necessary expenditure reduction primarily by causing large numbers of the less affluent to cancel their trips and would have little impact on the expenditures of the more affluent." Page 34, Statement of Secretary Fowler before the Committee on Ways and Means, U.S. House of Representatives, February 5, 1968.

to funds in Europe, may for all practical purposes be immune from taxes and fines, and would continue indiscriminately to spend large sums of money for travel.

Extracting from the average American traveler a tax in the amount that this ASTA survey indicates and requiring that such a tax be deposited with a Customs official prior to departure from the Western Hemisphere places an economic barrier between our citizens and their right of freedom to travel. The imposition of a price tag on such basic liberties is unprecedented in the history of our country.

4. *The sharp curtailment of travel which would result would be self-defeating and would adversely affect the economies of this country and many of our friendly allies.*

I believe that it is not possible for the United States to embark on a program of restriction such as that embodied in the proposed travel and transportation tax program without provoking retaliatory measures on the part of other governments—which will result in a balance of payments condition far worse than we have today.

The free, unrestricted and untaxed movement of U.S. citizens in international travel undoubtedly has been the single, most effective contributor to increased international understanding with corollary benefits in accelerating the desire for our merchandise, stimulating our productive output and benefitting our economy. Much of the demand abroad for American products is directly atttributable to their use and display by our tourists.

Exchange of ideas and understanding is the most important force in the economic, as well as the political, sphere, and international travel is a most effective agent.

Our government and citizens have participated in an increasing number of cultural exchanges involving travel by individuals. We believe that this has contributed substantially to a better understanding of our country by peoples everywhere.

The program proposed by the Secretary of the Treasury clearly would halt this advance.

Similiarly, cultural advantages would suffer. Illustrative are two pertinent examples: (1) a trip by the New York Philharmonic Orchestra, with State Department approval and a grant from a major airline, would be burdened by an additional cost estimated at $25,000; and (2) the Cincinnati Philharmonic Orchestra going abroad at its own expense reportedly will be required to cancel its tour if the tax is imposed.

Indications are that adoption of the Treasury Department's proposed travel and transportation tax program will prove an even greater deterrent than estimated by its proponents. It will substantially decrease and may even halt the travel of responsible business and professional people, educators and students, who have contributed so much to our common objective.

We must anticipate that travel to the United States from the areas discriminated against will diminish in response to our own travel restrictions.

The sought-for reduction of $500 million in expenditures of U.S. travelers outside this hemisphere probably will be very readily offset by the negative effect of these curtailments.

It is our opinion—and that of the more than 7,500 travel and tourism experts who constitute ASTA—that the proposed travel and transportation tax is frought with hazards and may very well carry within it the seeds of even greater danger to our economy for the responses from other countries may tend to have a snowballing effect.

We assume that this Committee will want to examine carefully the underlying calculations of the proposal, including an explanation of whether, and to what extent, provision might have been made in the estimates for possible losses in other balance of payments items as a result of this obviously crash program.

Everyone in the business of travel and tourism has been aware of the importance of seeking to balance the effect of tourism to overseas destinations by an increase in tourism to the United States. ASTA, international carriers and other components of the travel industry have initiated promotional programs in a constructive effort to rectify the situation.

The Secretary of the Treasury, in his statement, concentrated on Western Europe and the Mediterranean area. We have experienced a significant growth in our deficit from the predominance of traved by U.S. citizens to Canada, Mexico,

Central America, the Caribbean and all of South America which accounts for approximately 60% of the tourist dollar expenditure.

Since most of the increase from 1966 to 1967 was due to the Montreal Exposition, the restoration of the Canadian payments to a normal level this year will itself result in an improvement in our travel balance of between $350 and $400 million and thus we will have achieved a large portion of the stated purpose of the Treasury's recommendations without violating our historic rights.

Amounts spent by U.S. residents in travel and tourism outside the Western Hemisphere increased by 39% between 1960 and 1966.

However, and significantly, expenditures in the United States by foreigners are estimated to have increased by 71% during that same period and, again most significantly, expenditures by European and Mediterranean area residents visiting the United States brought the largest gain in this total—these increased by 135%—considerably more than double in these same six years.

Thus, in terms of annual rate of increase, expenditures by the European and other Eastern country visitors in the United States has been increasing at a rate of 15.3% a year, compounded annually, compared with an increased expenditure of only 5.7% by Americans outside of the Western Hemisphere.

In other words, the absolute increase in receipts in the United States from travelers from overseas countries outside the Western Hemisphere has been almost as great as the increase in our tourist expenditures in that same area during the same period.

In view of the obvious success and tremendous potential for increased tourism to the United States, it indeed would be economic folly to abort this dynamic growth.

Logically, it seems to us that it would be much wiser to achieve an increase of $300 million in total expenditures of foreign travelers in the United States—a percentage gain of 18% over 1967 earnings—than it would be to achieve a reduction of 26% in U.S. travel expenditures in countries overseas. Fare decrease proposals now being made by air carriers could go far to achieve this result.

Even this figure would assume that there would be no negative effects in other areas of the balance of payments as a result of the travel restrictions. But, such an assumption, of course, is highly unrealistic.

Mr. Chairman, with your permission, we would like to submit for the record two tables which substantiate the statements. They are attached herewith.

Exhibit 1 is a table setting forth travel expenditures overseas by U.S. residents and expenditures by foreign visitors to the United States. These are based upon the compilations in the Survey of Current Business of June 1967 and the statistical abstract for the United States for 1967.

Exhibit 2, compiled by the United States Travel Service, reflects the development of the travel deficit with Canada, Mexico, and overseas countries, the source of which is the interim report of Working Party Number One of the Industry-Government Special Task Force on Travel and which I believe will prove of interest to the members of the Committee.

A major problem which obviously must confront this Committee and the nation at large, is the adverse impact which restriction of U.S. travel would have on friendly foreign countries who depend upon tourism as a major source of export earnings.

The following figures illustrate the expansion of international travel and its growing importance for the development of international economic relations and the economies of certain countries. Thus, in Switzerland, Portugal, Spain, Ireland, and Austria, international tourist receipts at present represent from 4% to 6% of the Gross National Product:

	Increase, 1956 to 1965 (percent)		Earnings from tourism as percentage of GNP	
	GNP	Tourist receipts	1956	1965
Austria	+102	+383	2.6	6.2
Ireland	+88	+96	5.2	5.4
Spain	+198	+1,120	1.3	5.3
Portugal	+87	+696	1.0	4.2
Switzerland	+105	+148	3.1	3.8
Italy	+123	+401	1.0	2.3
Greece	+116	+245	1.2	1.9

For some countries, tourism already represents the major export industry and earner of foreign exchange. For others, it constitutes a promising new resource for economic development. The significant contribution of the developing countries is now widely recognized. In 1963, the United Nations recommended that greater priority be given to technical assistance in the tourism sector because of the importance of tourism as a means of strengthening the economic development policies of the developing countries.

More recently, in 1966, the Organization for Economic Cooperation and Development (OECD) arranged a seminar on tourism as part of its program of technical assistance for a group of countries in the intermediate stage of development (Greece, Portugal, Spain, Turkey and Yugoslavia). At this time the OECD pointed out that:

"These countries are all characterized by relatively rapid growth and constantly mounting requirements for foreign exchange; they are at the same time faced with the problems of improving their human skills and resources and adapting the structure of the economy and administration to the needs of accelerated growth.

"For such countries, tourism offers a major opportunity. It stimulates investments, provides a means of earning foreign exchange and is a source of employment. It is also an impetus to social change—both directly, through developing education and training to meet the needs of a service industry, as well as indirectly, by introducing different social habits and patterns."

From the viewpoint of the countries from which the tourists go out, the OECD has pointed out that:

"As concerns expenditure on international tourism, this is generally higher in countries where the national income per head of population is highest, and tends to increase proportionately more quickly than private disposable incomes. As shown in the following table for certain countries supplying the greatest number of tourists, between 1956 and 1965 Germany's tourist expenditure abroad increased nearly three and a half times more than private disposable income; in France, Belgium, the Netherlands and Sweden, it increased two and a half to three times more rapidly, while in the United Kingdom and the United States it increased one and a half times or twice as quickly.

[In percent]

	Increase, 1956–65		Propensity to tourist expenditure abroad	Tourist expenditure abroad as percentage of disposable income	
	Disposable income	Tourist expenditure abroad		1956	1965
Germany	+121	+410	3.4	0.8	1.8
France	+141	+409	2.9	.7	1.4
Belgium	+69	+186	2.7	1.3	2.3
Netherlands	+115	+298	2.6	1.3	2.4
Sweden	+87	+241	2.5	1.0	1.7
United Kingdom	+70	+125	1.8	.9	1.2
United States	+61	+91	1.5	.4	.5
Switzerland	+104	+139	1.3	1.8	2.1
Canada	+74	+56	.8	2.4	2.2

Note: The propensity to tourist expenditure abroad is the ratio between the rate of increase in tourist expenditure abroad and the rate of increase in disposable income in the country concerned."

In 1967, the United States had a favorable over-all trade balance with the whole world of $4.3 billion. This is based on total exports of $31 billion and imports of $26.7 billion in goods and services, including travel.

The United States earned $1.4 billion dollars more on all trade from Western Europe than Europe earned on trade with the United States. In other words, Europe has a $1.4 billion dollar deficit in its trade with the U.S. which more than cancels out the so-called travel deficit.

In fiscal year 1967, AID funds were committed to 53 countries to which U.S. travel would be restricted because of this proposal.[4]

[4] It has been estimated that American travelers spent $20 million in India and another $20 million in Thailand and the Philippines in 1966. These are the only countries in this group from which estimates are available. A pertinent example regarding the effect of curtailment of travel which is of interest is that of Afghanistan which presently has under construction an International Hotel designed exclusively for the accommodation of foreign travelers. That project is dependent on such travelers for its operation and maintenance even if not for profitability. This is true of other similar facilities in countries which hope to aid their export balance by tourism.

Since all of these countries are receiving loans or grants from the U.S. Government, a reduction in expenditures by private Americans visiting in those countries would consequently increase the need for an offset through our AID program.

Additionally, reduced earnings from tourism will seriously affect many countries who now are assisting the United States financially by investing in nonmarketable U.S. Treasury bonds.

Such investments, which the Federal Reserve Board in January placed at $1.249 billion, not only help to reduce the drain in our own gold stock but they improve the international balance sheet of the United States by taking the amount in question out of this country's short-term or liquid liability to foreigners.

The Treasury Department approach would have a disastrous effect on the more than 6,000 travel agencies in the United States. This is because the industry predominantly is composed of very small firms who are dependent on international travel for more than 60% of their gross income.

The ASTA survey conducted last week revealed that as a result of the mere announcement of the Treasury proposals, there have been substantial cancellations and a significant reduction in advance bookings. And should the proposals be enacted, the travel agents anticipate a 75% loss in international bookings. Because of the very nature of a business with marginal earnings, there inevitably will be a high rate of bankruptcy.

In presenting these facts, we do so not only to point out the devastating impact on our industry, but also to show how it will affect adversely the important components of our national economy for which it provides vital services. The economic stability of our domestic airline industry depends heavily on travel agents, who provide indispensable sales outlets in more than 1,800 communities throughout the United States. In addition to being responsible for $1.4 billion in domestic airline ticket sales in 1967, travel agents also provide needed service to steamship lines, bus, rail, car rentals as well as hotels and other facilities which make up our travel and tourist industry.

There would, of course, be substantial damage to other areas of the U.S. economy resulting from a sharp curtailment of travel and tourism from the United States. The airline industry and the manufacturers of aircraft would be hard hit. It is our understanding that these industries will present detailed economic data for the consideration of the Committee in addressing themselves to this aspect. It might be worth while, however, to summarize the effect on two of the large U.S. manufacturers of aircraft, Boeing and Douglas.

Boeing export sales average about 25% of all aircraft sales dollar-wise. As of January 5, 1968, Boeing had a total of 78 airline customers worldwide. Of this number, 48 were foreign and 30 domestic. These statistics do not include orders for the Boeing supersonic transport.

As of January 5, 14 foreign airlines had reserved delivery positions for 51 SST's out of a total of 121 SST's contracted for to date.

The Boeing Company alone estimates that the projected two-year reduction of U.S. travel overseas would mean a loss of $391 million in aircraft sales to foreign flag carriers, and a $205 million loss in sales to U.S. flag carriers, for a total loss of $596 million.

The Douglas organization anticipates a radical reduction in the orders placed by foreign carriers.

The proposals would also have a cumulative adverse effect on many other United States industries with domestic and international sales of goods and services. These include the manufacturers of luggage, photographic equipment and clothing, and service companies involved in advertising, international hotels and car rentals.

5. *Our common goal can be achieved through diligent and imaginative programs of cooperation between industry and government to promote tourism to and within the United States.*

As an industry, we long have been aware of the importance and desirability of increasing tourist travel to the United States, ASTA's World Travel Congresses, which attract the attendance of hundreds of travel originators from overseas countries annually, have emphasized destination seminars focussed on the United States. Since its creation, the United States Travel Service has been accorded featured, prominent positions on all of our programs.

We have contributed to and cooperated with the imaginative, productive, privately financed "Discover America" program.

The fact that progress has been made is attested by the United States becoming the Number One host country in world tourism. We have succeeded in attracting an ever-increasing flow of visitors to our shores. Last year, we had 332,498 more visitors than in 1966, the greatest increase ever recorded.

A report of the U.S. Travel Service stated that a record 1,485,499 business and pleasure visitors came to the United States from overseas. This is in addition to 423,764 visitors from Mexico, and while figures on Canadian visitors are not available, it is estimated that these will exceed seven million, thus making for a total of approximately nine million visitors.

This is an accomplishment in which we are proud to have played some part.

Mr. Chairman and members of the Committee, if there is one single thought which I can leave with you today, it is this: there is no need for the Congress to enact restrictive legislation inhibiting the right of U.S. citizens to travel freely. There is an alternative available. This alternative is, in every way, more desirable and effective than the imposition of restrictions. I refer to a sharply accelerated program which could be undertaken immediately by this country and its people both in and out of government substantially to increase the flow of tourism to the United States and within the United States.

As the Committee is aware, Presiden Johnson, on November 16, 1967, appointed an industry-government task force with Ambassador Robert M. McKinney as its Chairman. ASTA has cooperated fully with this task force and has supplied specific constructive suggestions which are designed to generate more travel from abroad to the United States. This would reduce our tourist deficit substantially.

I have attached as appendices to my statement copies of our communications to Ambassador Robert M. McKinney.

Salient among our recommendations are:

A substantially expanded program of reduced directional fares, that is, fares paid by overseas people to visit the United States, which would encourage travel from overseas. International carriers will meet on February 20 to discuss implementation of this proposal.

Substantial reductions in domestic air fares for visitors from overseas are expected. The domestic airlines have already taken action to reduce fares by 50% for such passengers.

A substantial increase in the present $3 million allocated to the USTS so that it will be on a parity with similar tourist promotion agencies of other countries and can function more productively to induce overseas visitors to come to the United States.

Favorable action by the Congress on the proposal by Congressman Reuss, H.R. 14607, to establish a joint industry-government incentive travel program providing for reduced travel and accommodations rates in the United States for overseas visitors.

Speedy consideration and favorable action on the comprehensive plan proposed by a bi-partisan group of 12 Senators, S. 2907, to assist private industry and official travel organizations to encourage increased domestic travel by Americans.

Bilateral agreements which will provide savings on dollar expenditures for travel through utilization of non-restricted foreign currencies now in the Treasury totalling $1.4 billion through sales to American tourists prior to departure.

Exploration of additional methods whereby the remaining $1.6 billion in counterpart fund reserves may be converted for use by travelers, tourists and industry to offset the dollar flow.

The enlistment of Travel Agents over the world in a cooperative campaign to bring more tourism to the United States because a realistic and possible 15% increase in tourism would provide positive assistance in reducing the present disparity.

We are happy to note that foreign carriers are cooperating in an effort to assist in our problem. Lufthansa and SAS have made proposals to leave dollars earned in the United States in U.S. banks.

In conclusion, Mr. Chairman and members of the Committee, we both in government and industry should focus our efforts toward attracting more tourism from the other nations, rather than erecting a legislative wall which not only will become a bitterly resented restrictive barrier for our own people, but whose forbidding exterior will turn away the world.

I prefer to accept as our criterion the views enunciated by President Johnson when he addressed the representatives of the travel industry composing the "Discover America" program in the Rose Garden on August 11, 1965.

I was present and still remember his words, and I firmly believe that they hold the best promise for the solution to our present problem.

On that memorable occasion, he said:

"All Americans are really heirs of travelers who originally came here from far across the seas to cast their lot in this great country of ours. What we want now is for that tradition to be honored. We want Americans to travel. We want our friends from other lands to travel. We aren't trying to discourage travel any place—we never have. There have been some misconceptions in that regard. But we are trying to encourage more travel to see more of the wonders and the beauties of this vast and marvelous land of ours.

"And we feel in doing that we will not only build a better country and a better people, but we will also make great contributions to our own independence and to our own system."

Mr. Chairman and Gentlemen of the Committee, I appreciate this opportunity to appear before you and express the views of my industry and the American traveler.

May your decision be based upon a policy which opens wide the portals of our country so that our own people may travel freely abroad and the visitor find himself welcome.

EXHIBIT NO. 1

TRAVEL EXPENDITURES ABROAD BY U.S. RESIDENTS AND EXPENDITURES BY FOREIGN TRAVELERS IN THE UNITED STATES

[In millions of dollars]

	1960	1962	1964	1966	Increase 1960–66		
					Million dollars	Percent	Compound annual rate
Expenditures abroad by U.S. residents:							
Europe and Mediterranean	692	652	800	920	228	33.0	4.9
Other (excluding Western Hemisphere)	84	126	124	160	76	90.5	11.3
Total (excluding Western Hemisphere)	776	778	924	1,080	304	39.2	5.7
All foreign areas	1,750	1,939	2,211	2,657	907	41.0	5.9
Expenditures by foreign visitors in United States:							
From Europe and Mediterranean	90	105	170	215	125	139	15.6
Other (excluding Western Hemisphere)	48	54	86	110	62	129	14.8
Total (excluding Western Hemisphere)	138	159	256	325	187	135	15.3
All visitors	919	957	1,207	1,573	654	71	9.4

Source: Survey of Current Business, June 1967, pp. 14–16, and Statistical Abstract of the United States, 1967, p .216.

EXHIBIT NO. 2

DEVELOPMENT OF THE TRAVEL DEFICIT WITH CANADA, MEXICO, AND OVERSEAS COUNTRIES (U.S. DEPARTMENT OF COMMERCE, U.S. TRAVEL SERVICE)

[In millions of dollars]

Calendar year	Receipts					Payments					Travel surplus (+) or deficit (−)				
	Canada	Mexico	Other Western Hemisphere	Other overseas	Total	Canada	Mexico	Other Western Hemisphere	Other overseas	Total	Canada	Mexico	Other Western Hemisphere	Other overseas	Total
1960	469	226	86	138	919	380	383	211	776	1,750	+89	−157	−125	−638	−831
1961	449	262	90	146	947	425	420	208	732	1,785	+24	−158	−118	−586	−838
1962	392	296	110	159	957	479	449	233	778	1,939	−87	−153	−123	−619	−982
1963	372	313	147	183	1,015	522	472	236	884	2,114	−150	−159	−89	−701	−1,099
1964	448	342	161	256	1,207	550	490	247	924	2,211	−102	−148	−86	−668	−1,004
1965	490	390	200	300	1,380	600	540	288	1,010	2,348	−110	−150	−88	−710	−1,058
1966	586	436	226	325	1,573	678	575	325	1,079	2,657	−92	−139	−99	−754	−1,084
1967 [1]	577	454	260	344	1,635	1,035	603	352	1,150	3,140	−458	−149	−92	−806	−1,505

Calendar year	Foreign payments to U.S. carriers	U.S. payments to foreign carriers	Carrier payments deficit	Total travel deficit
1960	106	505	−399	−1,230
1961	110	507	−397	−1,235
1962	113	575	−462	−1,444
1963	118	615	−497	−1,596
1964	150	645	−495	−1,499
1965	165	720	−555	−1,613
1966	195	755	−560	−1,644
1967 [1]	220	800	−580	−2,085

[1] Preliminary estimate.

Source: Interim report, working party 1, statistics and analysis, Jan. 15, 1968.

EXHIBIT No. 3

AMERICAN SOCIETY OF TRAVEL AGENTS, INC.,
New York, N.Y., January 10, 1968.

Ambassador ROBERT M. MCKINNEY,
Chairman, Industry-Government Special Task Force on Tourism, U.S. Treasury Department, Washington, D.C.

DEAR AMBASSADOR MCKINNEY: The American Society of Travel Agents, Inc. (ASTA) is very pleased to have the opportunity to respond to your invitation to suggest constructive steps for increasing travel and tourism to and within the United States, as an alternative to restrictions on the right of U.S. citizens to travel freely abroad. It is ASTA's view that some of the suggestions which are included in this letter will provide the basis for initiating a more vigorous program by the industry of travel and tourism, thus substantially reducing the so-called "travel gap" portion of our nation's balance of payments deficit.

The recommendations which we submit herewith are based upon an industry-wide conference at which I presided, held in New York City on Tuesday, January 9, 1968, which included officials of air carriers, steamship lines, hotels, tour operators, travel agents and the travel press, among others, all United States corporations.

The meeting was called to seek practical solutions through which we could assist the Administration in correcting the existing travel deficit without resorting to restrictive, discriminatory or punitive measures.

On the basis of the meeting convened by ASTA on January 9, 1968, and other discussions held by ASTA officials, we would like to outline the following specific proposals as effective measures to accomplish our common objective:

1. In order to provide a more effective promotional campaign to induce overseas visitors to the United States, the industry representatives unanimously urged that sufficient funds be appropriated to enable the U.S. Travel Service to function productively. The present appropriation of $3,000,000 is altogether inadequate in relation to the job that is urgently needed to be done and the amounts appropriated by other countries in promoting travel and tourism from the United States.

2. We urge that the airlines and the International Air Transport Association together with the proper government agencies establish a substantially expanded concept of reduced directional fares which will encourage overseas travel to the United States.

3. We strongly urge that the Administration and the Congress give prompt and positive consideration to the proposal of Congressman Henry Reuss to establish a system of incentive travel stamps to reduce the cost of visits to the United States from our friends overseas and to encourage such visits through the cooperation of the Federal Government and the travel industry. This proposal which was initially made to your committee by a memorandum of December 22, 1967, has been refined somewhat to assure that it is designed to attract first-time visitors to the United States and that it obtains the necessary government/private cooperation to make the program feasible and successful. We urge that this proposal, if proved administratively feasible, be adopted and implemented.

4. The industry conference urgently recommends that the U.S. government explore and establish machinery to assure the utilization of its counterpart fund reserves, now exceeding $3 billion so that such inert funds may be converted for use by travelers, tourists and industry to offset the dollar outflow. In order to become most effective in conserving dollars, we recomend that a method be established so that these counterpart funds may be exchanged for the purpose of their conversion to the currency of other countries.

5. The industry pledges its support, and, where necessary, solicits the cooperation of government to bring about a greatly intensified program of familiarization trips to the United States by foreign travel agents who are the prime generators of travel and tourism.

In addition to the foregoing recommendations which were agreed upon by the participants in the conference, ASTA advised those present that it was undertaking the following programs in order to promote travel to and within the United States.

1. Mobilization of its more than 800 overseas travel agency members in a concerted campaign to promote travel to the United States from their countries.

2. Utilization of the travel-generating energy of the thousands of overseas travel agencies represented in the Universal Federation of Travel Agents Association of which ASTA is a founding member to promote travel to the United States.

3. Implementation of a program enlisting the assistance of many foreign-born United States travel agents in cooperation with carriers and the U.S. Travel Service in creating enthusiasm for Visit U.S.A. ASTA will urge that their frequent visits to their homelands be used for the purpose of addressing travel industry meetings and seminars in order to promote interest in travel to the United States.

4. Since the lack of adequate reception facilities in the United States has constituted a deterent to foreign visitors and caused adverse comments and retarded the flow of tourist traffic, ASTA, through its local chapters will recruit foreign language students to provide interpreting services for non-group visitors to the United States on a voluntary basis.

5. The Interstate Commerce Commission should be urged to review its current procedures for processing applications for motor bus broker authority by U.S. travel agents and efforts should be made promptly to evaluate and, where appropriate, grant such operating authority thus filling an existing demand for domestic motor bus tours.

6. Prompt consideration should be given to extending tax incentives for U.S. tour promotors to invest additional funds in the development and promotion of tour programs designed to encourage European and other foreigners to travel to the United States.

7. ASTA specifically directs the attention of your committee and the Administration to the fact that it has long pointed to the disparity between the earning incentives which travel agents are offered to sell international travel and those in effect domestically. As a result of an unrealistic schedule of commissions for travel within the United States, travel agencies have been under a disability which makes promotion of domestic tourism unprofitable. Indeed, many travel agencies are required to subsidize their sale of domestic tourism from their earnings on international sales. If travel agency earnings on domestic travel were at least to equal the incentives on international travel, a tremendous sales pool of some 6,000 travel agencies generating and influencing over $3 billion per year of tourist expenditures would automatically be focused upon greater promotion of domestic tourism.

8. The domestic airlines and the Air Traffic Conference should relax and update the requirements which must be met to qualify domestic air tours which are sold through travel agents.

In addition to the foregoing proposals, there are other constructive suggestions which we believe could evolve from further discussions between ASTA and others in the travel and tourism industry and your committee. ASTA pledges its support to all efforts by the government and private industry promptly to undertake programs designed to stimulate tourism to and within the United States thus making it unnecessary to adopt restrictive proposals to inhibit the right of U.S. citizens to travel abroad.

We will be happy to discuss in detail the above proposals as well as all other aspects of this program which is of such major importance to our industry and our country.

Sincerely yours,

CHARLES B. WEST, *Vice President.*

EXHIBIT NO. 4

AMERICAN SOCIETY OF TRAVEL AGENTS, INC.,
New York, N.Y., February 2, 1968.

Ambassador ROBERT M. MCKINNEY,
Chairman, Industry-Government Special Task Force of Tourism, U.S. Treasury Department, Washington, D.C.

DEAR AMBASSADOR MCKINNEY: On behalf of the American Society of Travel Agents, Inc. (ASTA), I appreciate the opportunity to provide you with some additional views of the United States travel agency industry on the development of a program which is designed effectively to stimulate increased tourism to and within the United States.

Our major recommendations on the promotion of tourism to and within the United States were set forth in ASTA Vice President Charles B. West's letter to you of January 10, 1968, which was inserted in the Congressional Record on January 15, 1968, by Congressman Henry D. Reuss of Wisconsin. We would like

to incorporate each of these recommendations by reference in this letter, and add some additional thoughts.

At the outset, we wish to point out that in ASTA's view a program to promote additional tourism from other countries to the United States can be effective only if here is no imposition of direct or indirect restrictions on the right of U.S. citizens to travel freely to destinations of their own choosing abroad. The countries which are currently sending us the greatest number of tourists are those which depend very heavily themselves on income from United States tourism.

The success of a program to promote tourism to and within the United States depends upon a close working relationship between government and private industry. The government participation could come about in various forms, but must, in our view, include a substantial increase in funds available to the United States Travel Service so that it may expand its promotional efforts. Furthermore, more direct participation by the government in the promotion of attractive tour programs and other projects would be most effective.

For this reason, ASTA supports the proposal of Congressman Reuss contained in H.R. 14607, the travel stamp incentive plan. We note that more than 20 members of the House of Representatives already have co-sponsored this proposal. ASTA also supports S. 2907 introduced by Senator Javits on February 1 and co-sponsored by eleven Senators from both political parties. We would hope that your Committee would urge the appropriate Congressional committees to give these bills prompt and favorable consideration.

Industry participation in the program on a quick and effective basis could best be attained by close coordination among existing travel organizations in the United States, and by looking to these organizations to dedicate their financial resources, promotional efforts, and organizational ability thus effectively to implement the many suggestions which have been made to your Committee.

The process of attracting more of our foreign friends to visit the United States is a three-step one:

First: The stimulation of a desire in the minds of potential travelers to want to visit this country. Through the increased promotional efforts of the United States Travel Service, expanded advertising programs by private industry and increased availability and distribution of information through travel films, news article, editorials and other media, this objective can be obtained.

As we previously indicated, ASTA will urge its foreign-born members to participate in promotion programs in their home countries when they return for periodic visits. In addition, chapters of ASTA occasionally schedule meetings in foreign countries and these could be used as an effective vehicle to promote tourism to the United States by cooperation with local travel agents.

Second: Improved organization and packaging of individual and group travel arrangements and tours to and within the United States at a price level accessible to a greater number of foreigners. Many ideas have been advanced to accomplish this objective and steps have been taken to implement at least one major one, the expanded use of directional air fares to this country.

Suggestions in addition to those previously mentioned which we feel have merit include machinery to allow citizens of other countries to buy American dollars at U.S. Embassies at a favorable exchange rate. Another is through the use of federal funds or industry contributions, to underwrite that portion of a tour operator's expense which is included in the preparation and sale of a tour in the United States, thus allowing him to offer the tour for sale in Europe at cost.

Third: The actual bringing together of a potential overseas traveler with the sales outlet of a travel agent or transportation company within his country and facilitating the purchase, use and enjoyment of the transportation, hotel, sightseeing and related services in the United States.

Effective methods of accomplishing this, in addition to the many previously mentioned, would include the following:

Enlist the assistance of experienced available personnel employed by both U.S. and foreign air carriers to undertake a program of visiting areas outside the United States where the tourist potential is the greatest so that they might promote the sale of travel and tourism to the United States.

In addition, airlines could help eliminate the language barrier by offering the services of their bilingual employees to serve in reception desks or to accompany groups within the United States. These employees could work with tour operators and they could coordinate with travel agent employees in the foreign language program referred to in our earlier letter.

Increase the number and size of free or reduced rate familiarization trips for foreign travel agents and travel writers to the United States so that they may get to know our country and learn about tourist facilities available and provide information to potential travelers on the basis of first-hand knowledge.

ASTA, through travel agents located in more than 1,800 communities throughout this country, could prepare and publish tariffs for use by foreign travel agents and tour operators indicating precisely the cost of transfers from airports, railroad stations to various hotels within a city, and the cost of hotels, sightseeing trips and meals.

The potential for increasing travel and tourism from Canada and Mexico to the United States is very great. Specific proposals which could be undertaken to realize this potential include the following:

1. Travel agents in Canada, approved and regulated by the Air Traffic Conference of America, were not included in the increased commission level extended to United States agents in 1966 with respect to the sale of Discover America and Family Plan promotion fares for travel within this country. If agents in Canada are to be encouraged to sell transportation on these special promotional fares, then they should be given an adequate incentive to do so.

2. Free group familiarization trips for agents from Canada and Mexico to the United States should be instituted. The free transportation of groups for education and familiarization trips instituted during 1966 with the encouragement of the Civil Aeronautics Board and the support of ASTA, has been most effective as a device to promote resort destinations. In addition, there should be improvement and expansion of individual reduced rate travel privileges to encourage agents to make independent visits to the United States.

3. ASTA has several hundred active members in Canada, and a substantial number of nonresident active members in Mexico. We will agree to organize a series of seminars in coordination with the airline, hotel and sightseeing industries from the United States to visit groups of agents in these two countries, and specifically to encourage the mto take advantage of existing travel facilities and events in the United States. The San Antonio Hemisfair offers a particularly attractive program designed to increase tourism from Mexico and Latin American countries, and it has and will receive ASTA's support and cooperation.

4. The duty-free and customs allowances available to Canadian citizens when they visit the United States should be on an equal basis with those of allowances available to U.S. citizens visiting Canada. At the present time there is a disparity between the duty-free allowances which encourages expenditures by U.S. citizens in Canada and discourages expenditures by Canadian citizens in this country.

5. There should be an expansion of United States Travel Service facilities and promotional expenditures in Canada and Mexico. For example, there is not one U.S. Travel Service office in the entire country of Canada. The establishment of two or three offices in major cities in that country could be most effective.

6. Special emphasis should be placed by the government and private industry in developing more incentive travel programs and convention business from Canada to the United States.

ASTA is particularly impressed with the enthusiasm and positive approach which you have shown as Chairman of the Committee to solicit the views of all who are so deeply involved in the tourism industry. Many of the proposals contained in this letter and our letter of January 10 would have an immediate and substantial impact on the promotion of tourism to the United States. Other suggestions would require a longer period to become effective. However, they are all based upon the necessity of a two-way flow of tourism to and from the United States.

The establishment and development of a country's tourism industry requires resourcefulness, hard work and patience. The U.S.—a country with a gross national product of $800 billion, 45 per cent of the world's total—has these qualities in abundance.

For the government to cut off the flow of tourism by our citizens to those countries throughout the world which have relied on us for the development of a healthy economy through tourist receipts would be a tragedy not only for those countries, but for ours.

Even the temporary interruption of the flow of tourists from the United States would, in ASTA's view, doom efforts to increase tourism to this country. This mistake need not be made. The dramatic 30 per cent increase in tourism to the United States in 1967 clearly indicates that your objectives and ours can be realized.

ASTA pledges the support of the travel agency industry to the preservation of two-way travel and tourism and to the attainment of our mutual objectives.

Sincerely,

GEORGE L. FICHTENBAUM,
Executive Director.

Mr. FRANKEL. Thank you.

The CHAIRMAN. Mr. Frankel, we thank you for your statement, sir. Are there any questions? Mr. Ullman.

Mr. ULLMAN. Mr. Frankel, your organization represents the travel agents of this country?

Mr. FRANKEL. That is correct.

Mr. ULLMAN. And you are speaking for them; is that right?

Mr. FRANKEL. Yes, sir.

Mr. ULLMAN. Are you interested in both, and I assume you are, foreign travel and domestic travel?

Mr. FRANKEL. We are.

Mr. ULLMAN. What percentage of your business is in foreign travel and what percentage in domestic travel?

Mr. FRANKEL. Are you referring to my own particular business?

Mr. ULLMAN. No; I am referring to the industry.

Mr. FRANKEL. As I have stated here, international travel is represented by the figure of 60 percent.

Mr. ULLMAN. 60 percent?

Mr. FRANKEL. Yes.

Mr. ULLMAN. Would that include every point outside the United States?

Mr. FRANKEL. Precisely; yes, sir.

Mr. ULLMAN. What are your general financial arrangements? Do you get the same commissions from overseas travel as you do from domestic travel in your organization?

Mr. FRANKEL. Referring to what specifically?

Mr. ULLMAN. Your travel agency commissions.

Mr. FRANKEL. Are you referring to transportation, or are you referring to the overall tourist sales?

Mr. ULLMAN. Let's break it down. What is the situation in transportation?

Mr. FRANKEL. In transportation we do not; no. The rate of commission is lower on domestic transportation than it is on international.

Mr. ULLMAN. Lower on domestic?

Mr. FRANKEL. Yes, but as far as overall tour programs are concerned the commission is identical.

Mr. ULLMAN. If you were selling a package tour to Europe for $400 and a package tour to the west coast for $400 how would that break down?

Mr. FRANKEL. It would be identical.

Mr. ULLMAN. Even though a part of that package tour is transportation?

Mr. FRANKEL. Yes; for the reason that in the domestic programs the airlines do have a level of commission which is equal to the international airlines only insofar as package or tour programs are concerned, as opposed to just point to point transportation.

Mr. ULLMAN. Why has there been such a lag in package tours in this country as compared with the like commodity in European travel?

Mr. FRANKEL. Actually I don't believe that there has been a lag.

There has been and still is a great market for package tours within the United States. They are always available.

Mr. ULLMAN. Including hotel?

Mr. FRANKEL. Oh, yes.

Mr. ULLMAN. Hotels and meals?

Mr. FRANKEL. That is right. You are referring here, sir, to tour programs within the United States?

Mr. ULLMAN. That is right.

Mr. FRANKEL. That is correct; yes, sir.

Mr. ULLMAN. On tours that originate here and for instance, would include the parks and out on the west coast, San Francisco, Portland, Oregon, and back, you do have all-expense arrangements, in other words, comparable to the Europeans?

Mr. FRANKEL. That is right.

Mr. ULLMAN. Well, you may have them but I don't see them advertised very much. I see a lot of travel European tour package tour advertising, but I have seen very little to induce Americans to travel in this country.

Mr. QUINN. Congressman Ullman, if I may clarify that point, the tours available in this country are primarily confined to certain tourist areas, such as Hawaii, Miami, and to a lesser extent the west coast, and these are designed primarily for consumption by U.S. citizens. I think it is true that there is a great deal more that could be done to package tours that would be attractive to Europeans coming to this country.

This is the main thrust of the recommendations we have made to Ambassador McKenney through a cooperative effort by the airlines, and the travel agents, and the hotels, that attractively priced tours can be put together and sold to Europeans; in other words, that they can be made within the economic reach of the average European tourist and through increased promotional programs in Europe Europeans can be enticed to come to this country, and the reference Mr. Frankel made to the 50-percent reduction in domestic airline fares is designed for that purpose.

Also the international carriers are reducing their westbound tariffs substantially to make those elements of the tour much more reasonably priced.

Mr. ULLMAN. Well, in other words, then, Mr. Frankel, when you were referring to domestic travel, you were referring primarily to travel to the exotic places like the Virgin Islands, Puerto Rico, and Miami and Waikiki rather than in the continental United States?

Mr. FRANKEL. No, not really. I thought I included or intended to include California, the Pacific northwest, all of the parks of these United States, but there is another element with respect to domestic travel which must not be overlooked and that is the great use by the American public of the automobile.

In short, there is a tremendous amount of tours available for people in this country to visit our great places in this country, including Washington, D.C. However, so much of it is taken care of individually by the people who do the traveling themselves by virtue of the fact that they put their family in their automobile and away they go.

This is probably a great contributing factor in that there is not

the mass of advertising with respect to the programs in this country as opposed to Europe.

Mr. ULLMAN. I am sure it is, but I think there is a great opportunity to move into the package tour field in this country that you people are overlooking. I know a lot of people like to get on the highways, but I also know a lot of people who are trying to get off the highways and I think that you have a great opportunity to expand the tourist travel in this country through package tours.

Now, turning to European package tours to this country, do you people participate with European agents in the promotion of package tours over here?

Mr. FRANKEL. Oh, yes.

Mr. ULLMAN. You have a cooperative arrangement with them, do you?

Mr. FRANKEL. By cooperative, I don't quite follow.

Mr. ULLMAN. I presume the Europeans sell package tours to the United States, but there haven't been a lot of these. I am most hopeful that when you go to Europe for this conference that this is one of the things that you will push the hardest. I think that the reason the Europeans aren't traveling here is because we haven't promoted a package all-expense tour.

Are you going to actively promote this type of tour arrangement when you go to Europe?

Mr. FRANKEL. Absolutely. Actually, as I have shown in my statement here, and if you will refer to this chart in the appendix you will see that the rate of growth of travel to this country has been tremendous, the percentage. The rate of growth has been constantly increasing, which is the direct result of many devices used for the purpose of bringing groups over here.

There are many groups coming here and more can come, true, and this is the object of our determination in developing this kind of traffic.

For your information, ASTA in its membership has a classification called nonresident active members. These are the travel agents overseas. There are some over 800 of them and we are marshalling these people for the same purpose, to produce and develop programs for their local people to come to this country.

Mr. ULLMAN. Frankly, I am a little bit disappointed in your overemphasis on the problems of limitations on European travel and your underemphasis of what you people can do in the travel industry to promote travel in this country.

Now, I want to urge you, as strongly as I can, to do that in the future. I think that you have been remiss in not promoting American travel. I have been interested in this for a number of years. The reason I asked you about remuneration is because I think that you are making most of your money on selling foreign tours while in most instances domestic tours, with the exception of the islands and Miami, have been a nonlucrative business. I think that there is something fundamentally wrong with that kind of procedure.

We should establish monetary rewards at least equivalent to those for European travel for the people traveling in this country and for agents who are handling business for people traveling in this country.

I would hope that you would give some attention in the industry to doing it. You were critical of Government statistics and I think there is some room for criticism. I think they weren't completely accurate, but I don't think yours were either. You were using, for instance, percentage figures on increases in travel from Europe to the United States but dollarwise I notice on your chart the increase of expenditures by Americans traveling to Europe was $228 million and the dollar-wise increase by Europeans traveling here was only $125 million, so dollar-wise the increase is greater by Americans traveling abroad than it is coming here. Lots of times when you use percentages you are covering up the actual fact.

While I am on this subject, you are talking about the amount of money that foreign airlines spend here in purchasing planes, and this is great. I think this is one of the great industries and we must protect it by all means, but you are using that flat $500 million figure, ignoring the fact that a lot of the dollars, probably most of the dollars, used to buy these planes are American dollars, Export-Import Bank dollars or some other kind of American dollars, and you just simply can't say that this is all inflow because it is not.

When they buy planes with American dollars you just can't call this an inflow of gold. By the same token you are saying that the foreign airlines are spending $130 million or whatever in fees here, but you can't add them here unless you add the like expenditures of the American airlines abroad, and I am sure we are spending more abroad by far than foreign airlines are spending here.

You can't add them on one end without adding them on the other, so to this extent certainly you have been somewhat negligent in your presentation of statistics. By and large I want to say that I hope very much that you will be starting now to devote a lot more of your energy to the plus side of this program, promoting American travel.

Mr. HERLONG. Will you yield to me at this point?

Mr. ULLMAN. Yes.

Mr. HERLONG. In connection with this travel package that you are talking about within the United States, there is today a 5 percent tax paid by the purchaser of an airplane ticket if he is going out to visit a park out in Oregon, isn't that right?

Mr. FRANKEL. That is correct.

Mr. HERLONG. Now, a few years ago we repealed that tax on international travel, did we not?

Mr. FRANKEL. That is correct, in 1947.

Mr. HERLONG. Does that difference of 5 percent have any effect on your encouraging people to travel overseas rather than traveling in the United States?

Mr. FRANKEL. No, sir.

Mr. HERLONG. Does it have any effect on the tourist in that it would cost him 5 percent less for his plane ticket?

Mr. FRANKEL. Yes, it would. For example, I think it can be established that the development of tourism developed simultaneously with the lowering of the cost of travel. The first move of course—I am now referring to overseas travel—was the elimination of the tax.

Then came the innovation of tourist-class traffic on airplanes. This immediately created another surge in travel, after which came the

excursion fares, and then of more recent times we have what is known as the GIT fares—group inclusive tour fares.

In other words, each time that the fares have been reduced the effect was to reach into other areas of the economy with respect to the ability and capacity for people to spend more for travel. It has reached another economic level.

Consequently, it is reasonable to assume that the imposition of any tax would have the reverse effect.

Mr. HERLONG. Yes, sir.

Mr. ULLMAN. I would just like to add the comment that there has been a lot of talk about restricting travel, and I don't think anybody really has proposed an actual restriction on foreign travel. What we are talking about is a tax on foreign travel.

We pay taxes on a lot of things and I was going to add I would hope that we can keep the tax to a minimum for those people who travel once in a lifetime and who go to Europe and travel economy, but I just happen to think there is some justification for putting some tax burden on the people who spend a great deal of their time and a great deal of money abroad in these times when we do have a national crisis on our hands.

This gold problem isn't something that you can laugh out of existence. It is critical. I happen to think that the problem of the dollar is one of the most critical problems that we have in this Nation of ours and it is not easy to solve.

As far as I am concerned I don't want to restrict travel on the people who are going on an economy basis, but I just happen to think that there are a lot of dollars, and millions of dollars, being spent abroad that shouldn't be spent and I think the tax, if we could devise one that would be fair and I think it is possible, might be desirable in this period of really national crisis with respect to the dollar.

Mr. HERLONG. Will you yield to me at that point?

Mr. ULLMAN. Yes.

Mr. HERLONG. I would like to know what percentage of your travel overseas is in what we call package deals? GIT you called it I believe.

Mr. FRANKEL. That is only one phase of it. The GIT program refers to a specific inclusive tour program, but there are other tour packages. There are all sorts of arrangements for tour groups moving. All I can give you is an estimate.

Mr. HERLONG. That is what I would like for the record.

Mr. FRANKEL. I would say that about 80 percent of the travel is by the package route in one form or another.

Mr. HERLONG. And you say your commission on the package route within the United States and overseas is exactly the same.

Mr. FRANKEL. The rate of commission is the same, yes, sir.

Mr. HERLONG. That is not true if it is not a package deal overseas.

Mr. FRANKEL. That is correct.

Mr. HERLONG. Thank you.

Mr. ULLMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Curtis.

Mr. CURTIS. First, I want to get our hearings here in context. I had thought that this matter was presented to us not as a revenue measure, but to restrict travel expenditures abroad. I am interested in getting

revenue too, but I don't know that the committee even has an estimate of how much revenue we might get because it has never been presented to us as a revenue measure by the Government witnesses.

Of course I hate to see our tax laws used for purposes other than raising revenue.

Now, the other thing is that there seems to be a fundamental disagreement on what the actual problem is in this one area. To me the question is, can we make something, which is growing quite fast, grow faster? If we can, fine, but we should recognize that it is growing fast.

My colleague from Oregon refers to lags and failure to do things, but the statistics that you have given us on page 16, and I think they are accurate, agree generally with other statistics that I have gotten, and if this isn't true I hope that the government winesses or someone would come in and point out wherein they are wrong. I am referring to page 16 and I will repeat it for emphasis:

*** * * expenditures in the United States by foreigners are estimated to have increased by 71 percent during that same period and, again most significantly, expenditures by European and Mediterranean area residents visiting the United States brought the largest gain in this total—these increased by 135 percent—considerably more than double in these same six years.**

These statistics show something that is growing, I would say, quite fast. It looks as if it is a healthy growth, too. I have suggested that I think this growth is primarily related to the increased standard of living of the Western European countries and Japan and hopefully others. This table you put in here bears right on that point.

We have what looks to me like a very healthy thing and something that we can count on to ease this imbalance in tourism if we don't mess it up. Believe me, I have seen the Government mess plenty of things up and I am more worried about that, I might say to my colleague from Oregon, than I am in trying to look over the shoulders of the private sector.

Whether you are responsible for this or whether you just latched on to something that was growing, at any rate, the fact remains that we have something that is growing and growing very rapidly.

Now, do you have any data that would be helpful that would show us how much private investment in this area has increased in this period of time? Surely this kind of growth did not occur within the private sector investing additional money both in current expenditures as well as in what we might call capital investment in this area of promoting travel to the United States.

Mr. FRANKEL. I think we can get figures on this item.

If you will please refer to page 6, if I may call your attention to a quote there, that the 17 European airlines have spent $1.64 billion on promotion and the like, and I am sure we could break these figures out and give you a correct figure on what they are spending on promotion.

I can say this: I know of one carrier, an American-flag carrier, that has spent some $7 million in Europe to promote travel to these shores, and more of it is being done and I believe that these figures can be developed very easily.

(The following information was received by the committee:)

United States airlines will increase their promotional efforts by 53 percent in 1968, thus making a total of approximately $17 million in media advertising

alone. The statistics on promotional investment by the maritime industry are to be supplied directly to the committee.

Robert E. Short, National Chairman of Discover America, Inc., has stated that his organization will increase travel promotions along the Discover America theme to more than $300 million in 1968.

Other witnesses who appeared before the committee will be supplying additional economic data in connection with total expenditures by private industry including foreign airlines.

Mr. CURTIS. In that area, but there are a lot of others.

Mr. FRANKEL. That is just one of them.

Mr. CURTIS. Yes, that is just one, and McGraw-Hill has pretty good national figures on industry's plans to increase expenditures on travel promotion. I would be very interested in seeing the planned growth in this area because this leads to this question of what is going to happen to this planned growth in light of this curtailment of private investment that the administration has as part of this overall package?

Could you comment on this? It is almost bound to cut this growth back, is it not?

Mr. FRANKEL. Well, this is what we attempted to show here this morning, that this problem does not stand by itself. It is interrelated with so many other factors and we feel, as we have projected our thinking particularly to the matter of travel and tourism, showing what we believe, we feel fearful of the ultimate results of any curtailment or any imposition or any tax that would tend to impede travel.

Mr. CURTIS. No; I am trying to break this down a bit. I was relating to private investment in the area of expanding promotion of tourism in this country. I am trying to narrow this down because it strikes me that it would be helpful if we could get these figures of what presently is being spent, then some idea what present planning is, and then superimpose on that what these investment curtailments might do.

In other words, it just seems to me to be incongruous for the administration to come in and say let's cut back on private investment abroad in this area, well, in all areas, and then come in, and I am going to get to this in a minute, and recommend that Government spending be increased for the very same purpose, namely, promoting tourism in the United States.

Those dollars, if they are effective, should be spent probably in Europe and Japan, so it is going to have the same impact on the balance of payments as expenditures of private dollars. The only difference is, in my judgment, that the Federal dollars will be spent much less wisely because there is no discipline of the marketplace on private spending. Private industry is more apt to get results with each dollar spent.

I am trying to develop private spending in this area because I am anxious to see this healthy growth, and it is relatively fast, continue. With all the good intentions in the world this administration can really damage tourist promotion. I am talking about this one area now.

I agree, incidentally, with what else you pointed out, but I am trying now to relate it to this one thing. How can we make something that is growing quite fast grow faster. If we can make it grow faster in a healthy fashion, why, sure, but at the same time if it is growing fast and we don't recognize it, we can damage it.

So I would like to have any comments that you could supply for the record during this hearing or that anyone else has as to what this whole package might do to the growth of tourism in this country.

Now, again I am just repeating questions that I have asked other witnesses. You refer on page 25 to the McKenney Task Force. I thought that it had recommended something in this area of modernizing our visa laws. Did they?

Mr. FRANKEL. This is a matter being treated by or recommended by the McKenney committee.

Mr. CURTIS. The reason I am a little critical is why you don't point up this fact because this will do more in my judgment to make something which is growing fast grow faster and in a healthy way.

Mr. FRANKEL. The American Society of Travel Agents is on record, has been for many years, as supporting the concept of making it as easy as possible for the movement of peoples between countries.

In other words, we have always supported that concept.

Mr. CURTIS. Yes, but here is the quorum and the issue and here is where to drive the thing home.

Mr. FRANKEL. I agree.

Mr. CURTIS. I would like to know a little more about this. I have heard by just talking with people that there is this problem. I have also heard that there have been recommendations. I don't know whether it needs legislation or it can be done by Executive order. Probably it is a combination.

But for heaven sakes if we want to improve this area of visas, this is a proper place to discuss it and at least let us know what can be done. Maybe action could be spurred if a little publicity were given to the fact that this administration, while it is talking, has been failing to act in an area where it could act right now.

This is in context, too, in your addenda here, your letter to Ambassador McKinney on January 10, 1968, recommendation 6:

> Prompt consideration should be given to extending tax incentives for U.S. tour promotors . . .

Well, heavens, before you even get to asking for that kind of thing you had better be sure that you are not going to have impediments which are part of this package, thrown in the way of promoting them. Yet I have to bring this out in cross examination of the witnesses.

I would think if these points are valid they would be emphasized.

Mr. QUINN. Mr. Curtis, if I may——

Mr. CURTIS. Certainly.

Mr. QUINN. The recommendations to Ambassador McKinney were made on January 10 and the recommendations we are addressing ourselves to didn't come until February 5. I think you are perfectly right that we now double impediments and I can't get the tax incentives until you remove the burden of taxation itself, which the plan would do to those people who are now investing money in Europe.

Mr. CURTIS. Frankly, I would like to take a look at the growth of this industry which looks healthy to me. It looks like fast growth. It looks like you can make a good buck here. Why in the name of heaven do we need tax incentives and why do you come wanting us to spend more money through the Federal sector, through the USTS. I don't like this business of constantly running to the Government to do things

that seem to me clearly can be done in the private sector because there is enough remuneration.

You ought to be putting in your own research and development, but we are in trouble because everybody takes the easy way, comes to the Federal Government, and then spends this easy money. I would ask you to review these recommendations of yours of whether you really do want USTS to be spending this money to promote travel in this country or whether you don't want to do it yourself.

Mr. FRANKEL. If I may.

Mr. CURTIS. Certainly.

Mr. FRANKEL. There is a difference here in that we recommend that the efforts by the USTS and the expenditures accorded them be on parity with what other governments are spending to attract people from this country.

Mr. CURTIS. Let me stop you there. Good Lord, this country is the one that should be setting the example of private enterprise, not copying these other countries that have never learned private enterprise. Why do you come in and say that because other countries use their governmental sector in what I would say is a foolish way we should copy them?

Mr. QUINN. Mr. Curtis, if I may, I don't want to get involved in a philosophical discussion about Government spending——

Mr. CURTIS. This is not philosophical. This is the thrust of the matter.

Mr. QUINN. The thrust of our recommendation is that there should be a cooperative effort by Government and industry. The Government, we feel, has a part to play; but industry has perhaps a more major one. We point out one interesting aspect of the proposal is not only would it not reduce Government spending, but according to the Customs Bureau in a press release or a wire service report on February 6 just to enforce the new recommendations the Customs Bureau would have to hire 535 more people, and the cost of that if you also include the cost of——

Mr. CURTIS. Don't they have any productivity increase in this kind of endeavor? It looks like the Government is the only place where you don't have productivity increase. You always have to have more people if you do more things. I reject that thought too. But go ahead.

Mr. QUINN. The point is, I think there has been no estimate as to how much it would cost to enforce this program; so if you are talking about Government effort overall, this should be taken into consideration.

Mr. CURTIS. We are probably on different wavelengths here, but it is, in my judgment, a very crucial thing to make these determinations. I, incidentally, reject this very idea of partnership with the Government.

Look, Government is a servant, not a partner of the people. You have it in your recommendations as a partner and this can only lead to trouble. I think the Government has a proper function and certainly can help in this area, but you put it in only because it has been and is easy to get Federal money.

Your objectives are fine. I agree with the objectives, but as I said to the other witnesses, it leaves me cold when I find that this problem

has been presented—and I share your rhetoric of the damage it is going to cause—as a little bit of a lever to try and pry more money out of the Federal Treasury through the USTS. That is why I have shown the heat I have to the witnesses.

It looks like you have used this to a degree as a gimmick to get more money in USTS, and that isn't the way to go in my judgment.

The CHAIRMAN. Mr. Betts.

Mr. BETTS. Mr. Frankel, on page 9 you refer to the possibility of tourists going into Canada and Mexico and purchasing tickets for visits abroad.

Mr. FRANKEL. Yes, sir.

Mr. BETTS. Do you think that this would be a significant loophole?

Mr. FRANKEL. Yes, quite so. As a matter of fact, they would be able to not only buy their tickets in Canada or Mexico, but even from abroad. The tickets could be mailed.

Mr. BETTS. I was just wondering since I don't know too much about passport complications they might run into, but I don't think there would be any——

Mr. FRANKEL. Unless some device would be used to plug this loophole it would be a serious matter.

Mr. BETTS. What device do you anticipate could be used? Certainly passports from Canada to some European country is where the problem would be found, wouldn't it?

Mr. FRANKEL. Yes, sir. See, within the United States I think this could be controlled by the accepting carrier on the presentation of a ticket if the traveler happens to be a U.S.——

Mr. BETTS. I didn't follow that, something about carrier.

Mr. FRANKEL. I mean the carrier that is being used by the passenger.

Mr. BETTS. For instance, if he goes to Canada on an airline——

Mr. FRANKEL. That is a problem and I don't know how it could be stopped. I have no suggestion to make here at all.

Mr. BETTS. I was interested because I have heard suggestions about this way of avoiding the tax but I hadn't heard it mentioned by a witness. I am reminded by the staff that the tax of course so far as spending overseas couldn't be avoided. What you are referring to I assume is the transportation tax.

Mr. FRANKEL. Transportaion tax, yes, sir. Actually there is historic precedent for this. Years ago when the tax did apply we had that problem.

Mr. BETTS. The staff also advises me that if he buys his ticket in Canada then automatically he would have a higher expenditure tax. Is that correct?

Mr. FRANKEL. I don't follow.

Mr. BETTS. The expenditure tax would be at a higher rate, is that correct?

Mr. QUINN. Mr. Betts, my understanding is that the overall proposal is intended to add a 5 percent tax on the cost of transportation from the point of departure in the Western Hemisphere to the point outside the Western Hemisphere, so the tax rate would be the same; namely, 5 percent, but it would have to be collected on the expenditure rather than as a transportation tax.

Mr. BETTS. So the only possible loophole would actually be on the transportation tax; is that correct?

Mr. QUINN. Yes.

Mr. BETTS. Would that be significant do you think?

Mr. FRANKEL. Quite.

Mr. BETTS. How much? How significant? Do you have any estimate?

Mr. FRANKEL. Well, it depends on the gateway that is being used. In other words, the way the recommendations have been made if the first port of call would be, say, London it would make a difference as we talked about Rome or Athens. If you would fly to Athens, for example, and use that as the first point of arrival, we are talking now I would say about a $700 fare or $800 from New York, so we are talking about a $40 tax.

Mr. BETTS. You think a significant number of travelers would take advantage of that?

Mr. FRANKEL. I think so, yes.

The CHAIRMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Frankel, I think you have given us a very good statement. I think you have given us a lot of good facts and figures. You do state that your group is suspect of some of the statistics given by the Treasury Department and particularly you are critical of this figure of $9.63 per day on the average cost for tourists.

What is the estimation of your group of what the average expenditure abroad is if it is not $9.63? I notice on page 12 you have a figure at the top of the page of $27.36 but I don't think that is a correlated figure, is it, because you say $16.73 was the Treasury Department figure.

Mr. FRANKEL. No.

Mr. SCHNEEBELI. What is your figure compared to the $9.63 of what you think that should be? I think this is important because we are going to possibly consider the figure as a base for our computations.

Mr. FRANKEL. We don't have a basis for this for the reason that these people most likely just traveled abroad for the sake of visiting family or friends and stayed with them. There were no hotels involved so there would be no way of determining it.

Mr. SCHNEEBELI. I think this figure is important because if we do follow along the lines recommended by the administration of so much percent over $7 and so much percent over $15, I think if the $9.63 figure is incorrect, we would need to have the correct figure. What is the estimation of your group?

Mr. FRANKEL. We have no estimate.

Mr. SCHNEEBELI. Could you get us one?

Mr. FRANKEL. We can try to get this information. However, as I state here, we are now addressing ourselves to the average traveler.

(The following information was received by the committee:)

An ASTA survey conducted early in the week of March 4 among 12 of the largest tour operators involved in travel to Europe and the Orient showed the following results:

Cancellations from the first of the year have raised from 5 percent to 20 percent and average 12 percent.

Advanced bookings as of the end of February were down from 20 percent to 40 percent compared with the same period last year. The average reduction of advanced bookings was 32.5 percent. One major element in foreign travel has been particularly affected. This is the incentive tour program which is used by many corporations as rewards for performance. Three major tour operator pro-

ducers of incentive groups reported bookings outside the Western Hemisphere have been virtually eliminated; they are down 90 percent compared with the same time a year ago. These companies report that many of these incentive tours have been diverted to the Western Hemisphere, including the United States.

As far as the other tour operators are concerned, since they specialize in their particular areas, they have no way of reporting the degree to which travel business has been salvaged through diversion to the Western Hemisphere. However, ASTA's own survey of its member agents, shows that at the retail level, only 14 percent of business lost to non-Western Hemisphere destinations has been held by diversion to the Western Hemisphere.

In summary, travel business outside the Western Hemisphere among these twelve major tour operators is down 44.5 percent through cancellations and fall off in advanced bookings. Little has been recovered in terms of travel in this hemisphere. Incentive group travel outside the Western Hemisphere is virtually eliminated.

Thus, two points are clear: the mere discussion of these proposals has already had a major effect on reducing expenditures by U.S. citizens overseas, and, second, that the effect on the industry itself is so severe, that many are threatened with the extinction of their tax-paying businesses; no travel agent or tour operator is large enough to survive an extended period of business loss of this magnitude.

Mr. SCHNEEBELI. That is right, and the administration only talked about the 5 percent on the relative visiting group.

Mr. FRANKEL. Precisely. And they represent only 10 percent of the travelers.

Mr. SCHNEEBELI. That is correct. I agree with you, but I would like to have a more substantial figure if you have it because I think it is quite important in our consideration.

Mr. FICHTENBAUM. This is referring to the same survey which would perhaps give you some indication although we can report in more detail that the low figure reported in this survey ranged in the $14 and $15 range. There was no figure lower than that as an average.

Mr. SCHNEEBELI. So it could conceivably be double the administration figure.

Mr. FICHTENBAUM. Yes, at the low end.

Mr. SCHNEEBELI. And when we talk about a 30-percent tax on everything over $15 a day we are talking about the area in which the average traveler would be subject to tax?

Mr. FRANKEL. Precisely, yes, sir.

Mr. SCHNEEBELI. And the $9.63 would lead us to think that they would not be subject to this higher tax.

Mr. FRANKEL. Correct.

Mr. SCHNEEBELI. It is your contention that they would be over rather than under the $15 area.

Mr. FRANKEL. Yes.

Mr. FICHTENBAUM. $15 is the low end and $27 is the average American traveler.

Mr. SCHNEEBELI. On page 23 you talk about the projected loss and reduction of business to Boeing aircraft if the proposals are enacted. Actually a lot of other companies would have a loss as well. I am interested if you could get me the figures on the loss of business as well as the possible loss of income tax returned to the Federal Treasury that would be suffered by, first, the manufacturers of aircraft, second, the transportation companies themselves, and third, by the people in the travel industry, the travel agents.

These are the three large segments it seems to me which would lose money in the event this proposal were put into effect and it could conceivably be that the revenue loss to the Federal Treasury would be greater than the income they would get from the proposed taxes themselves.

I don't know that we have a definite figure of what the new taxes would bring in. Somewhere between $400 and $500 million I think is the figure proposed that would be the income from the travel tax.

If you can provide to us the projected estimated loss to the Federal Government, Federal Treasury, in income tax from these three segments I think it would be a figure to be.

Mr. FRANKEL. We will endeavor to get it.

(The information referred to follows:)

(The following information was received by the committee:)

The information supplied on p. 521 is the best effort that we can make in connection with that general question.

Mr. SCHNEEBELI. Thank you.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. I too would like to congratulate you on your statement primarily because it ties together some of the other ramifications that follow the natural result of the proposal.

It just doesn't stand by itself. I was wondering, though—you didn't comment that some of the members of your association have already experienced a cancellation of tours. Would you have any information as to whether or not there has been any increase in the amount of travel to the exempt areas as a result of the announced intention of the Government to ask the Congress for this particular law?

Mr. FICHTENBAUM. If I may, Mr. Congressman, the same survey indicated a relatively small percentage. Approximately 3 percent of those clients that had booked to outside the Western Hemisphere have shifted to within the Western Hemisphere, only 3 percent.

Mr. BATTIN. The testimony as I remember, of the Government witnesses indicated that they felt that it would be a very small shift to this of people who were going to a destination for a reason rather than just for the vacation.

Mr. QUINN. Mr. Battin, if I may, in a very recent survey, published this morning in Travel Weekly, conducted of 100 agents on the west coast it established ironically, that the areas that are suffering most from the proposals on tourist restrictions are Hawaii and Mexico.

In other words, the confusion about the proposed travel tax is so great in the mind of the average potential traveler, and I quote here, "Asked in which tourist areas the earnings have thus far been most adversely affected the agents listed Hawaii first and Mexico second" and Europe and the Orient, the objective of these restrictions, were following those two areas.

Mr. BATTIN. I am informed that the request for visas in this country has gone up 15 percent, so I wonder if in the overall we are not finding ourselves in a rather peculiar position. Maybe the tax should be 100 percent instead of the recommended 15 to 30 percent if the objective is to be fulfilled.

I would like to just close on this. I don't want to unduly prolong this. I think the statement that you have made dealing with the people that

you represent is a very good statement because it deals with your problem.

You know what is going to happen in your industry, and too often people come before the committee kind of apologizing for the position they have taken because it somehow seems to affect them.

I think it is important that you take the frank way that you have to explain to us how this affects a segment of American business and I think for that reason particularly you should be complimented.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Thank you, Mr. Chairman. Mr. Frankel, I am under the impression the British recently imposed very severe currency limitations on Englishmen traveling abroad. Is that correct?

Mr. FRANKEL. Yes, sir.

Mr. CONABLE. Has that had the effect of very sharply reducing British travel, recreational travel particularly?

Mr. FRANKEL. Well, it would limit them, and, as far as the habits of the British are concerned in their travel, it inhibited the possibility of the facility for them to use, or, putting it another way, it hampered them from really traveling to other countries.

What they did mainly was go to some resort area, usually the Canary Islands, Majorca, and the like where they go to one destination and spend a vacation, where maybe the equivalent like people in this country would go to Florida or the West Indies or some resort area, and that is the extent of the travel.

Mr. CONABLE. Has it reduced the number of Englishmen coming to this country substantially?

Mr. FRANKEL. I don't know.

Mr. FICHTENBAUM. It has increased it actually.

Mr. QUINN. I think there is one provision of that—the British approach. It is intended to restrict the amount of expenditures to 50 pounds, but it does not include the amount of money paid for transportation, or hotel facilities, or other costs in connection with the trip.

In other words, if it is prepaid in Britain it is my understanding that the 50-pound limit does not come into play.

Mr. CONABLE. In other words, the British are going after the big spenders, not necessarily the travel institutions themselves?

Mr. QUINN. It appears to be more designed to accomplish that purpose.

Mr. CONABLE. May I ask if there are other similar or other different types of currency limitations imposed on the citizens of other European countries who travel abroad?

Mr. QUINN. I think Britain is the only country in Europe that has a restriction of any type. Japan has a restriction on tourist expenditures, but again with the provision for prepayment, therefore making the effect quite different.

The proposal of the Treasury Department would be, as we interpret it, not to restrict expenditures, but to restrict travel. In other words, the tax burden would be sufficiently great because of its design to place a price tag that is just too high to be paid.

Mr. CONABLE. Is the proposal the administration has made to us here unique then in the Western World?

Mr. QUINN. To our knowledge it is, yes.

Mr. CONABLE. There has not been any reduction in British travel to this country.

Mr. QUINN. We can supply the exact statistics, the plan hasn't been in effect for a great deal of time and I am not sure whether there has been an opportunity to develop them. There is no indication of a substantial decrease. We would have to supply for the committee whatever current statistics are available.

(The following information was received by the committee:)

Approximately 18 months ago, the British Government imposed a currency restriction on citizens traveling out of the country, by limiting to £50 the amount of money persons traveling for personal reasons could spend. A provision was made for prepayment of transportation costs which did not apply to the allowance. The effect of the currency restrictions is unclear. However, there are some indications that it has not served as a deterrent to tourism. For example, according to the statistics of the United States Department of Commerce, tourism from Britain to the United States during 1967, the first full year when the restriction was in effect, tourism increased by 18 percent.

The British travel industry strenuously opposed the imposition of this currency restriction when it was initially proposed. We are informed that a new effort will be made very shortly to convince the British Government to abandon the currency restriction on the theory that it has not been effective, and it has led to evasion and, is in general, an undesirable and restrictive measure.

Mr. CONABLE. I would be interested in knowing if this had any reverse effect also, if it reduced the number of people visiting England by any chance. The reason I ask that is that many witnesses have assumed retaliation on the part of those countries who are going to be hit by our particular travel ban and I don't quite follow why there should be retaliation.

Mr. FRANKEL. We believe that there will be retaliation by virtue of the fact that so many of these countries depend so heavily upon the tourist traffic, on the tourist dollar.

In short, their economy is pretty well geared to the receipt of the tourists and this in turn makes it possible for them to buy their goods from our country and if this source should dry up or be impeded they will not have the dollars to use as they have in the past.

Mr. CONABLE. That is not retaliation, though. That is simply a reduction of their revenues available for travel.

Mr. QUINN. I think we have to distinguish between retaliation on the government side and the retaliation in the mind of the average traveler. The reaction of the people in Europe on the proposals has been, as I understand it, very negative.

Mr. CONABLE. Thank you.

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. Thank you, Mr. Chairman. Mr. Frankel, as I go over your statement you apparently don't have any objection to the duty-free exemption. You could just eliminate that entirely and start with the first dollar. You say nothing about it, so I gather that at least on this issue the group that you represent would have no objection to taking away the $100 duty-free exemption. Is that correct?

I am just trying to find something here that we can start with.

Mr. FRANKEL. No, not precisely. We question whether the reduction in the duty-free allowance would produce the benefits—paraphrasing here—"Outweighing the tremendously increased administrative costs which would be necessary to police them."

Mr. VANIK. The matter of costs is something that should be more the concern of Treasury. If the average traveler brings over something more than $100, the administrative costs are there, anyway, and just taking away the exemption would mean closing up this little bit of loss of revenue for that portion of it that would come within the $100 limitation.

This is not a serious issue, is it? Really?

Mr. FRANKEL. No; if you are qualifying it as not being serious I must agree that this is not a serious issue.

Mr. VANIK. Your complaint about the 5-percent tax is made in restrained terms if I gage the statement correctly. I have always felt that it is discriminatory to all the other taxpayers to make the great many people who never ride airlines at all contribute to the cost of developing the supersonic jet. I have sponsored legislation here in the past in which I felt that a 5-percent tax ought to be imposed on people who travel fast and want to travel faster so that they become the select group of people that ought to contribute as prime beneficiaries to a commercial aircraft development fund, and it seems to me that this 5-percent tax is a modest contribution that should be made by a special group of travelers who are distinguished from the general public.

Perhaps 99 percent of the people will not have the benefits at all of supersonic travel and it is sort of unfair to impose the burdens of this development on all of the people when only a small portion of the population will ever get the benefit.

Is your point on the 5-percent tax something that the industry could live with?

Mr. FRANKEL. Well, putting it bluntly, I presume we could live with anything if we had to.

Mr. VANIK. As distinguished from the per diem tax this would certainly be easier to take?

Mr. QUINN. If I may, Congressman, our position is that the combination of the transportation tax plus the reduction on duty-free allowance tends in our design, according to the Treasury's presentation, to discourage travel. In that respect, we think they are objectionable.

Mr. VANIK. We took the tax off luggage a few years ago and that should have been an incentive. Maybe we shouldn't have been so hasty about anything like that. A small 5-percent tax on the airline fare and certainly taking away a $100 exemption isn't going to depreciate anybody's interest in travel.

Do you think that is going to be substantial?

Mr. QUINN. It is difficult to measure its effectiveness. I think it would have a cumulative effect and therefore to our mind it is objectionable. The only rationale used by the Treasury Department to justify imposing a 5-percent transportation tax was that there is one now for domestic travel.

Mr. VANIK. Well, I can't see that that is going to discourage very many people if you impose a 5 percent tax, particularly when it makes only a small contribution toward the general taxpayer's expenditures to develop commercial air traffic techniques and controls.

It is not even paying its way. It is making a very minor contribution to the cost of the general taxpayer. Let me go to the next point.

You say that the average tour abroad is about 28 days. Isn't that the figure, or 27 days? If there was an exemption granted for travel under 30 days would that take care of most of the people that are involved in travel? I was checking the passport figures of 1965 and 1966 and they indicated that 14 percent of the travelers indicated when they applied for this transportation, for their passports, that they intended to stay abroad less than 30 days.

Has your industry made any effort to find out how many long-range travelers we have, some of the people that have been abroad for 10 and 15 years who haven't been back here at all, probably a million or 1,200,000 of them who are spending American dollars every day rather extravagantly in some places and have never come back here.

Do you think that they should be granted this special privilege?

Mr. FRANKEL. If there would be some way of determining who they are and where they are, perhaps that would be an area in which some tax could be made, but we refer to the average traveler, and I think it is the desire of the administration and all concerned not to overly penalize the average traveler, and according to the statistics which we have developed we find that the average length of stay is roughly around 26 point something days.

Mr. VANIK. So that a 30-day exemption would take care of most of the industry's concern.

Mr. FRANKEL. I would say so; yes, sir.

Mr. QUINN. If I may——

Mr. VANIK. Yes.

Mr. QUINN. It may exempt or remove a substantial number of tourists from the burden of the plan, but I think the plan would still be objectionable in that it is based on the concept that there is a need to impose restrictions which, in the first place, quite frankly, we don't feel is true.

Also if you make the exemption 30 days, the average student, according to some studies we have done, stays 60 days.

Mr. VANIK. Students are in a different class, perhaps, and people who are there to better their education are there under different circumstances. They don't contribute very much to the imbalance and they tend to live in hotels and the dollar outflow isn't substantial.

When I think of a 30-day exemption I also think of students and the bona fide educators that are out developing their talents and I don't think they contribute too much to the imbalance. They certainly live within the minimum daily allocation here and would probably be exempt for the first 30 days, anyway, but if we were to exempt the first 30 days that would take care of a good part of your problem, would it not, without being disruptive to the industry?

Mr. FRANKEL. Yes.

Mr. VANIK. In other words, I just don't think that to take a position against everything is wise. The mere fact that we are talking about this tax area, reduces costs in many places in the world, I think this discussion is probably serving to reduce the hotel rates all over Europe. It should have some impact, so that actually the taxpayer who pays a little tax may find because there is a tax the prices have gone down and so that really what he may be paying this Government

might be just part of the savings that result from reduced travel pressures abroad and the tendency to inflate accommodation and food rates abroad to an impossible figure.

Mr. QUINN. If I may, the other side of that coin, though, is the amount that a hotel or airline charges for the use of an airplane seat or hotel room is in relation to the market it is able to attract.

If you cut the market in half the argument could be made the price would have to be doubled in order to make up for it.

Mr. VANIK. You mean they are going to double their rate because half their rooms are filled? I don't see that at all.

Mr. QUINN. In other words, by reducing the overall market you are going to reduce the amount of money that they use in the pricing scale, so I think it can be argued that it might have a tendency just the opposite.

Mr. VANIK. I would like to argue that any time. I think I take the other side of that. I have just one other point.

Is my figure correct that I quoted from one of your publications that only 14 percent of the people who applied for passports in the last 2 or 4 years indicated a stay of less than 30 days and that 86 percent indicated a stay of longer than 30 days? Is that correct?

Mr. QUINN. I am not sure, but I would be happy to review the statistics and supply an appendix.

(The following information was received by the committee:)

The January 1968 report of the Passport Office Bureau of Security and Consular Affairs of the United States Department of State stated as follows:

"*Proposed Length of Stay.* Eighty-three percent of the passport recipients during the calendar year 1967 planned trips lasting less than six months. Of this group, 61 percent indicated trips lasting one month to less than two months; 19 percent planned trips of less than one month; and 3 percent planned trips lasting from two months to less than six months."

Table 10 of the report entitled "Proposed Length of Stay" for the year 1967 and the same report in Table 8 entitled "Object of Travel" for the year 1967 are attached.

We have been advised by the Passport Office that it does not now currently cross-tabulate its statistics on the object of travel with the estimated length of stay for applicants of passports. However, this information could be compiled with relative ease by the Passport Office.

TABLE 8.—OBJECT OF TRAVEL (BY MODE OF TRAVEL—DEPARTURE)

	October through December						Percentage change 1967 over 1966	January through December		Percentage change 1967 over 1966
	1967			1966						
	Total passports issued and renewed	Percentage distribution of total departures		Total passports issued and renewed	Percentage distribution of total departures			Total passports issued and renewed		
		Air	Ship		Air	Ship		1967	1966	
Total	236,652	99	1	210,362	97	3	+12	1,685,512	1,547,725	+9
Non-Government travel	209,210	99	1	170,400	97	3	+23	1,524,390	1,332,140	+14
Personal reasons	108,640	100	----------	66,800	98	2	+63	638,790	483,240	+32
Pleasure	71,660	99	1	69,690	96	4	+3	670,880	651,220	+3
Business	23,910	99	1	27,910	98	2	−14	140,700	135,250	+4
Education	2,990	97	3	4,020	99	1	−26	61,270	51,750	+18
Religion	1,150	98	2	1,660	97	3	−31	7,750	8,280	−6
Scientific	600	100	----------	170	100	----------	+253	2,720	1,690	+61
Health	260	93	7	150	95	5	+73	2,280	710	+221
Government travel	27,442	100	----------	39,962	99	1	−31	161,122	215,585	−25
Military travel	14,570	100	----------	16,040	99	1	−9	74,260	90,770	−18
Military dependents	9,962	100	----------	15,152	99	1	−34	63,102	93,174	−32
Civilian Government travel	2,910	98	2	8,770	96	4	−67	23,760	31,641	−25

TABLE 10.—PROPOSED LENGTH OF STAY

	October through December						Percentage change 1967 over 1966	January through December		Percentage change 1967 over 1966
	1967			1966				Total passports issued and renewed		
	Total passports issued and renewed	Percentage distribution of total departures		Total passports issued and renewed	Percentage distribution of total departures					
		Air	Ship		Air	Ship		1967	1966	
Total	236,652	99	1	210,362	97	3	+12	1,685,512	1,547,725	+9
Up to 1 month	31,860	99	1	46,600	98	2	−32	322,240	208,620	+54
1 to less than 2 months	155,410	99	1	90,060	98	2	+73	1,034,700	934,420	+11
2 to less than 6 months	2,480	93	7	4,700	82	18	−47	40,940	50,330	−19
6 to less than 1 year	3,700	94	6	4,180	96	4	−11	18,430	21,030	−12
1 to less than 2 years	10,200	99	1	15,840	95	5	−36	69,630	67,550	+3
2 to less than 4 years	20,070	99	1	31,210	98	2	−36	119,930	172,510	−30
More than 4 years	10	100	----------	210	100	----------	−95	420	1,810	−77
Not stated	12,922	99	----------	17,562	97	3	−26	79,222	91,455	−13
NEXT TRIP EXPECTED WITHIN										
Total	236,652	99	1	210,362	97	3	+12	1,685,512	1,547,725	+9
1 year	2,850	71	29	26,810	88	12	−89	109,280	58,980	+85
2 years	221,800	100	----------	158,920	99	1	+40	1,328,320	1,218,320	+9
5 years	1,650	94	6	630	99	1	+162	59,100	65,750	−10
None or not stated	10,352	97	3	24,002	95	5	−57	188,812	204,675	−8

Mr. VANIK. That came out of a publication, the travel publication, and I have this on my desk. That is it right there. You look up the passport figures and add up those who indicate they are going to stay less than 30 days and it comes to 14 percent and if you add all the others that are staying for longer than 30 days it comes to the 86 percent.

Now, do we have any idea as to what this 86 percent group consists of? Does your organization know whether they go abroad to live or where they might be located and how they might be taxed? They are the big contributors to the imbalance and it is all chargeable to travel deficits.

Mr. QUINN. The statistics I have indicate that the proposed length of stay for the average applicant is less than 2 months for a million applicants and the remaining perhaps 200,000 applicants stay more than 2 months.

Mr. VANIK. Now, in that first publication you have there if you take the figures, the yellow binder publication, if you look there for 1965 and 1966—I don't think we are looking at the same publication; in the original binder publication.

Mr. QUINN. Yes.

Mr. VANIK. I think you will find there that the percentage under 30 days is less than 14 percent and if you add all the others they are for a longer period of time so I have combined them to make up the difference.

Mr. QUINN. I think if you take the 1-month period that is true but the break-off period appears to be 2 months. In other words, if they stay 2 months or less and the application might indicate that——

Mr. VANIK. You get a better figure for my purposes if you go to 30 days or less. I was talking about a 30-day exemption and how this could serve most of the problem.

Mr. QUINN. I think you have to distinguish here between the estimated length of stay for the tourist and the actual length of his trip. In other words, in order to be on the conservative side they might estimate 2 months but actually stay less than 1 month.

Mr. VANIK. You mean we can't believe the average tourist when he voluntarily tells the passport office he is going to stay for a given period of time, not a bit of information that really up to the present time hasn't involved any greater expense or liability or obligation on his part? I am inclined to think that that statement would be true; wouldn't you?

Mr. QUINN. Generally I am not sure what the question is on the passport form. We would have to look into it and analyze it more precisely for the benefit of the committee.

Mr. VANIK. Well, let me ask this question. Would a 30-day exemption take care of the substantial problem of the travel industry?

Mr. FRANKEL. I would say so; yes.

Mr. VANIK. Your answer is yes.

Mr. FRANKEL. Yes.

Mr. VANIK. Then you would have no objection to a severe taxation and restriction for those beyond 30 days excluding students and teacher's; is that correct?

Mr. QUINN. Again it gets back to the problem here. The statistics indicate that over a million people indicated they would stay for 2 months or less and the remaining 400,000 stayed more than 2 months,

so it may well be that there is a large percentage that fall into that second month category.

Again I reiterate as far as we are concerned the approach would be I think objectionable if you pick any number of days.

Mr. VANIK. In other words, you object to any exemption? Your position is one that any kind of limitation at all would be objectionable and you don't want to consider the problem that we are in and recognizing our efforts to try to legislate within a workable framework, something that the industry can live with and something that will help solve the problem, so your position is, if I understand your position correctly, you would oppose an exemption of only 30 days.

Is that correct, then?

Mr. QUINN. I think consistent with the philosophy set forth in our statement that the objective of reducing the balance-of-payments deficit in the tourist area can be attained without imposing any restrictions, so since we would not find any restrictions acceptable exemptions from that wouldn't appear to be consistent with our objective.

Mr. VANIK. Your position then is that you just take a completely negative attitude and say that anything at all would be objectionable?

Mr. QUINN. I think we are taking the completely positive attitude in saying the solution to the problem of reducing the deficit is to increase tourism here.

Mr. VANIK. That is not realistic. We can't do that this year. You know that. It is a completely unrealistic position to expect that increasing tourism in the time that we are talking about would help in any way to solve the immediate problem.

We are faced with a critical problem and, while we encourage tourism here—we want to do all these things—yet in doing those things we can't possibly get that kind of development of tourism in any kind of schedule to meet the critical problem that confronts this committee.

I think it is unrealistic.

Mr. QUINN. If I may, sir; I think the solution has to be on a long-range basis regardless of how you approach it. In other words, saving $500 million this year might consist of considerably more than that next year and the years ahead, so our approach is we have to evaluate the role of tourism in the economy in an attempt to accelerate our positive solution to it.

Mr. VANIK. I was only trying to be helpful. I was only trying to find some way in which we could find something that the industry could live with which would yet meet some of the goals sought and meet some of the problems that the administration is faced with.

I am very disappointed to find that your industry officially takes the position it opposes everything and makes no real constructive effort to help us and guide us other than to tell us we should do other things to increase tourism or reduce the importation of certain things or other products or approach this problem through other ways.

One travel agent said:

> Why, it is terrible that you should impose restrictions on travel and let Scotch whiskey come in without paying more taxes.

And I had reminded him that that is the only way some people travel. They can't go abroad.

It would be totally unfair to deny them the little bit of a foreign trip that they can get in something they can eat or drink.

Mr. FICHTENBAUM. May I advance one thought?

Mr. VANIK. Yes.

Mr. FICHTENBAUM. The suggestion that 86 percent of those traveling would be in the nonexempt status in a proposal of this type indicates the need of a hard look to see whether this does not have the hard defects of the present plan in that it would have a substantial impact on the great majority of average American travel.

I think we would want to take a good look at this to see just what this 86 percent consists of.

Mr. VANIK. I would appreciate that. I frankly feel that just opposing everything that comes along here is not helpful. Just a few weeks ago we were considering the elimination of the excise tax reduction on automobiles and telephones and it was a rather interesting thing that the industries didn't come in and make a big protest over that. They recognized the problem the country is in and I think that it is incumbent upon your industry to help us, to help us find solutions other than to just throw roadblocks into every effort that is made here to try to meet the problem without disrupting or disturbing an important industry.

I certainly hope that you might review the 86-percent figure and consider some way of giving us some constructive advice as to how we can help meet the problem without just a simple negative approach of saying that you oppose everything we suggest or that has been suggested by the administration. I would like to see a workable approach developed here that would provide some solutions to the fiscal problems of the country without destroying or completely disrupting an industry. I thank you, Mr. Chairman.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. Mr. Chairman, just to clear my own thinking here, was the conversation on the percentages of those who traveled abroad based upon passport applications?

Mr. VANIK. Yes.

Mr. BATTIN. I think, during the hearings Secretary Fowler and others in response to a question that I asked about the number of people who are living overseas—of course they would have to have a passport to do that—indicated, as the gentleman will remember, that there are well over a million, if my recollection serves me correctly, social security recipients who have left this country and moved back to Europe and are spending their money there. In response to the question I asked it was developed that the exemption of anybody who stays over 120 days would not affect these people or not impose any tax upon the social security check that they were receiving. I am sure that when you start talking passport applications you would have to take into account a large group of people who cannot for all practical purposes be considered as travelers. They are perhaps a resident of a foreign country.

Mr. VANIK. In response to that, Mr. Chairman, I might say I have checked that figure out and I think we ought to exempt those people of low annual income who are living in foreign countries. They are not getting medicare and if many of them came here their checks would be so small that we probably would have to supplement their income

through old age pension grants. There are countries, for example, where we by treaty are paying social security out of counterpart funds so that it actually is not contributing one penny to the outflow of revenue by this country and I think that an exemption ought to be designed specifically for those people of low income, of how social security benefits or other income, who are living abroad who probably would be a burden upon this country if they came here.

I think we ought to exempt them.

Mr. BATTIN. The only point I was making is that when you start talking again about percentages of those making application for passports you would have to take into consideration and then divide those who are actually travelers from those who are getting a passport for the purpose of taking up a new residence.

Mr. VANIK. But, Mr. Chairman, there are about 800,000 of these people, Americans who are living very extravagently on American dollars and they are almost expatriates. They enjoy the American income and the greater part of the outflow is contributed by this group of people who have practically established a permanent residence abroad, and perhaps it is time for them to make up their minds whether they are going to be American citizens or whether they are going to be citizens of a foreign country.

Mr. BATTIN. I would suggest that if you are talking about a 30-day exemption, then that would take the place of the 120 days, or would you set up a new classification?

Mr. VANIK. They operate on different ends of the spectrum.

Mr. BATTIN. I know.

Mr. VANIK. When I talk about a 30-day exemption I talk about exempting a traveler who is going abroad and expecting to come back in 30 days. I think the 120-day exemption ought to be abolished. I think we ought to approach that in another way so that we reach the expatriate traveler who has stayed abroad and has little intention of coming back and who is living rather extravagently and contributing very heavily to the travel imbalance.

The CHAIRMAN. Any further questions?

If not, again, Mr. Frankel, we thank you and those at the table with you for bringing your views to the committee.

(The following letter was received by the committee:)

AMERICAN SOCIETY OF TRAVEL AGENCIES, INC.,
New York, N.Y., March 8, 1968.

Re proposed travel restrictions.

Hon. WILBUR MILLS,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: On February 19, 1968, I had the privilege of appearing before your Committee on behalf of the American Society of Travel Agents, Inc. (ASTA) in connection with the Committee's consideration of certain proposals by the Secretary of the Treasury designed to deal with the so-called tourist deficit and our balance of payments. During the course of my appearance before the Committee, certain questions were raised and requests were made for additional data. This letter and the attachments are intended to answer those questions and supply the information requested.[1] We would appreciate it if this letter could be included in the record of the hearings.

[1] The attachments referred to have been placed in the appropriate place in the testimony where the material was requested.

At the outset, since there does not appear to be a clear understanding as to the role of the travel agent in the United States, the structure of the industry, the manner in which it represents the public and the carriers and its method of compensation, we have prepared the following explanation.

A travel agent is a person, firm, corporation or other business entity engaged in the business of arranging transportation and travel facilities for others for a commission fee or other valuable consideration.

A tour operator is a travel agent who gathers together the transportation and travel facility ingredients including lodging, sightseeing, transfers between hotel and rail or bus depots or airports. Other items such as meals and entertainment may also be included in the tour. The tour may be a package tour which is prearranged and designed to fit the requirements of a wide variety of travelers. Some cater to special interest groups, such as skiing enthusiasts, art lovers, etc.

Package tours may be either escorted or unescorted. An escorted tour involves the assistance of an experienced tour director traveling with the group who handles all basic details—hotel reservations, transportation, sightseeing, baggage, customs, language interpretation where necessary, etc. There are also group tours for persons who wish to travel together, and there is the individual independent itinerary which is specially developed to reflect the individual needs and tastes of the client.

The retail travel agent is a travel agent who sells directly to his clients and does not market tours through other outlets. The wholesale-retail travel agent operates tours which he sells through his own retail facilities directly to his own clients and also markets these tours through other travel agents and carrier facilities. The wholesale travel agent does not sell directly to the public, but merchandises his tours through other travel agents and carrier facilities. Tours are promoted through the medium of advertising, printed folders, etc.

Carriers have formed Conferences which are associations of those carriers having common interests. These carriers through the medium of adopting resolutions which are approved by the appropriate regulatory body of the Federal Government, promulgate procedures and regulations governing travel agents. Such regulations also govern the approval of travel agents by the Conferences, their appointment by the carriers and their retention as approved and appointed travel agents. The conference regulations also govern the rate of commission that carriers who are members of the respective Conferences pay travel agents. In this respect, a principal-agency relationship exists between the carriers and the travel agents whom they appoint as their sales outlets.

The Conferences are Air Traffic Conference (ATC)—this is an association of the scheduled domestic airlines.

International Air Transport Association (IATA)—this is an association of U.S. and foreign flag carriers providing airline service between the United States and foreign destinations.

Trans-Atlantic Passenger Steamship Conference and Atlantic Passenger Steamship Conference (TAPSC–APSC)—these are associations of U.S. and foreign flag steamship lines operating service across the Atlantic to and from the United States.

Trans-Pacific Passenger Steamship Conference—this is an association of U.S. and foreign flag steamship lines that operate service from and to the United States across the Pacific Ocean.

In addition to the foregoing there is also the Rail Travel Promotion Agency (RTPA). This is an association of U.S. and Canadian railroads which provide passenger service in those two countries. The Rail Travel Promotion Agency regulates the appointment and retention of travel agents and promulgates other procedures governing the sale of rail transportation by travel agents.

There are some travel agents who are licensed by the Interstate Commerce Commission in the capacity of tour brokers. These travel agents charter buses and operate tours to various domestic points of interest.

A travel agent is professionally required to provide the transportation and travel facilities that best suit the needs of his clients. Obviously unless he does so, he will not long remain in business nor would he be able to receive repeat business from his clients or additional business as a result of their recommendations to their friends and others.

The American Society of Travel Agents is the foremost and most important travel agency association. It represents the professional travel agents in the United States and Canada and was established in 1931. Included in ASTA's more

than 7,000 members are travel agencies throughout the world, airlines, steamship lines, railroads, bus lines, car rental firms, hotels, resorts, government tourist offices and other related interests in nearly one hundred countries and territories. In the United States its governing members, i.e. travel agents, operate more than 2,600 travel agency locations.

An important part of the travel agent's payment for services he renders to his clients comes from commissions which he receives from transportation carriers and most hotels. If the service rendered is simply that of procuring a transportation ticket or making a single hotel reservation, there is usually no additional charge to the customer. The travel agent is reimbursed for his time and effort through commissions which he receives from the carrier or hotel. Contrary to popular belief, a travel agent's income is not, however, derived solely from commissions. More complicated travel services—especially pre-arranged tours and independent itineraries—practically always require a charge for the travel agent's services. An agent, considering the cost of office overhead—trained personnel, rent, phone calls, cables and telegrams—would find it impossible, as would most service organizations, to remain in business if he did not charge the traveler for more complicated travel services.

For 1965, according to domestic airline accounting records, the amount of total bookings of domestic air travel by travel agents was 995 million dollars. Travel agents have increased their proportion of total domestic air travel booked from 27 percent in 1960 to 32 percent in 1965. In addition to the sale of domestic air transportation, travel agents have produced some 23 million dollars annually in railroad passenger transportation. Approximately 85 percent of the passengers leaving these shores for overseas destinations by ship are booked by travel agents. Of those traveling from these shores to overseas destinations by airplane, travel agents account for approximately 65 percent of the bookings. The rate of commissions paid by the Conferences are as follows:

(In percent)

	ATC	IATA	TAPSC	TPPSC
1. Point-to-point transportation	5.0	7.0	7.0	7.5
2. Round trip transportation	5.0	7.0	7.0	7.5–10.0
3. Cruises			[1] 7.5	10.0
4. Tours	10.0	10.0	10.0	10.0

[1] On the Caribbean cruises, 10-percent commission is paid. The cruises do not come under the Conference unless they involve a transatlantic crossing such as a Mediterranean cruise or a North Cape cruise or around-the-world cruise.

Railroads that participate in the Rail Travel Promotion Agency pay commission to travel agents on passenger bookings. Others do not. There may be some variation within the railroads as far as the rate of commissions paid is concerned. This depends upon the individual decision of the railroad involved.

Characteristics of the Typical Agent.—Despite the total volume of business produced by the travel agents for their principals, the travel agency industry is for the most part composed of small businessmen. Most agencies are entities at a single location only—73 percent of the 5,175 travel agents approved by the Air Traffic Conference. The rest are home offices and their branches: 470 or 9 percent of the total are home offices and 929 or 18 percent are branches. A few companies account for a large number of branches: American Express, 70 branches in the U.S.; Cooks with 34 and Ask Mr. Foster with 32, are the three companies with the greatest number according to the previously-referred to report of Systems Analysis and Research Corporation entitled Airline/Travel Agent Marketing Study.

Agents vary widely in characteristics. In 1965, according to the SARC Report, the following was a very generalized picture of the median agent, excluding very large, very small, and specialized agencies.

In location, he was generally within a metropolitan city that had a number of airline city ticket offices, and he had no branch offices. In bookings, his total of all travel was $400,000, of which domestic air was $170,000. His gross travel revenue from all commissions was about $25,000, and he spent about $2,400 on promotion. Of his domestic air bookings, about 70 percent was nonbusiness and 30 percent business: of his domestic air total, credit sales were 20 percent and tours/packages about 20 percent. He had four full-time and one part-time employees. In organization, he was a corporation, had been in business nine

years of which six were under the present owner, had no nontravel business, booked retail only, and was a member of ATC and IATA and three other Conferences. The median agent books about 20 percent of his total domestic air travel in tours or packages. Total bookings of domestic air tours by agents in 1965 amounted to about $275 million compared to $12 million by domestic airlines.

An inclusive or "package" tour is a pre-arranged journey composed of air transportation, sleeping or hotel accommodations plus other facilities or attractions such as transfers between the airport and the hotel, sightseeing, motor coach trips and car rentals. Except for the air transportation, all the other component parts of the tour are commonly referred to as the "land portion."

The regulations of the International Air Transportation Association require the air transportation portion to be either a round or circle trip; and the price of the "land portion" must be at least 20 percent of the air fare or $15 per day, whichever is greater. Tours between the Western Hemisphere and Europe, Africa and the Middle East, must provide for a minimum of six nights sleeping or hotel accommodations.

In the United States, the regulations governing tours are basically similar to those stated above except that the formula to determine the minimum price for the "land" portion is related to the fare as follows: Where the fare is $75 or less, the land arrangements must be at least $15; if the fare is more than $75 but less than $175, the land portion must equal at least 20 percent, and for fare of $175 or more, the minimum price for the land arrangements is $35.00. In addition, such tours must provide for overnight lodging in at least two noncontiguous cities or localities.

Tours are produced by specialized travel agents commonly known as wholesalers or tour operators and may be sold directly by them, but most often are sold through retail agents or air carriers.

Tours must be approved by the air carrier whose services are featured and must be advertised and published at the producer's sole cost and expense in tour folders or brochures, the contents of which are proscribed by air carrier regulations, and contain the itinerary, features, maps, photographs, price, terms and conditions of the offering.

Tours are designed for both group and individual travel, and may or may not be escorted.

A tour may be based on normal, special or excursion fares, and, when a special or excursion fare is used, is subject to the terms and conditions applicable to such fare.

The Group Inclusive Tour Basing Fare, referred to in our testimony as the GIT fare, has been established by the international air carriers for transportation across the North Atlantic in connection with inclusive tours. These fares are available for groups of 15 passengers or more to Europe and the Middle East and are between $157 to $292 lower than the normal or regular fares to Europe, depending on the destination.

In addition, other important developments have taken place. For example, on February 23, 1968, President Johnson in a special message to the Congress, urged the elimination of certain visa requirements for tourists visiting the United States. This bill, H.R. 15651, has been introduced by Chairman Celler of the House Committee on the Judiciary to implement this proposal. This was a specific recommendation in the McKinney report, and clearly designed to facilitate tourism to this country.

ASTA, in a letter commending Ambassador McKinney for his report, pledged its support to all reasonable and necessary steps designed to implement the recommendations contained in it. Because of our access to all facets of the travel agency industry, ASTA is uniquely equipped to provide valuable assistance in the machinery which we understand will be set up to provide for government-industry cooperation in implementing immediately the recommendations in this report.

As an immediate step to reflect ASTA's determination of full cooperation, a meeting will be called shortly at ASTA's invitation of tour operators in the United States, approximately 90 percent of whom are members of ASTA for the specific purpose of implementing the concessions contained in the McKinney report, thus making it possible to package together low priced, attractive and saleable tours for travel within the United States designed for overseas visitors particularly from Europe.

In conclusion, Mr. Chairman, we trust that the supplemental material contained in this letter will be of assistance to the Committee and we will be happy to provide any additional data or views that the Committee might find useful. We hope that the Committee in its deliberations will not adopt restrictive legislation which would have the effect of inhibiting the right of U.S. citizens to travel abroad, since to do so would make effective implementation of a positive program impossible. As a much more effective and desirable alternative rather, we urge the Committee to heed the advice of the more than 60 witnesses who appeared before it during the two weeks of public hearings and allow industry with the encouragement and cooperation of the government to embark upon a crash program designed to promote increased tourism to this country, and to bring our travel account into equilibrium by expanding substantially the already dramatic success that our government has realized in becoming the world's number one host country.

Sincerely yours,

IRVIN M. FRANKEL,
Chairman, Governmental Affairs Committee.

The CHAIRMAN. Without objection the committee will adjourn until 2:30 this afternoon when we will hear the remaining witnesses.

(Whereupon, at 12:57 p.m., the committee recessed to reconvene at 2:30 p.m., the same day.)

AFTER RECESS

(The committee reconvened at 2:30 p.m., Hon. James A. Burke, presiding.)

Mr. BURKE. The next witness will be Mr. Anthony LoFrisco and Mr. Peter Grimes.

Please identify yourselves for the record.

STATEMENT OF PETER H. GRIMES, PRESIDENT, ASSOCIATION OF RETAIL TRAVEL AGENTS

Mr. GRIMES. I am Peter H. Grimes, president of the Association of Retail Travel Agents.

As the president of the Association of Retail Travel Agents I wish to thank the Chairman, Mr. Wilbur Mills, and all the members of the Committee on Ways and Means of the House of Representatives for affording us the opportunity to present our views on the proposed tax program. Together with all thinking Americans we are deeply concerned about the stability of the U.S. dollar. We acknowledge that the widening dollar gap could have serious and long-range consequences detrimental to our national economy.

While ARTA recognizes the seriousness of the situation, we do not agree that the travel industry alone should be called upon to make the sacrifices to close the gap. Nor do we think the Treasury Department's answer to the problem is sound. ARTA is an association of small retail travel agents whose livelihoods are threatened not only by the proposed tax itself but by the after effect such restrictive legislation could have on our economy. Our members are typical of the millions of small business men and women all across our land who reverently look to our Government for protection, not destruction.

We wish to acknowledge further and in all candor that our association is particularly mindful of the economic burden which would be placed upon travel agents generally and members of our association in particular if Mr. Fowler's proposals were adopted. Yet, we feel qualified to express the position of the travel public by virtue of our continuous contact with them.

ARTA joins with the other segments of the travel industry which are opposed to Mr. Fowler's proposals because they single out "travel" as the whipping boy in the gold outflow picture.

This country for many years has encouraged the kind of international community where the free flow of goods, persons, and ideas could flourish in an unrestricted manner. We have endorsed the people-to-people program; the Fulbright scholarship program; the experiment for international living, and other similar endeavors.

America has led the world in advocating an unlimited exchange of trade and travel among nations. We have always severely criticized, and rightly so, the restrictions other governments have imposed upon their citizens, thus drawing an iron curtain around their borders. The Fowler proposal if adopted would effectively draw a travel curtain around this country.

We should not abdicate our world leadership for the sake of expediency.

There has been much discussion concerning the travel gap. We are willing to assume that such a gap exists. However, this gap has existed for many years and hopefully the reason for the gap will continue to exist for many years as a constant barometer of American affluence and good fortune. It is after all not surprising that our citizens travel more frequently in greater numbers than less-fortunate Europeans and Asians.

A travel gap has not caused any serious deficiencies during the many years it has existed. One of the reasons why American trade has done so well in the world is because Americans have been allowed to travel freely. This travel has fostered better understanding between Americans and citizens of other countries. It has exposed American products and know-how abroad. This exposure has created a demand for these products which in turn has resulted in substantial sales of American goods.

Any travel restrictions, however disguised they may be, will compel other countries to retaliate by imposing insurmountable tariffs on American goods. In turn, the United States will be forced to react similarly by imposing its own tariffs. Thus, a tariff war of major proportions will be precipitated. The result will be a complete breakdown of international commerce.

Domestically, Mr. Fowler's proposals will have a disastrous effect not only on the travel industry directly but on supporting industries as well, such as advertising firms, baggage manufacturers, caterers, printers, and their supporting and related industries. Many thousands will doubtlessly join the ranks of the unemployed. The far-reaching consequences will be incalculable for there is hardly an industry in this country which is not dependent in some way upon travel.

The proposed travel tax in all its forms is obviously designed to discourage travel outside the Western Hemisphere. With a single exception that I will discuss later we are opposed to every tax on travel since it will necessarily act as a deterrent to the freedom of the American people to travel.

The proposals discriminate against the average citizen who will be unable to afford the oppressive travel expenditure tax. As a result, American students seeking to broaden their education will be denied that opportunity. Americans desiring to make religious pilgrimages

will be prevented from doing so. Americans will be denied the opportunity to visit their families or friends in the "old country." Housewives who have saved their pennies will be unable to look forward to their European vacations.

In short, Mr. Fowler's proposal discriminates against those Americans who can least afford it.

Even more insidious is the psychological warfare being waged by the Treasury Department which is attempting to make travel outside the United States a matter of conscience. This has created uneasiness among Americans who for the first time are being told by their Government that they should not broaden their education, that they should not make religious pilgrimages, that they should not visit their families and that they should not vacation where they desire.

Freedom is America's most valued possession. Our freedom to travel is no less important than other freedoms we cherish. This attempt to limit this freedom must be recognized as a danger. Freedom is seldom lost with a single act. Rather it is lost by a series of imperceptible incursions. There must be no compromise. Mr. Fowler must not succeed, nor should this committee or the Congress be a part to any such attempt.

As I previously stated, we disagree with Mr. Fowler's proposals, but are aware that a dollar gap problem exists. The Association of Retail Travel Agents has already undertaken a positive program to encourage travel to this country in an attempt to narrow the dollar gap.

On January 22, 1968, our association launched the "Promote America Crusade in Europe" known as PACE.

The objective of PACE is to encourage tourism to the United States and thereby narrow the dollar gap. We intend to send task forces of American travel agents and tour operators, many of them bilingual, to confer with our counterparts in Europe and elsewhere to get across the message that the day of one-way traffic is over. We will convince them in a twofold manner; first, by pointing out that their income derived from American tourism will be seriously jeopardized; secondly, that there can be substantial profit by actively promoting travel to the United States. We will dispatch task forces of American travel agents and tour operators to every major city and town of Western Europe who will speak to clubs and organizations in order to help European agents organize group travel to this country.

PACE has been enthusiastically received by the travel industry as well as the U.S. Travel Service and the Department of Commerce. ARTA has received support for the PACE program from Members of Congress, travel agents, and tour operators throughout the United States, and from domestic and foreign air lines, foreign government tourist offices, hotel chains, car rental agencies, and bus companies. Their offers of cooperation are far from perfunctory. Thus, the American-flag carriers have agreed, subject to Government approval, to transport the PACE task forces, free of charge to Europe. Foreign-flag carriers have expressed interest in providing free transportation within Europe. The major hotel chains have agreed to supply facilities free of charge to the PACE teams. The numerous European tour operators have offered the assistance of their facilities and staff.

Discover America, a private nonprofit corporation whose objective it is to promote travel within and to this country, and the U.S. Travel

Service, have agreed to cooperate actively with our association to implement the PACE program.

I have asked all members of the Association of Retail Travel Agents to set aside 2 weeks of their time to become salesmen for America. The response has been overwhelming.

It is presently anticipated that the first PACE task forces will depart on March 16.

Recent developments in the United States will make the selling job of these task forces much easier as a result of changes in marketing and pricing of tourist facilities in this country, aimed at the European budget and taste. For example, the domestic airlines have agreed to reduce their fares 50 percent for foreign visitors. The international airlines are considering reduced fares for trips originating in Europe. Hotel chains and hotel keepers throughout the United States have announced plans to offer reduced hotel rates. Car rental agencies have also offered special discounts. Bus companies and sightseeing operators have done the same. Student organizations have offered their help as interpreters at ports of entry.

PACE will inform the European travel agents of these dramatic changes which will place America within the reach of the European pocketbook. The effects of this crusade will bear fruit this year.

We further propose that the United States increase its expenditures to promote tourism to this country.

The budget of the U.S. Travel Service has been sadly deficient. The budget of small countries such as Austria, Belgium, and Ireland are many times greater than the U.S. Travel Service budget. It should therefore come as no surprise that other countries have been more successful in promoting tourism. Our association deems it of vital importance that the U.S. Travel Service budget be increased immediately.

Accordingly, although ARTA is opposed to the imposition of the proposed 5-percent transportation tax since it will deter travel we do not oppose a transportation tax provided only that the proceeds are used exclusively to increase the budget of the U.S. Travel Service and for other purposes calculated to promote America abroad. We wish to make it perfectly clear, however, that the tax should be imposed only to the extent necessary to provide a fund sufficient to finance a proper promotional effort. We feel that such increased expenditures are worth while especially if this will eprmit Americans to continue to travel freely.

We must emphasize that the Association of Retail Travel Agents is unalterably opposed to a transportation tax or other similar tax for any other reason whatsoever.

We also propose to equalize the discrepancy between the sale of international and domestic air transportation.

The practical business realities are such that travel agents have not promoted domestic travel to its fullest potential for the very simple reason that the commission on domestic air transportation is wholly inadequate. The result is that approximately 40 percent of domestic air transportation is sold through travel agents.

A different picture emerges with respect to international air transportation where the average commission is substantially higher. The result is that approximately 80 percent of international air transpor-

tation is sold through travel agents or almost double the domestic rate.

With the proper incentive a travel agent could afford to create more domestic travel. The present domestic commission structure simply does not allow travel agents to promote domestic travel profitably except in certain exceptional cases.

ARTA has instructed its attorney to petition the CAB to increase domestic commissions on an incentive basis. We call it the domestic incentive override, DIO. Under this plan, a travel agent would be given a special 10-percent bonus for any increase in the sale of domestic air transportation over the previous year. It is economically feasible for the airlines to provide the bonus without increasing the fares to the public because the cost breakeven point is not materially affected by the prospective sales increase. This incentive plan will be an effective way to persuade Americans to travel within this country. However, it will also preserve their freedom of choice.

In conclusion, the freedom of Americans to travel should not be impeded, the free flow of commerce should not be tampered with, the travel industry should not be penalized, the Government should take a positive rather than a negative approach to the dollar gap problem.

Mr. Fowler's plan is a backward step which we Americans cannot afford to accept.

The Wall Street Journal recently made the following observation: "For the errors of their governors the people will pay, not only with their money, but with their freedom as well."

Our association has every hope that this forecast will not become a reality.

The CHAIRMAN. Mr. Grimes, we thank you for your statement.

Mr. LoFrisco, do you have a statement?

STATEMENT OF ANTHONY F. LoFRISCO, ATTORNEY, ASSOCIATION OF RETAIL TRAVEL AGENTS

Mr. LoFRISCO. Yes, Mr. Chairman.

The CHAIRMAN. You are recognized.

Mr. LoFRISCO. Mr. Chairman, I am the attorney for the Association of Retail Travel Agents.

Mr. Chairman and members of the committee, I wish to express my thanks for this opportunity to address the committee. I shall address myself to a single point; namely the control by the Government of travel agents commissions particularly as they relate to domestic air passenger transportation.

My purpose is twofold. First, I would like to explain the steps which the Association of Retail Travel Agents will take in order to have its domestic incentive override plan put into effect. Second, I think it will be helpful for this committee to have an explanation of the relationship between travel agents and the Government as it relates to air passenger transportation.

The president of ARTA, Mr. Grimes, has outlined the association's plan, known as DIO. Under this plan it is proposed that travel agents be given an incentive to sell domestic air transportation.

This plan is needed not only as an incentive but as an economic necessity to enable travel agents to sell domestic transportation profitably.

A substantially greater percentage of international air transportation as compared to domestic air transportation is sold through travel agents. The reason for this is simply one of economics.

Thus, a travel agent who sells a point-to-point ticket between New York City and California earns a commission of 5 percent on an average of $250 or approximately $12.50. If that same agent sells a point to point ticket between New York City and Rome he will earn 7 percent of approximately $450, or $31. The commission on the international ticket thus would be 150 percent higher than the commissions on the domestic ticket.

Even at the international rate of commission many agents are just barely able to make ends meet. So unprofitable is the domestic commission scale that a substantial number of agents although authorized to sell domestic tickets either refuse to do so or sell them as an accommodation to their clients.

The object of the DIO program is to equalize the differences between the commissions on international air transportation and domestic air transportation.

In order to attain this goal it will be necessary to obtain the approval of the CAB. This is so for the reason that the CAB in effect controls the rate of commissions payable to airlines to travel agents.

This applies to domestic as well as international commissions.

This control by the CAB is based upon its authority to grant antitrust immunity to agreements among airlines. Thus, the agreements among the airlines which provide for the payment of an identical commission to each of its agents is immune from any antitrust attack if given CAB approval. In conferring its approval, the CAB can and does condition such approval upon certain changes in the agreement submitted by the airlines including commissions. In this way the CAB sets the commission rate payable to travel agents for the sale of international as well as domestic air transportation.

It is presently anticipated that the Association of Retail Travel Agents shall shortly petition the CAB to amend the travel agent's commission structure so as to give effect to ARTA's DIO proposal.

If the CAB grants ARTA's petition the DIO plan will undoubtedly have a substantial effect in promoting travel within the United States, thus the travel gap as well as the dollar gap could be narrowed.

It is respectfully submitted that this reliance upon the free enterprise system is a better solution to the dollar gap problem than the proposal that Americans be restricted in their freedom to travel.

The CHAIRMAN. Thank you also for your statement, both of you representing the Association of Retail Travel Agents.

Are there any questions of these gentlemen?

Mr. BYRNES. Mr. Chairman.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. Can one of you gentlemen tell me what a retail travel agent is? Is there a wholesale travel agent too?

Mr. GRIMES. Yes, there is. Our association exclusively represents small retail travelers.

Mr. BYRNES. Who are they? What do they do? Where is the distinction?

Mr. GRIMES. They have these little ticket offices all over the place where they sell to the public. There is also such a thing as a tour op-

erator. A tour operator prepares tours, a folder, and sells partly to the public and partly to retail travel agents. Sometimes a retail travel agent can also be a tour operator, by preparing a folder and by operating a certain tour, but generally there is a differentiation between them. A retail travel agent is a general store of travel, while the tour operator is a specialist.

Mr. BYRNES. Most of these travel agents are the travel agencies in most communities?

Mr. GRIMES. That is right, they are retail travel agents.

Mr. BYRNES. You have them here in Washington, you have them in my hometown. Foster's is an example. Which is it?

Mr. GRIMES. You named the name of one. They are both.

Mr. BYRNES. What do you mean both?

Mr. GRIMES. They are retail agents as well as tour operators. Most small agents that are individually located all over the place are just retail agents.

Mr. BYRNES. They obtain from the tour operators the literature and so forth that they have on their counters about various tours to Europe and elsewhere?

Mr. GRIMES. That is right.

Mr. BYRNES. They then can sell me one of those tours?

Mr. GRIMES. Right.

Mr. BYRNES. They get a commission from the outfit that is managing it?

Mr. GRIMES. Right, the tour operator.

Mr. BYRNES. The tour operator, what does he do? Does he receive his income from commissions paid by the hotels and so forth, that are used as part of this tour?

Mr. GRIMES. He packages the tour. He gets special rates from the hotels, special rates from the rail and bus companies and then packages the whole tour, puts it all together and gives 10 percent, or whatever, to the retail agent.

Mr. BYRNES. So I would assume that a good share of your tour operators also act, in whatever their main community is, as a travel agent, handling tours for other people, getting ship reservations, and so forth?

Mr. GRIMES. In our business we have sometimes problems of dual distribution, yes. But on the whole tour operators, most tour operators, shall we say, with certain exceptions, sell only through the retail travel agent. It is easier that way, actually, for them.

Mr. BYRNES. If you were operating as a travel agent here in Washington and you also had a couple of buses and ran some tours around the Capital, that would not make you a tour operator, would it, in the sense that you use it—or would it?

Mr. GRIMES. If you make up a tour package of Washington which then is available to other retail travel agents, then of course you are a tour operator.

Mr. BYRNES. Most of this does not have anything to do with the issues before us.

Mr. GRIMES. No, it does not.

Mr. BYRNES. But I was interested in understanding the overall picture.

Mr. GRIMES. There are some other problems, too, but it is so complex I did not want to get started with it, frankly.

Mr. BYRNES. Are the commissions paid by the airlines for domestic travel a flat 5 percent?

Mr. GRIMES. Yes, point-to-point travel is 5 percent.

Mr. BYRNES. No matter whether it is a point in the United States to a point in Europe, or is it just point to point within the United States?

Mr. GRIMES. Point to point within this country, it is 5 percent.

Mr. BYRNES. That is standard?

Mr. GRIMES. That is standard.

Mr. BYRNES. That is fixed by the CAB?

Mr. GRIMES. That is right.

Mr. BYRNES. So your point is that that does give you some encouragement to try to sell somebody a package or a trip that would take him outside the United States.

Mr. GRIMES. If we are talking about a package tour. Now, a commission on package tours is 10 percent. The air transportation in connection with a package tour is 10 percent also. There is no differential in that part of it between domestic and international. I will try very hard to explain the difference. There is more than the difference in commission which makes it easier to sell foreign transportation. There is also the simple fact that it is easier to make up a package tour for Europe and for the very obvious reason you have five different countries, five different languages. It is easier to sell that kind of package to an American who does not speak the language. Domestically—someone asked before why are there not as many package tours in this country. The reason is obvious, because here you always speak the same language, you don't have the same problem as you have in Europe. In addition to that, you have credit cards which prevent many travelers from paying the whole amount of their vacation in advance.

Mr. BYRNES. You mean it makes it unnecessary to pay it in advance?

Mr. GRIMES. Makes it unnecessary, yes. The problem is that the rules by the ATC, which is the combine of domestic air lines which makes the rules for commissions, insist that in order to get 10 percent on a domestic tour it has to be entirely prepaid. That is one of the difficulties, you see, within this country. We have been trying to convince them to change the rule to 2-day deposit because it is awfully difficult to convince a client to pay 3 weeks in advance.

The same criteria is not true going abroad. This point has been brought up before. I thought I would clarify this. The problem is not merely the differentiation in commission. That is part of it. But also marketing and the climate is easier for selling foreign tours.

An example is a tour operator who wishes to have a foreign tour package of Europe. The airline that he works with will buy from him x thousand number of his folders, thus helping him to defray the expense of it. But domestically this is not possible. This is one reason why the rules domestically are more rigid than internationally.

It is not only the question of the difference in commission, it is also the difference in climate and the difference in approach between the domestic airlines and the international airlines. And I think the committee should understand that.

Mr. BYRNES. Now, if you are an agent and somebody comes in and they say they want to go to London, is there any advantage in your trying to convince them to go BOAC, or some other British line, as against an American line? Is your commission the same?

Mr. GRIMES. No, there is no advantage, none whatsoever. There is no advantage whatsoever. The commission rate is the same by each airline, exactly the same which, of course, holds true domestically too. This is why our D.I.O. approach for the first time brings in the element of incentive in this business which has never been there before. It was always the same.

Mr. BYRNES. I can see the encouragement for a travel agent, with respect to somebody that comes in and wants to talk to you about taking a vacation, to encourage him to at least go to some point outside the United States because your commission is going to be bigger, is it not?

Mr. GRIMES. That is right.

Mr. BYRNES. Now, when you sell a tour then you say your commission jumps up to 10 percent?

Mr. GRIMES. Yes. When you sell the package tour, the ingredients of a package tour must be not only the air, but sightseeing, hotels, meals and what have you. The other ingredient is that it has to be prepaid completely in advance. Now it is far easier to sell this type of package to someone going to Europe because of what I explained, but selling it domestically is a little more difficult, you see, because people don't want to pay 2 weeks in advance because it is the same language, you know, and so on. That is why in effect we get less commissions on our domestic efforts than we do on our international efforts.

Mr. BYRNES. Now this commission arrangement has to be approved by the CAB?

Mr. LOFRISCO. If I may answer, the CAB has indirect but very complete control over commissions by virtue of their granting of antitrust immunity. They do not have any direct statutory authority to fix commissions but the commission structure appears in the agreements which the airlines submit the CAB in effect says if you raise the commission to such a level we will grant you the antitrust immunity, or if you reduce the commission structure to such a level we will grant you the antitrust immunity, otherwise we will not give it to you. The airlines could not possibly survive without the antitrust immunity. So they must rely on the judgment of the Civil Aeronautics Board. That is how the commission structure is controlled by the CAB.

Mr. BYRNES. I assume that the domestic 5 percent commission—well, I should not assume anything—why is there the differential? Why does CAB approve 7 percent for our domestic lines? They have to get the same approval from the same CAB as the commissions on their overseas flights; don't they?

Mr. LOFRISCO. That is correct. They approve this different commission structure as between international and domestic. The travel agents, at least our association doesn't understand why the CAB has set this difference.

Mr. BYRNES. Do you know whether this difference in commission structure was encouraged by the airlines, or whether it was encouraged by the CAB? If it was encouraged by the airlines they were damaging their own interests, weren't they, because they were en-

couraging overseas as opposed to domestic flights.

Mr. LoFRISCO. Yes; but of course there are two different associations. There is one association of international air carriers and one of domestic air carriers. So that they independently apply to the CAB for their approval of the various agreements and commission structures.

Mr. BYRNES. How is this business of domestic airlines agreeing to reduce their fares 50 percent to foreign visitors supposed to work?

Mr. GRIMES. Well, they will for any visitors that come from abroad, if they buy their ticket abroad or buy it here, if they are a nonresident of the United States they will be able to buy any domestic ticket to any destination at half price. This is what it amounts to.

Mr. BYRNES. All they have to show is that they are not citizens of the United States.

Mr. GRIMES. That is correct. Well, we are not sure yet just how it is going to work out because it just has been introduced.

Mr. BYRNES. Does that have to be approved by CAB?

Mr. LoFRISCO. That is correct. My understanding is that the airlines have come to an agreement among themselves, but the Civil Aeronautics Board so far as I know has not yet acted upon that proposal.

Mr. BYRNES. In other words, what they have done is agree to do this but it still has some of the Government redtape to go through before it becomes a reality?

Mr. LoFRISCO. It needs CAB approval; that is correct.

Mr. BYRNES. Your understanding is that it will cover point to point within the United States, not just the flight from a foreign point to the United States and return?

Mr. GRIMES. That is what I understand. It will cover any air travel in this country taken by a visitor.

Mr. BYRNES. Will it also cover the foreign travel, the Italian who wants to come and visit this country?

Mr. LoFRISCO. There has been a proposal which is now the subject of a discussion with the International Airline Association, I think it is scheduled for tomorrow. They are attempting to reduce the European originating traffic across the North Atlantic, to try to reduce that air fare.

The CHAIRMAN. By 50 percent.

Mr. LoFRISCO. I was not aware of the percentage.

Mr. BYRNES. That will also have to be approved by the CAB?

Mr. LoFRISCO. That is right. So far as the American air carriers are concerned, it will require the approval of the Civil Aeronautics Board.

Mr. BYRNES. There is an international treaty involved here, too.

The CHAIRMAN. If you will yield.

I had understood that it will be required that each and every airline, whether it be an American flag ship or a foreign flag ship, will have to agree to this proposed reduction in rates; otherwise it cannot go into effect because of some agreement we have with respect to rates overseas.

Mr. LoFRISCO. That is correct, Mr. Chairman. There is unanimity rule within the association of international lines. That is why each one of them will have to agree to it. The CAB approval is necessary

only insofar as the American flags are concerned, but some of the other airlines in turn have to get their government approval too.

Mr. BYRNES. The probability of some of these programs coming into reality is quite a way down the road, then?

Mr. LOFRISCO. I really could not answer that except I know our program for PACE is starting as of March 16, they have some 90 agents signed up and ready to leave March 16 to go to Europe and endeavor, pursuant to the PACE program, to encourage travel to the United States. That is a reality within the next few weeks.

Mr. BYRNES. I was talking in terms of the reduced fares and special rates.

Mr. LOFRISCO. I would guess that will take some time before it becomes a reality.

Mr. BYRNES. Did you mention in your testimony, or was it somebody else, that some of the hotels in this country and other people have indicated approval of the idea of providing reduced rates?

Mr. GRIMES. I said that, and the other association said that, too. The big hotel chains, Sheraton, Hilton, et cetera, have already made a proposal whereby they would give visitors a reduced rate.

Incidentally, some of the motel chains have done the same thing. I was talking last night with a tour operator who has a tour arranged, specifically designed for Europeans, which would include a car as well as a motel and a very inexpensive rate. We are starting a little bit late on this, you understand. We are new at this game, shall we say, and it will take a while before it takes effect.

But the American ingenuity, as you know, will find a way to narrow the gap, I can assure you. We are certainly going to try to do our part.

Mr. BYRNES. The American ingenuity knows how much the traffic will bear, too, when you see what they do at some of these vacation spots. I haven't been able to vacation at any of them but I have heard of them. At least these things do give hope that there is finally some recognition of the difference in income levels, around the world. It seems to me that we are a little bit off base when we think we are going to be able to encourage the normal European—whose income level is well below that of the normal American—to travel in this country unless we can develop a travel package that is geared to his income level.

Thank you very much.

The CHAIRMAN. Mr. Ullman.

Mr. ULLMAN. I am very much interested in these tours.

Now, with respect to American tours, what could be done to make it possible for you to really expand this concept to become a basic part of your business?

Mr. GRIMES. Very simple. To change the tour resolution, the ATC tour resolution which right now provides for full payment of any tour to anywhere, to a 2- or 3-day deposit. I think that in itself will take care of most of the ills.

Mr. ULLMAN. Whose resolution is this?

Mr. GRIMES. It is the ATC—you had better explain it.

Mr. LOFRISCO. The Air Traffic Conference is part of the Air Transport Association, which is the association of domestic airlines who decide the various commission structures and credit pictures, and in

turn get the approval for their various agreements from the CAB. It is not a governmental organization but it requires the approval of the CAB for any of the agreements which it sets forth.

Included in the agreements are the terms of payments which are necessary in order to obtain the higher 10-percent commission.

Mr. ULLMAN. Is the Air Transport Association dominated by the airlines?

Mr. LOFRISCO. The only members of it are the airlines. It is the airlines' association.

Mr. ULLMAN. The tours are not competitive, they would include regular airline travel. I can't understand why the Air Transport Association might not be interested in what you are proposing.

Mr. LOFRISCO. Well, the travel agents for many, many years have been unable to understand many of the proposals that have been arrived at, you might add, by the airlines without even prior consultation with tour operators or retail travel agents. They sit down and decide what is best for the travel agents, incorporate that into the agreement and the only place where the travel agent can set forth his views possibly are to the CAB when it comes up for approval. But this requires a tremendous effort by the various associations to act as watchdogs. Once you are faced with an accomplished fact before the Civil Aeronautics Board, it is sometimes difficult to upset that accomplished fact.

Mr. ULLMAN. Are you saying this would require initiative on the part of the Air Transport Association and then approval by CAB?

Mr. LOFRISCO. Yes.

Mr. ULLMAN. But it is your judgment, and you are saying that here, that if this were done you could greatly expand your sales of domestic tours, is that right?

Mr. LOFRISCO. It would be one of the significant factors that would help. I don't think it would be a cure-all but it would certainly help.

Mr. ULLMAN. What else would you recommend?

Mr. GRIMES. We would love to promote the State of Oregon, Congressman.

Mr. ULLMAN. This is what I am getting at.

Mr. GRIMES. But under the present system of course there is not enough promotional money available for our purpose to do so. But I think if we can convince—this is just one little problem, but I think it is important—if we can convince the ATC to change some of the rulings on tours, I think you will find that we will push Oregon like crazy and it will solve many of our problems without going through all the big legislation.

Mr. ULLMAN. I wish you would drop me a memo on exactly what needs to be done because I think this is something, even though it may not come under the jurisdiction of this committee that has a great potential for doing what we are trying to do here.

Now one more question: Switching to the European tour program that you are working on along with others, I am assuming that Europeans will get a totally different tour package than our people would get, possibly a much more desirable and less expensive tour package than Americans, is that right?

Mr. GRIMES. That is right, because of the currency difference.

Mr. ULLMAN. Would that be the only reason? You also said they would get cheaper air transportation and hotel and other things.

Mr. GRIMES. That is only part of it. Also to do up the tours to gear it to the European taste, too. Europeans have for some time been used to roaming around in their cars, going down to southern Spain or to Greece. We want to bring them over here and give them the same opportunity to roam around in cars and take a look at what this country is all about. This is just one phase of it. Obviously tastes are different. Mores are different in one continent than in another. Of course our tour program would have to be geared accordingly.

Mr. ULLMAN. It pleases me that you are somewhat belatedly, I might add, putting some imagination into this tour potential. I am hopeful you will put everything you have in it because I think it has certainly real possibilities for helping your balance-of-payments problem.

Thank you.

The CHAIRMAN. Mr. Betts.

Mr. BETTS.Do I understand that under your IDO proposal the foreign traveler would get 50-percent reduction in travel in the United States, but the American traveler would not? Is that correct?

Mr. GRIMES. Are you talking about our DIO plan?

Mr. BETTS. Yes.

Mr. GRIMES. This has nothing to do with people coming from the other side. Our DIO plan is simply a tool to enable us to promote this country more than in the past. The airlines have a plan now whereby foreign visitors would get discount tickets, 50-percent tickets, when they come over here so that they can fly around to various cities in this country.

Mr. BETTS. But the American traveler?

Mr. GRIMES. Nothing.

Mr. BETTS. What is your answer as to whether or not it is fair to the American traveler?

Mr. LOFRISCO. If I may answer, this is really somewhat analogous to the plan now in effect with respect to international travel so that if you buy a ticket New York to Rome and on the way back and it does not cost you a dollar more. So that you can stop in London, Paris, go to Rome, stop in Spain, and come back to New York without its costing you any additional moneys. While I do not know the reasons why the airlines have instituted it, my guess is that it is an attempt to give the same kind of facility to a foreign visitor, and you are quite right that a foreign visitor would have an advantage in air travel within the United States much the same way that an American now has an advantage in the travel throughout Europe, without its costing anything additional.

Mr. BETTS. To make sure I understand, the foreign traveler comes over on the DIO plan, in New York he gets a 50-percent reduction in his fare if he wants to go to Oregon, is that correct?

Mr. LOFRISCO. That is correct.

Mr. BETTS. But the New Yorker who wants to go to Oregon does not get that, is that right?

Mr. LOFRISCO. That is absolutely correct.

Mr. BETTS. I do not see how that is offset by the American traveler getting some sort of advantage abroad. He may not want to go abroad. He may want to stay home.

Mr. LoFRISCO. It is not intended to give the same type of advantage to the foreigner that the American has in Europe. It is an attempt, however, to give, because of the great distance, the greater traveling distances, within the United States as compared to the distances from country to country in Europe——

Mr. BETTS. But the American traveler does not get the cut-rate that the foreign traveler does, traveling in the United States.

Mr. LoFRISCO. That is absolutely correct.

Mr. BETTS. Could there be a charge leveled that it is unfair to the American traveler?

Mr. LoFRISCO. It would be no more unfair to the American traveler than the American plan is to the European traveler.

Mr. BETTS. It would be unfair for an American traveler who did not want to travel to Europe, if he wanted to go to Oregon instead, is that correct?

Mr. LoFRISCO. That is corect.

Mr. BATTIN. You made a point specifically, and I am not sure we are on the same wavelength. You say you buy a ticket from this country to Rome and stop at all the intermediate stops without additional charge?

Mr. LoFRISCO. That is correct.

Mr. BATTIN. Why would it not be fair to say, then, if a person wanted to buy a ticket from Rome to Portland, Oreg., that he could make all the intermediate stops without any increase in fare rather than to say that once you get here and then decide to go to Portland you would get a discount? That would be the only way it would be analogous, to my mind. I think Mr. Betts is thinking that if one of his constituents loses his seat en route there is going to be some real conversation.

Mr. GRIMES. Right now there is an "Discover America" fare in effect for people who can travel from Rome to Portland, Oreg., with stopovers at a special rate. Now this rate which at the moment is in effect is a 25-percent reduction. What they are doing, they are adding an additional 25-percent discount to it and now it is 50-percent discount for a European to go to Portland, Oreg.

Now the question of whether we felt it was unfair to the American tourist, well, I would think it would be even unfairer to the American tourist if he were restricted to go to Europe. I think if we can make it easier for Europeans to come here through such an incentive I am sure he would not consider that unfair because it will not impede his freedom to travel.

Mr. BATTIN. I was not suggesting it would. But the example that the witness gave was that he could buy a ticket to New York and then travel in this country without any predetermined destination of travel.

Mr. GRIMES. Yes, right now he can do that within 30 days after he arrives. Under the "Discover America" fare he only needs to buy a ticket from New York. If within 30 days he decides to visit Oregon, he can do so. But after 30 days it is no longer valid.

The CHAIRMAN. Mr. Broyhill.

Mr. BROYHILL. I am not sure you answered Mr. Betts' question as to what the Association of Retail Travel Agents is. What is the difference between the Association of Retail Travel Agents and the American Society of Travel Agents?

Mr. GRIMES. Well, I am glad you asked me that.

Mr. BROYHILL. Are they they same type of travel agents?

Mr. GRIMES. Our association, the Association of Retail Travel Agents, represents solely retail agents in this country. Now there are other associations that represent, in addition to that, tour operators and airlines are members and steamship lines are members, hotels are members, not only in this country but abroad too.

In other words, what we are talking about is the point of view of our American retail travel agents. I might say we do want an American solution to this problem, to this country. All we are asking is that we do not have to go out of business. If there is a solution that can be found to help the country we are more than willing to help.

Mr. BROYHILL. There are retail travel agents who are members of the American Society of Travel Agents?

Mr. GRIMES. Some of our members are at the same time members of the other one, yes.

Mr. BROYHILL. In view of the fact that there was a $580 million carrier payment deficit last year according to the figures given us this morning, and you say the commissions are the same, 7 percent for either the foreign carrier or the U.S. carrier, why aren't the travel agents actually trying to sell trips on U.S. carriers a little bit more? You also stated that 80 percent of all the international travel is sold through travel agents. These travel agents must be largely responsible for this carrier payments' deficit, are they not?

Mr. GRIMES. Let me say this, that during the height of the season of course, the American-flag carriers are usually sold out so that you do use other carriers too. I also do want to say in all fairness that the ARTA's sales agreements that we have with all the carriers prohibits us from actively, in print in any case, supporting one segment of the airlines over the other. If I seem vague it is only because I am trying to get out of this in the most gentlemanly manner possible. Nothing prohibits our members individually from promoting tours in cooperation with an American-flag carrier.

Mr. BROYHILL. But they actually are not doing it.

Mr. GRIMES. Would you like me to tell you why?

Mr. BROYHILL. Yes.

Mr. GRIMES. Because the foreign carriers have been somewhat at a disadvantage in this country. They have also in some cases been quite nice to agents in the sense that they have appointed them earlier, let us say, new agents, than some of the American-flag carriers. I am not trying to be critical of the American-flag carriers but you asked me a question and I am trying to be responsive. There is always a reason for everything and this is one of the reasons. Certain American-flag carriers have been rather restrictive in their appointment programs. Now I am sure they must have good reasons for it. I am just stating facts. Therefore, new agents have been appointed by foreign carriers and therefore new agents owe a great deal to some of the foreign carriers simply because they have been intelligent enough to give them an appointment at a time when they were new and needed it.

Mr. BROYHILL. In effect, you are admitting that the travel agents do not push the use of the American-flag carriers?

Mr. GRIMES. Well, do you think that should be the function of the travel agents.

Mr. BROYHILL. But you acknowledged that in some cases you favor foreign carriers and you explained to me why.

Mr. GRIMES. I tried to explain why, to start off with.

Of course you understand as an association I cannot say we have to use only one airline. I am sure you can understand that.

Mr. BROYHILL. Is there any arrangement in addition to a 7-percent commission that is ever made, let us say with a travel agent by the foreign carriers other than package deals? You mentioned a package a moment ago that carries a 10-percent commission, but are there other ways of getting around this 7-percent commission where an agent is, not illegally, maybe, but getting a little more than the 7-percent commission from a foreign carrier when he would not get more from an American carrier?

I could say "under the table," but that is a little strong.

Mr. GRIMES. It has been reported in the press that several occurences like that did occur.

Mr. BROYHILL. It does occur?

Mr. GRIMES. Well, as I said, it has been reported in the press that they did occur.

Mr. BROYHILL. On these package arrangements, why do you get more? Is that because the carriers themselves are getting less or because the hotels are figuring into the picture? You do get commission from hotels, do you not?

Mr. LOFRISCO. Yes, that is correct.

Mr. BROYHILL. Do you get a commission from domestic hotels?

Mr. LOFRISCO. Yes. The thinking behind the airlines giving a higher commission, as I understand it, is that they want to encourage travel agents to sell strictly tourism and leave the commercial point to point sales to them so that they do not have to pay a commission. The thinking behind it is that a travel agent should go out and create travel rather than merely act as a ticketing agent. So this is an incentive, presumably, for the travel agents to create travel.

Mr. BROYHILL. Does the traveler get a better buy in a package than he would buying separately?

Mr. LOFRISCO. Yes.

Mr. BROYHILL. The airline is actually selling the ticket for less and giving you a greater commission at the same time?

Mr. GRIMES. No; the airlines cannot sell the ticket for less. On the land portion they can give a higher commission, on the land portion which they themselves set up; yes, they can.

Mr. LOFRISCO. The tourist in buying a package will undoubtedly be able to buy each individual service cheaper in the package than he would if he went out to each individual hotel and purchased the services, himself, because of the greater buying power that the package or tour has.

In addition of course the excursion fares or the tourist fares are usually lower. There is a 14-to-21 day excursion fare to Europe that is substantially lower than the usual point to point ticket to Europe.

Mr. BROYHILL. He is not actually getting a better rate by buying a package. It is just by coincidence that you have more buying power. There is no discount being given to the tourist.

Mr. LOFRISCO. Yes; the tour-basing fare, of course, you do.

Now, I know what you are driving at. When you buy a package from an airline that is not only foreign airline but any airline that goes to Europe, it is the traveler who saves on his air ticket by virtue of taking the whole package tour. This is called the tour basing fare, and, incidentally, it was approved by the CAB.

Mr. BROYHILL. Do the domestic hotels pay the same commission as the foreign hotels?

Mr. LOFRISCO. Yes; 10 percent.

Mr. BROYHILL. The only problem you have is through the CAB in getting a commission increase for air travel?

Mr. LOFRISCO. I would say yes.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Mr. Grimes, will you identify the retail travel agent for us? Is he a small businessman? Does he operate chains? What is his average volume? Has your association made any estimate of the impact of the administration's proposals on him?

Mr. GRIMES. Judging from the letters that I have received from the members there was quite an impact, yes. I think to speak of actual cancellation would be a fallacy but I would think there is an uneasiness. Even in my own office almost every day people will call or come in and say, has this tax already been passed? They are worried about it. In that sense there is an uneasiness that clients have. The one effect that I notice in my own office is that people are reluctant to make their reservations at this particular point. They usually do right at this point but they don't. They are postponing it to see what is going to happen.

Mr. CONABLE. Will you tell me something about the retail travel agent? Is he traditionally independent, for instance?

Mr. GRIMES. He is an independent, small businessman, highly individualistic, most agonizingly so, I might add. But he usually has about on an average, I am talking about our members now, he has on the average about two or three employees. Usually a husband and wife type, as we call it, a "mom and pop" type of operation. Usually his volume is in the neighborhood of $500,000 to $600,000 a year, his gross volume.

Mr. CONABLE. His gross commission?

Mr. GRIMES. That would be nice. No, that is about his average sales.

Mr. CONABLE. How many of them are there in the United States?

Mr. GRIMES. In this country I would say there are 6,700, travel agents. There is actually a report, and I have it right here, and it would answer all your questions. It tells you exactly what the average size is, and how many there are.

Mr. CONABLE. For how many of these does your association speak?

Mr. GRIMES. We have 500 in our association.

Mr. CONABLE. What are the other major associations?

Mr. GRIMES. One that already testified, I believe they have about 1,800 or so actual travel agents. The others of course are not retail travel agents, about 1,800 or so retail travel agents. There are also the bank travel agents, and there are about 80 or 90 of them in the country. There are also the American Automobile Clubs who are not privately owned but are clubs and there are about 350 of those.

In other words, only about half of the agents in the country are really organized but then only half of the insurance agents are organized, so I guess our problem is no different than anyone else's.

Mr. CONABLE. One last question: Is there any pattern that emerges in the percentage of sales disclosing those that are domestic and those that are foreign?

Mr. GRIMES. At the moment I would say, judging not only from my own business but from what it says in here, about 60 percent is international business and 40 percent is domestic.

Mr. CONABLE. In other words, not only is there a higher commission for the international travel but there is a higher gross?

Mr. GRIMES. Yes.

The CHAIRMAN. Are there any further questions?

Mr. Grimes and Mr. LoFrisco, we appreciate both of you coming to the committee. We compliment you for the forthrightness of your responses to our questions. You have been very fine witnesses.

Mr. GRIMES. Thank you very much.

Mr. LOFRISCO. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Meyer.

Mr. Meyer, if you will identify yourself for the record by giving us your name and the capacity in which you appear, we will be glad to recognize you.

STATEMENT OF MORTON L. MEYER, PRESIDENT, CREATIVE TOUR OPERATIONS ASSOCIATION

Mr. MEYER. Thank you, Chairman Mills.

My name is Morton L. Meyer. My company is Open Road International in St. Louis, Mo. I am president of and appear in behalf of the Creative Tour Operators Association.

Chairman Mills and members of the committee, our association is an organization consisting of 24 of the leading travel wholesalers in the United States. We design, create, package, and market tours through retail travel agents to all parts of the world, tours within the United States, and tours from abroad to the United States.

I have a list of the member companies in the associations available to you. If you would like, Mr. Chairman, I will read it.

The CHAIRMAN. Let us include it in the record at least. Without objection it will be included in the record.

Mr. MEYER. Thank you.

(The list of associations follow:)

ROSTER—CREATIVE TOUR OPERATORS ASSOCIATION, INC.

American Express Co., New York, N.Y.
Ask Mr. Foster Travel Service, Inc., New York, N.Y.
Atpac Tours, Inc., New York, N.Y.
Brownell Tours, Birmingham, Ala.
Camino Tours, Inc., New York, N.Y.
Caravel Tours & Cruises, Inc., New York, N.Y.
Casser Tours, New York, N.Y.
CIT Travel Service, New York, N.Y.
Thos. Cook & Son, Inc., New York, N.Y.
Di Carlo Travel Bureau, Inc., New York, N.Y.
Donald L. Ferguson, Ltd., Katonah, N.Y.
Four Winds Travel, Inc., New York, N.Y.
Gateway Holidays, New York, N.Y.
General Tours, Inc., New York, N.Y.
Male Travel Bureau, Inc., New York, N.Y.
Maupintour Associates, Lawrence, Kan.
Open Road International, Inc., St. Louis, Mo.
Pacific International Tours, Inc., San Francisco, Calif.
Talmage Tours, Inc., Philadelphia, Pa.
Tauck Tours, Inc., New York, N.Y.
Travelworld, Inc., Los Angeles, Calif.
Vacationland Travel Service, Inc., New York, N.Y.
Viking World Travel Service, Inc., New York, N.Y.
Wright Way Tours, Glendale, Calif.

Mr. MEYER. Thirteen of these 24 companies presently create and market package tours of the United States, and this marketing is in the United States and abroad.

Sixteen of the 24 are exclusively wholesale companies. Eight have retail divisions, which, like other corporations, are operated separately.

I would like to thank you gentlemen sincerely for the invitation to appear before you concerning this most vital issue, and I assure you of my association's desire to cooperate fully with you in reaching a practical and lasting solution to this problem which confronts our country.

For a number of years we have recognized the economic implications of the touristic imbalance and have been working to correct this situation. We have sponsored familiarization tours and traveled widely to attract a larger flow of visitors to the United States. These efforts have taken many forms. CTOA sponsored a "Visit U.S.A. Workshop" in Paris last March, where 12 of our member companies outlined their tours of the United States to an audience of hundreds of leading European travel agents and airline personnel from the four countries where there was an aggregate increase of about 80 percent in travel to the United States over 1966.

Now the 36-percent increase of European travelers to our country in 1967 reflects directly the results of positive sales approaches of this kind. This increase meant an additional cash inflow from Europe of at least $65 million. Because of the aggressive steps we have taken to promote inbound tourism, we estimate that 1968 will show a further increase of $126 million over 1967. Another example is the joint program which we have established with the American Hotel & Motel Association and Pan Am to bring 300 foreign travel agents and travel writers to the United States commencing April 24. These agents and writers will tour our country, not only New York and Washington, but California, Michigan, Colorado, Pennsylvania, New Mexico, the national parks, and see for themselves the tremendous travel product we have to offer.

After the 14- and 10-day trips that these people will be taking, all will gather on the last night, either in New York or in Los Angeles, where we will have a serious briefing and debriefing session of these agents and outline to them the tours and the hotel products available in 1968.

I would like to extend to you members of the Ways and Means Committee a cordial invitation to join with us at that time to meet these agents and listen to their comments after they have seen our country.

These examples clearly indicate the manner in which the American travel industry has already shifted its emphasis toward a closer balance between travel to and from the country. But such changes, started some years ago and now bearing fruit, can only be accomplished if they are free of the disruptive effect of sudden and drastic alterations.

Building an effective tourist market requires a number of years of hard ground-breaking effort. We are now approaching the point where a much more rapid build-up can be expected. It would be tragic indeed if, by miscalculations, the preparatory effort should be wasted and the foundations of the program destroyed.

Perhaps the most significant single statistic is that the proportion of Americans visiting Europe compared to Europeans visiting America is steadily decreasing. That, gentlemen, is the end result most greatly to be desired.

CTOA's great concern is that steps should not be taken at this time which might achieve only a limited correction of the immediate problem and correspondingly produce long-term results far more damaging to our national interest than those difficulties which face us today.

May I take a moment to place our particular position in the overall situation into some perspective?

Herr Othmar Emminger, a member of the board of governors of the German Bundesbank, announced in New York Thursday that a study by the OECD projects the following savings in 1968 as a result of the program proposed to improve our balance-of-payments position. From a reduction in direct investments abroad—$1.5 billion; on bank loans—$800 million; on reduced foreign travel—$300 million.

Here in Washington, the Department of Commerce announced Friday its analysis of the root causes of the serious deterioration which occurred in the last quarter of 1967. Commerce determined that a $720 million decline in our trade balance occurred, caused by a $560 million increase in imports and a $160 million decline in exports. The second major factor was the $560 million decline in foreign purchases of U.S. securities, caused by the final liquidation of British assets here.

This $1.28 billion deficit caused the sudden and dramatic increase in the adverse position and triggered the present proposals, but stemmed from relatively short-term situations and, in some cases, nonrecurring situations which are likely to respond fairly quickly to short-term remedies or are already being solved. In contrast, the much smaller deficits ascribed to the travel imbalance call for progressive application of long-term remedies. As recently as last spring, Secretary Fowler stated:

> That potential for stimulating very substantial travel to the United States is great indeed. . . . Our receipts from overseas visitors have doubled since 1961.

The appointment of a presidential task force to seek long-term solutions further emphasized the need to work progressively toward a change in this particular aspect of the overall problems.

An article in yesterday's New York Times quoted the Presidential task force regarding the transportation aspect of the balance of payments as follows:

> The travel data presented officially omit associated expenditures in the United States that may result directly from present foreign-travel levels:
> "Last year all foreign airlines bought $921 million worth of United States aviation equipment. The travel deficit in the excess of air fares paid by United States tourists to foreign-flag carriers over the fares paid to United States flag carriers for foreign travel was $580 million last year. Thus, the actual balance of these items was $341 million in favor of the United States."

As the article further points out, there is some doubt as to the validity of the statistics of the so-called "travel gap." It is very difficult to pin this down. Nevertheless, CTOA suggests the following steps to improve the balance-of-payments problem.

First, we would support the cancellation of all special allowances related to the purchase of goods abroad by tourists.

These allowances introduced just after World War II to encourage spending abroad to aid the recovery of Europe's war-torn economies, complicate the travel picture. They are subsidized imports, thought to exceed $1 billion annually, and are charged to the travel deficit.

We feel they should not be.

Second, we will support the application of new transportation taxes, but there are some comments I want to make concerning the existing proposals. Domestic air tickets are taxed and overseas tickets are not. And some other transportation tickets are not. The new proposals before this committee suggest the application of a 5-percent transportation tax to international destinations but the graduated expenditure tax on extra air stopovers.

We oppose differentiation of destination and of mode of travel. Since it is widely accepted that the only realistic long-term solution is to promote an increase in the number of visitors to our country, it is imperative that the new ticket tax does not reduce American travel only to and within those very countries where the greatest potential exists for their nationals to visit the United States. This is just good sound business sense.

Third, an immediate step which would help to reduce the outflow of dollars abroad, would be to tighten the control of charter flights to Europe and Asia. Many such flights are operated either in complete violation of CAB regulations or, at the very least, strongly violate the spirit and intention of these regulations.

Passengers on these flights, very often the more affluent people, who can readily afford the memberships dues of the sponsoring organization, usually purchase few travel services before departure and generally spend more money overseas than the regular traveler who buys a substantial proportion of his arrangements in advance. About 40 percent of prearranged tour dollars remain within the United States in the form of travel-agent commissions, advertising and promotional expenses, wages and salaries, and purchases of various services.

We estimate that the dollar outflow in 1967 on legally questionable charters was $200 million.

Now looking toward longer term measures, we would particularly urge a closer dialog between government and business in the development of the necessary facilities of every kind required to further stimulate the inward flow of tourists.

A most appropriate move in this direction would be the provision of tax-relief incentives for those companies actively engaged in stimulating such traffic.

To create the plans for incoming tourists, to promote the sales of such plans abroad, to establish overseas handling offices, to provide new facilities necessary to handle the visitors—all call for the expenditure of substantial sums of risk capital.

Elsewhere in the world it is the normal procedure for governments to support their national tourist industries by tax-relief measures of this kind. Ample precedent exists to show that such measures are highly effective and produce returns many times over.

We would commend the excellent work the USTS has done on a shoestring budget. But if new ticket taxes are enacted, we recommend they be set aside to aid in the development of a more effective "Visit America" program. This way USTS and private business could undoubtedly accomplish a great deal more.

Federal help could also be effectively used in establishing multilingual centers at our major airports where visitors arrive and depart and in training multilingual guides to serve foreign tourists in our cities.

Foreign agents and writers tell us that every time we get together that these are the two major needs we have to stimulate business. Now, we would like very much to get visa requirements for tourists eliminated, even though procedures have been improved in the last few years, and now one visa is all that is required for multiple entries into the United States up to 6 months at a time for along period of validity.

Let me give, as an example, some information regarding what my own company, Open Road International, is doing to help in reducing the balance-of-payments deficit. In late 1966 we inaugurated tours to the United States for sale abroad. The results for 1967 were meager, but heartening. Ninety-eight percent of our billings were for outgoing travel, 2 percent from Canada to Europe, which repatriated a few U.S. dollars, and 2 percent for travel from abroad to the United States. Nevertheless, 86 percent of the money we spent for research and development was spent on planning and promoting American tours for foreign consumption this year.

In 1968 we are spending twice as much money advertising abroad to attract foreign visitors as we are on our outgoing programs. As I speak to you today, we are simultaneously selling the United States abroad.

Gentlemen, we are only one small company among many CTOA firms who have been and are now actively working toward a final balance of the travel imbalance. And we are sincerely anxious that our investments in time, money and effort should not be lost.

To a substantial degree our opportunity for success, and that of all those who have been working toward this same end, rests, in the final analysis, not upon our direct promotional efforts, but rather upon the good will and enthusiasm of the many thousands of individuals working at the local level in travel agencies and airline offices in countries throughout the world where we are seeking new visitors to our country.

We know that all over the world, even in countries where political considerations may divide us, even in countries with hostile governments, many millions of people have a tremendous desire to see the United States—and the income to permit it. And what they want to see is America as it is, not just national monuments, not just splendid scenery, but rather our living 20th-century culture, our supermarkets, our superhighways, and—most of all—the American people USTS surveys show this. They want to know what we are really like, whether we are in fact what propaganda has suggested. Do we really have a total concern only for material things? How does our free enterprise society really work?

Gentlemen, the American tourist abroad has been a valuable source of humor for the cartoonist, the feature writer, the moviemaker—and not without some justification. But the overriding truth is that he has been a genuine ambassador of good will for the United States during these volatile times, who has made lasting friendships and brought a better understanding of our country to individual people overseas.

And this is what we stand in danger of losing.

To many people, in many lands, the American traveler represents a substantial source of income. These people are not concerned with the intracacies of international finance. They know only that when the tourist comes, they prosper, and that when he stays away, times are lean. And these are the people who, more than any others, can bring about the increase in "Visit the U.S.A." traffic that we so urgently seek.

The travel industry can provide them with the tools, in the form of improved tours, lower airfares, lower cost facilities, and the rest, but if we lose the good will of these prime contacts, if the close relation ships which we in the travel industry have built up so carefully over the many years are damaged or destroyed, then we will lose far more than we can ever hope to gain from a reduction in overseas travel.

This is why we are against the graduated tax on travel expenditures.

Our great anxiety is that these temporary measures, undertaken to correct a limited current situation, may do irreperable harm to many long-term efforts now in progress. For that to happen would indeed be an immeasurable loss.

We ask of you that, instead, you will use your influence and persuasion to aid our positive efforts toward a permanent solution of the problem; that we will find in a partnership of government and business—which the President has suggested as so desirable—a way to achieve substantial progress in 1968; a way to accomplish a lasting and effective restoration of the travel balance; a way that will encourage our friends abroad to work with us; a way that will truly reflect the free enterprise system which is the heart of our economic philosophy.

Thank you again for this opportunity to appear before you.

The CHAIRMAN. Thank you, Mr. Meyer, for bringing your statement to the committee.

Are there any questions of Mr. Meyer.

Mr. ULLMAN. I have just one question.

The CHAIRMAN. Mr. Ullman.

Mr. ULLMAN. You are opposed to the graduated tax primarily? That is what you have indicated in your statement.

Mr. MEYER. Yes, sir.

Mr. ULLMAN. If you were to be presented with an alternative or just a flat exemption figure with a tax on expenditures above that figure, what in your judgment would be—this would not include the transportation, itself—what would be a figure that would not do great disservice to the ordinary once in a lifetime traveler but, at the same time, would get to those people who spend more than the average?

Mr. MEYER. The figure that we would project in answer to that question—and I speak now for myself—would be $750.

Mr. ULLMAN. That does not include fare?

Mr. MEYER. Not including fare.

Mr. ULLMAN. That is a rather substantial sum. How long do the people who buy your tours stay?

Mr. MEYER. It is difficult really, to pin this down, because there are tours for 3 weeks, which sell as low as $70. There are tours which sell at astronomical sums. And there is everything inbetween. Our estimate is that $750 is probably the mean figure for expenditures on the typical 3-week vacation which is more readily used than any other

period of time due to the excursion and tour basing and group inclusive air fares that the airlines use.

Mr. ULLMAN. You are talking about $35 or $40 a day then?

Mr. MEYER. Yes, sir.

Mr. ULLMAN. That is higher than any tour package you have. Do you set such a figure because that is higher?

Mr. MEYER. No, sir.

Mr. ULLMAN. How expensive are your tours?

Mr. MEYER. We have tours, my own company, for example, that run from $70 for 3 weeks up to $1,500 for 3 weeks. The members of our association would show a similar spread.

Mr. ULLMAN. What would a $400 figure do? What percentage of your tours would that include?

Mr. MEYER. Approximately 50 percent.

Mr. ULLMAN. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. I was interested in the figures you used here on charter flights. You say, "We estimate the dollar outflow in 1967 on legally questionable charters was $200 million." That is a lot of money. Those people have to take off from airports in the United States, I presume.

Mr. MEYER. Yes.

Mr. BATTIN. Which fields have some regulations by the Federal Aviation Agency.

Mr. MEYER. Yes. Would you like me to define the area that we feel is legally questionable?

Mr. BATTIN. Yes, please.

Mr. MEYER. First of all, this does not refer to what airports they might be or what airline company. We refer specifically to the type of charter which is known as the pro rata charter. Under the CAB regulations a pro rata charter is simply renting an airplane and using it to go from one point to another and back.

Under the regulations of the pro rata charter the full cost of this rental of the equipment is pro rated among the members who take the charter. This was set up years ago to permit groups with affinity to travel together for some overriding purpose, that the group should be together and take advantage of the reduced rate transportation. Unfortunately, as in many things, the ingenuity of the American people led to the creation of organizations, clubs, and societies strictly for the purpose of getting charters together which violate the spirit and intention of this regulation.

There are also specific rules about membership in the charters. For example, that the organization has to exist for at least 6 months prior to making application for a charter, that a person has to be a member of the organization for at least 6 months before he is eligible. And there is documented proof through advertisements in major newspapers throughout the country that there is widespread violation of these rules.

Mr. ULLMAN. The original intent, to set an example, was some church group that wished to visit a shrine?

Mr. MEYER. Yes.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. That was my question, also. But I would like to follow it up with one other.

This $200 million you are referring to as the addition of questionable charter flights to imbalance includes the total amount expended abroad by those taking the charter flights, does it not? Wouldn't most of these charter flights be on planes that were domestically owned, for instance?

Mr. MEYER. I would like to quote, if I may, from a letter from one of our members that was submitted to Chairman Mills, Mr. George Brownell of Birmingham, Ala., which answers this question.

> The dollar outflow importance of airline charters can be seen by estimating what transatlantic charter passengers alone took out of the country just during the 5 months in 1967 from April 1 to September 30. Assuming $300 each for their average trip transatlantic ticket, about 50 percent of the regular fare, these 279,305 charter passengers paid for transportation alone $83,791,500. In addition, if these travelers averaged spending only $500 each while abroad, a low figure, this would be another $139,632,500 for a total expenditure of $223,444,000.
>
> Assuming that only 50 percent of these charters were handled by foreign carriers or were illegally operated, a conservative estimate in my opinion, this represents a dollar outflow of $111,722,000 for only 5 months.

Now we projected this, based on the amount of travel in the other 7 months of the year to reach our estimated figure. Actually, the percentage, 50 percent of foreign carriers, I believe, is about 7 percent low.

Mr. CONABLE. Would not a substantial number of these people, though, go on domestic airlines if they could get charters, or go on regular air flights, domestic or foreign, if they could not get a charter?

Mr. MEYER. It seems to me the point that Mr. Brownell is bringing out is that if they went on regularly scheduled carriers and if the imbalance from the foreign-flag were carried out at all that this money would remain in the United States. That is one aspect there.

The other aspect is that statistics show a high incidence of travel by people buying charters at this rate. In other words, were paying about half what the average person has to pay. Most of the charters out of the eastern seaboard to Europe are in the area of $145 right now. This makes it possible to go to Europe for a week at less than what it costs you and me to fly to Los Angeles for a week at the lowest available fare. So that these people travel often during the year.

The CHAIRMAN. Mr. Brynes.

Mr. BYRNES. I was intrigued with this package that you have. Did I understand you to say, 3 weeks for $70?

Mr. MEYER. Yes, sir.

Mr. BYRNES. That is about $3.30 a day. What is in the package?

Mr. MEYER. I am glad you asked that. It could be very much in our self-interest if we were restricted from selling that, I tell you. Early last year there was approval by International Airlines of a fare called the G.I.T. or GIT air fare. This is lower than any other air fare to Europe. This same air fare is available from Europe to the United States, so it is nondiscriminatory.

To give you an example, the regular economy fare, New York to London, is $399. The 21-day excursion is $300. For the independent tour fare, that is if you buy an independent tour and do not travel in a group, you pay $270. If you travel in a group under the GIT fare—group inclusive fare—you pay $230, so you see you have to be somewhat of a mathematician in this business

today. The GIT fare for which you pay $230, in other words, part of the regulation of this fare is that it must be combined with a land portion or a tour that costs a minimum of $70. Now if you will go quick arithmetic you will note that in adding $230 and this minimum $70 we come up with $300, which is the same figure that a person will pay for an excursion ticket between New York and London, on which he must leave Monday, Tuesday, Wednesday, or Thursday with no land arrangements, whatsoever. So this GIT fare at the minimum level has attracted quite a bit of marketing on the part of the airline and the tour operators to sell packages which include some sort of land transportation, most of them car rentals with a certain mileage allowance, and one particular hotel in one particular spot where it is assumed that perhaps the customer won't spend all three of his weeks and therefore it becomes a viable sale.

In a package like this the travel agent that sells this $300 package makes the normal $30 commission. The tour operator, with some luck, should clear about $2.75 on a package of this kind.

Now there already exists, I was amazed to see, in Europe certain operators sponsoring the same thing to the U.S.A. For example, there is a $70 package where a European gets a car with a few miles and has 20 nights in Wheeling, W. Va. This really is not tourism but it is a part of it that we have to go along with.

Mr. BYRNES. You can hardly afford to live here, can you, for $3.30 a day. And you also get a discount on your transportation—$230 where otherwise it would cost you $300. Then you are there for 21 days at $70.

Mr. MEYER. Mr. Byrnes, I would point out——

Mr. BYRNES. I wonder what kind of hotel it is. I don't mean to ridicule anybody. I am trying to really find out how this works. The people are kidding the Secretary of the Treasury, and I thought that it was kind of humorous, that you could live on $7 a day. Now you come along and say, my goodness gracious, we will sell you a package at $3.30 a day.

Mr. MEYER. Let us follow this example through.

As I say, this really is not a tour. This lives up to the letter of the rule because the letter of the rule states that the tour members, at least 15 traveling together, must travel together throughout the entire itinerary. It does not say that we can coerce the man to use arrangements which we have sold to him. I think to follow this through, the existence of this fare, and it is valid through March 31, 1969, shows the possibility of people prebuying a very small percentage of their arrangements and therefore these people are not basically using this hotel for 20 nights because unless they happen to have relatives in Wheeling, W. Va., or Bernau, Germany, or Hastings, England, they will perhaps spend one or two nights there and basically then they are taking a self-planned trip and spending money on their own in the foreign countries.

The reason they do this, sir, is because for the same amount of money that it would cost them to buy a simple ticket and travel Monday, Tuesday, Wednesday, and Thursday, they can take a convenient weekend departure and have a car with 500 free miles or so, and start out on their own with more for their money. In a sense this is discounting transportation rather than being a tour.

Mr. BYRNES. That is what I was wondering, if this was not really just a device that was added on so that somebody could get a special air rate rather than being any part of the tour and whether that does not come within the realm of the tariffs which must be filed by the airlines.

Mr. MEYER. This is a tariff agreed upon by the International Air Transport Association and filed here with the CAB just as in other countries with their regulatory bodies. This fare is just as available and exactly the same fare from London to New York as it is from New York to London.

Mr. BYRNES. You get a cheaper fare. You get your fare for $230, that is what you are saying, by adding on a package of a lot of things that you probably are not ever going to use. As long as there is something there that you must use, such as your 2 miles a day with your rent-a-car, you save at least a few dollars. So that that is some plus and a person is therefore better off buying your package than paying $300 for an airline ticket.

Mr. MEYER. I think it is important to point out, Mr. Byrnes, that the intent of the airlines in bringing in this fare was for the low-priced package tour and not this rock-bottom stuff. Most of the tour operators use this fare in tours which average $500 to $600 and give a bona fide trip for that money.

In addition, at the time this was introduced, the CAB urged this fare level as a means of trying to be able to offer in Europe a lower air fare to bring people to this country.

Mr. BYRNES. That is very interesting. Thank you.

The CHAIRMAN. Are there any further questions?

Again we thank you, Mr. Meyer, for coming to the committee.

Mr. Low, if you will introduce yourself for the record by giving us your name, address, and capacity in which you appear, we will be glad to recognize you.

STATEMENT OF HAROLD S. LOW, PRESIDENT, AMERICAN INTERNATIONAL TRAVEL SERVICE, INC.

Mr. Low. Mr. Chairman, my name is Harold Low. I am president of American International Travel Service—AITS, Inc., of Chestnut Hill, Mass. I am appearing here as representative of an independent organization, the president of a public company, one of only three travel organizations in this country that are publicly owned.

I am pleased that I am able to appear before this committee in regard to your consideration of the President's balance-of-payments proposals—proposals to which I am in basic opposition.

If the committee would permit, I would like to read into your record a prepared statement after which I would be pleased to answer any questions you may have concerning the statement, or the effects the proposed bill will have on the traveling public, the travel industry or any other area you would consider my opinions to be expertise in.

My reason for being here is to be of any assistance to the committee that I can possibly be. I realize that you are in the difficult position of evaluating the need, effect, and value of a bill which is strongly opposed by the segments of the public that travel and the industry that serves them.

The importance and necessity of the proposed legislation to our Nation must be assessed by you and your colleagues. Whether balance of payments is drastically affected by the travel industry or is more realistically caused by other activities of our country can be best decided by you. I naturally have personal opinions on this but am singularly unqualified from the standpoint of first-hand knowledge to assess them. In contrast your specific day-to-day experience and knowledge of our country's obligations and trade agreements, et cetera, make you most qualified to analyze the value of the proposed bill to our Nation's interest.

As I said before, I am pleased to appear before this committee, because our company, only 2½ years old, although involved most deeply in the travel industry can be extremely objective when viewing the proposed legislation. We can be objective because our biggest business is to the west coast, Hawaii and to South America. Our company is considered as a mass movement tour operator. For instance, last year we took some 30,000 persons to Hawaii on our west coast-Hawaii and all-Hawaiian carnival programs. In 1968, this figure should be increased to more than 50,000. In fact, we have approximately 1,300 persons in Honolulu today. In addition, we have just commended a series of South American carnivals utilizing chartered aircraft with a luxury liner which will result in our sending 2,500 persons to South America this spring and equally as many next fall.

I may say, incidentally, that our advertising that we have spent last year for promotion and advertising to Hawaii was $1½ million. The advertising and promotion that we will spend to South America this year is $250,000.

In contrast, last year our advertising to Europe was $100,000. Three thousand persons took our European carnival tour last year. So you can see, if anything, our specific company could be assisted by the institution of the President's proposal.

I may take the figures we just used of the number of persons we have transported and translate that into dollars, we are spending approximately, and last year we spent approximately $18 million in the Hawaiian Islands. We will spend $3½ million in the South American program and last year we spent $1.8 million in Europe, of which only $700,000 was spent on land arrangements, in Europe, the rest being transportation and our profit, so to speak.

In addition we consider ourselves a truly independent voice. We are not here representing any association or group within the industry. In other words, we have no ax to grind. However, whether or not we as individuals might be helped by the proposed legislation, we cannot support proposals that could seriously damage our industry in particular and the rights of our citizens generally.

We are a public company and owe an obligation to our stockholders and to our employees, we also owe an obligation as responsible citizens to stand up for what we feel is right. Our company is basically opposed to any Government restrictions on travel other than that recommended for the safety of our citizens. In addition to this general policy stand of our company, I will attempt to justify our general opposition to the proposed legislation on the following bases:

1. It is restrictive against a basic American right.
2. It will damage an entire industry.

3. It will curtail travel generally.
4. It is administratively unfeasible.
5. We doubt it will accomplish its avowed purpose.
6. It will penalize the lower-income, less-sophisticated travelers.
7. Instead of a control, it is basically a new tax.
8. It could create retaliatory actions by other governments.
9. If effective, it would hurt our exchange of ideas and knowledge only possible through personal contact.
10. Administration costs, loss of spending revenue from advertising, purchase of airlines equipment, personnel stationed in this country, et cetera, makes it doubtful that we would actually gain in a great deal proportionately.

I would like to briefly elaborate on the foregoing 10 points. The right to travel is, in my opinion, a basic one and for the Government to use whatever reasons they may have to restrict this basic privilege of American citizens is wrong. It is wrong for any group to decide what areas to which they prefer our citizens to travel.

We believe this law, if passed, could very possibly damage an entire industry. It will effect not only the hundreds of thousands of travel agent employees, the investments of thousands of agency owners, but it will also affect correlated industries such as mass media, printers, carriers such as shiplines and airlines and their employees and their suppliers.

For years the travel industry has endeavored to make it easier for the average person to enjoy the benefits of travel and the broadening of knowledge that results from learning more about the world in which we live. Much of this effort will have been for naught if the proposed law is passed. In considering this legislation, it would seem only fair for you to decide whether or not one industry which has obviously done their job well should suffer for a situation that exists due to many other activities on the part of American business and Government.

It should further be noted that this law will not only restrict travel outside the Western Hemisphere but in all probability will mean that fewer Americans will travel anywhere.

I don't know how familiar you gentlemen are with the patterns and interests of the traveling public. We like to think we are, as it is our business to promote large movements of people on a continuing basis—what we call back-to-back charters. Simply, this means that each time we dispatch a plane load of tourists to a point that there is a plane load there to bring back. However, it is not quite as simple as just transporting tourists from one point to another. They must have adequate accommodations upon their arrival.

There are several popular tourist resort areas in the Western Hemisphere which might compare with the glamour of a European trip. These include Florida, Puerto Rico, the Bahamas, Mexico, and Hawaii. Already there is a tremendous shortage of first-class hotel accomodations in each of these areas.

For example, our company uses 500 rooms weekly in Honolulu, transporting over a thousand passengers. We could very easily transport another thousand passengers weekly if we get another 500 rooms. Unfortunately, these are unavailable to us.

If I may say, in our South American program we researched the area quite extensively and found that we could not get a great deal

of rooms in the South American hotels. So we chartered a steamship and flew our people down to Recife in South America, cruising down to Buenos Aires, stopping at intermediate points with our back-to-back charters bringing the next group to the area to cruise back to Recife. This was due to the lack of deluxe or first-class hotel accommodations. I seriously doubt if a combination of any or all of these areas could come close to absorbing the number of Americans who went to Europe last year, which was some 2,200,000.

In addition, it must be considered that the number of Americans traveling the Western Hemisphere as well as other areas has increased each year with every indication of an even bigger increase in 1968.

It is, therefore, our opinion that this law, because of the simple lack of accommodations, will affect the pleasure of untold thousands of Americans and the income of the entire travel industry.

Besides the fact that the legislation would seem to be a very difficult one to administer, we have sincere doubts as to whether it will accomplish its avowed purpose. There are so many loopholes for the less scrupulous tourists to take advantage of that it would seem to us that all it will result in doing is to penalize the lower income or less sophisticated traveler.

For example, our business has been built on offering deluxe tours at a price which is an obvious value. Many of our passengers could have afforded similar vacations yet needed our instigation to travel. We make it easy for them. We know this is true because our survey figures show some fairly illuminating facts.

The survey to which I am referring is one which is distributed to each of our tour members. For the purpose of these remarks, we compiled the information returned on questionnaires that represented some 2,228 persons on our flights of April 9 through June 6, 1967. The questionnaires represented members of Masonic Order Shrine Temples, bar associations, college alumni groups, and life insurance and telephone company employees from the south, midwest, and east.

Let me quote a few of their answers:

Ninety percent had never been to Hawaii.

Fifty-seven percent would not have taken a vacation at that time of year.

Thirty-three percent had never flown in a jet before, and

Fifteen percent had never even flown before.

When you consider that these were answers of what you might refer to as above average citizens in income and education, you can see how necessary it is to instigate them to travel and visualize how damaging it would be to put any hindering regulations in their path. Therefore, what the proposed law would very possibly do is to discourage them from taking their first trip.

Meanwhile, the honest sophisticated traveler with sufficient knowledge and resources will arrange for others to handle bothersome details and perhaps not be concerned with the additional cost of the trip.

Another real danger in the proposed legislation is possible retaliatory action by other governments which could further increase imbalance rather than level off whatever imbalance that presently exists.

Along with this consideration is the factor of how much travel dollars have replaced aid dollars to many countries throughout the

world. If the spending of travel dollars is cut, would this mean pressure to have them replaced with aid dollars?

Also not to be discounted are the dollars spent by foreign governments in the United States for the purchase of aircraft and equipment, personnel and their expenses, advertising and other related activities of their business here.

It is, therefore, my strong recommendation that this committee weigh most carefully the need for such legislation as opposed to its possible benefits or possible liabilities.

We are sure the committee will find that the travel industry is as patriotic as any other group of American citizens and that our basic opposition is not simply an attitude fashioned by selfish interests but a sincere opinion that the proposed law is not in the best interest of our Government or its citizens.

Thank you for this opportunity to speak to you today.

The CHAIRMAN. Thank you, Mr. Low, for bringing your statement to the committee.

Any questions of Mr. Low?

Mr. BURKE. Did you say your main office is in Boston?

Mr. Low. Yes.

Mr. BURKE. What street?

Mr. Low. Chestnut Hill on Boyleston Street, Route 9.

Mr. BURKE. Thank you. That is all.

The CHAIRMAN. Are there any further questions?

If not, again we thank you, Mr. Low.

That completes the calendar today. Without objection, the committee adjourns until 2:30 p.m. tomorrow.

(Whereupon, at 4:40 p.m. the committee was adjourned, to reconvene at 2:30 p.m. Tuesday, February 20, 1968.)

ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS

TUESDAY, FEBRUARY 20, 1968

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 2 p.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. John C. Watts presiding.

Mr. WATTS. The committee will come to order.

The first witness will be Mr. Thomas R. Wilcox.

Will you come around, Mr. Wilcox?

Mr. Wilcox, you are recognized. Will you please state your name, address, and the capacity in which you appear.

STATEMENT OF THOMAS R. WILCOX, VICE CHAIRMAN, FIRST NATIONAL CITY BANK OF NEW YORK; ACCOMPANIED BY SOMERSET WATERS, TRAVEL CONSULTANT, AND FRED STECHER, VICE PRESIDENT

Mr. WILCOX. Mr. Chairman, my name is Thomas R. Wilcox. I am vice chairman of the First National City Bank of New York.

If I may, I would like to have with me at the table two associates. On my right, Somerset Waters, the president of Child & Waters, Travel Consultants, and they are consultants to the bank.

On my left, Fred Stecher, who is the vice president of the bank, working largely in this travel area.

Mr. WATTS. They are both welcome.

We are delighted to hear from you.

Mr. WILCOX. May I thank you for the opportunity you have provided for a banker to comment on the proposals to impose certain restraints on an important sector of America's foreign commerce.

Tourism has been called our invisible industry. In thinking about it, we find ourselves in the looking-glass world of Alice in Wonderland. Everything seems backward. When American tourists are exported, they represent an import. When we import foreign visitors, we are creating an export.

Today travel represents the largest single item in the world's international trading in goods and services. This year spending for international travel throughout the world will total about $18.5 billion. The world's largest exporter of travel services is the United States.

I am defining travel as an export from the point of view of the money we earn in serving foreign visitors. In view of the export

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earnings and the importance of these earnings to our balance-of-payments position, we should be extremely cautious in any attempt to introduce into the world any new inventions in the field of trade restrictions.

First let me emphasize that I fully agree with the administration that something must be done to bring our balance of payments under control. The orthodox way for a country to improve its balance-of-payments position is to increase taxes, reduce Government spending, and slow down the creation of money by firmer monetary policies which the foregoing will make possible.

Because we have failed to take these orthodox steps, we are now faced with the problem of finding other emergency measures to bring our payments into balance.

The President has shown great wisdom in suggesting a positive approach to the problem of the so-called "travel gap." a Presidential Task Force, under the chairmanship of Ambassador Robert M. McKinney, has prepared a plan for greatly expanding the flow of foreign visitors to the United States. This plan will unquestionably include a number of recommendations for congressional action and for action on the part of the executive branch of the Government, as well as for the travel industry.

This, in my judgment, is the proper path for our country to follow. Constructive action to increase the reception of foreign visitors, rather than limiting the travel of U.S. citizens, is in keeping with our national policy of increasing world trade through minimizing those artificial barriers which clog the channels of international commerce.

In addition, the administration has proposed certain tax measures which it states are necessary to restrain the travel of Americans who desire to move outside the limits of the Western Hemisphere.

The proposal to extend the present 5 percent excise tax on airline and steamship tickets seems reasonable under present circumstances. At present, we have an unusual situation where we have a 5 percent excise tax on domestic air tickets, but do not have such a tax on international tickets. To treat both domestic and international travel in the same manner seems reasonable. In addition, the 5 percent excise tax could provide the revenue needed to finance a strong promotional campaign to attract foreign visitors to our country.

The other proposals for tax restraints, for the purpose of limiting travel, seem contrary to America's historic policy of championing the forces of liberalism in world trade. I am opposed to these new taxes, as well as any lowering of the duty-free allowances. These proposals are negative in intent, and are designed to restrict rather than to unfetter international commerce.

I would go so far as to say that we must resist all temptations to join forces with those throughout the world who advocate new controls and restrictions to solve balance-of-payments problems. Such forces must be resisted at all cost.

THE TYRANNY OF STATISTICAL INVENTIONS

In the first place, it is difficult to understand why, out of our total imports of goods and services, amounting to $38 billion, one import, that is, travel, was selected to be the sacrificial goat.

I suspect that the reason can be traced to the way we keep our books. Economicts, who study our balance of payments, live under the tyranny of the statistical inventions of the accountants who originally established our bookkeeping system. Certain accounts, such as travel, are segregated, and thus subject to easy analysis. The accounting system itself encourages selective finger pointing.

To say that we have a trade surplus but a travel deficit is statistical double talk. Much of the travel deficit becomes the foreign exchange used to buy American goods, which is reported as trade surplus.

If our balance-of-payments report had separate accounts for petroleum, coffee, and textiles, we would hear more about our oil gap, coffee gap, or textile gap. To suggest that we solve our problem by limiting foreign travel makes no more sense than suggesting we drive our cars less to reduce consumption of imported petroleum.

U.S. PER CAPITA SPENDING FOR TRAVEL IS LOWER THAN OTHER COUNTRIES

Back in 1963, foreign travel represented 7.9 percent of all imports of goods and services. In 1964, travel dropped to 7.7 percent, and by 1965, it was down to 7.6 percent.

In 1966, the United States spent $38 billion for imported goods and services, which included $2.7 billion spent by U.S. travelers in foreign countries. Thus tourist spending was down 7 percent of the total import figures.

Although total travel expenditures increase each year, so do all other imports, at an even greater rate. Since the percent of total imports charged to the travel industry shows a continuing decline, there seems to be no logical reason to select this particular industry as the target for damaging tax measures.

When we compare the United States with other industrialized countries, we find we are exceedingly thrifty when it comes to spending our money for traveling in foreign countries. The United States per capita spending for foreign travel amounts to $15.70. This is lower than the per capita spending of Canadians, Germans, French, Scandinavians, Swiss, Belgians, Australians, and New Zealanders.

TRAVEL STIMULATES U.S. EXPORTS

Spending for travel, like spending for other imported products, provides foreign nations with dollars needed to pay for their essential purchases of U.S. goods and services.

In many countries in the middle East, Africa, Asia, and the Pacific area, U.S. tourist dollars are particularly important, because other methods of earning dollars are limited. As appropriations for foreign aid programs have been reduced, the need for the tourists' dollars has become more urgent.

In 1966, the U.S. aircraft manufacturing industry was able to sell to foreign airlines $1.4 billion of aircraft, which provided much-needed foreign exchange, as well as employment throughout the United States in factories making airframes, engines, electronic equipment, and other aircraft components.

Another fairly recent development helping our exports has been the introduction of U.S.-designed and managed hotels in foreign cities and resort areas. When one of these American hotels opens its

doors in a foreign country, it becomes a local showcase for a wide range of U.S. products.

During the construction of these hotels, the latest American kitchen appliances, laundry equipment, air-conditioning systems, elevators, electrical appliances, and other U.S. exports are introduced to local building contractors, architects, and hotel owners.

These hotels would not be profitable without the patronage of American tourists. Any substantial reduction in U.S. visitors could lead to bankruptcies and would certainly discourage the introduction of new American-managed hotels.

New demands for American products are often instigated by the tourist himself by requesting American soft drinks, liquors, tobacco products, and other consumer items. In catering to the demands of U.S. tourists, the local restaurants and retail shops often introduce American items which soon become popular with local inhabitants.

REDUCING THE "TRAVEL GAP"

On examining the so-called "travel gap," it is obvious that this sector of our international trade would not be in the present spotlight if foreign travel expenditures in the United States were in balance with U.S. travel expenditures abroad.

The problem then becomes one of bringing about a better balance, rather than limiting the growth of American travel.

Our true target, in line with our national policy of encouraging the expansion of world trade, should be a moving forward in better balance.

For this reason, I fully support measures to increase the flow of foreign visitors to the United States.

In this light, I believe history will show that the President's call for narrowing the travel gap will result in new Government and industry policies of far-reaching economic significance.

By calling attention to the major role of travel in international commerce, the President has shown leadership in a field of foreign trade which has received too little attention at the policymaking level of Government.

In both industry and Government, it is often observed that when problems become urgent, policymaking becomes inventive. We seem to be entering a period of inventiveness in travel policymaking which, if applied constructively to increasing our travel earnings, can have significant impact on improving our balance-of-payments position. These new policies, however, will only be meaningful if they receive strong support from Congress.

THE IMPORTANCE OF TRAVEL AS A MAJOR EXPORT INDUSTRY

Except for the export of automotive vehicles and parts, which amounted to $2.2 billion in 1966, no other single commodity exceeds tourism as an earner of foreign exchange. The aircraft manufacturing industry earned $1.4 billion, exporters of wheat earned $1.5 billion, but tourism produced earnings of $1.8 billion.

In view of the importance of attacking our balance-of-payments problem through the expansion of exports, it is respectfully suggested that the findings of the President's Industry-Government Travel Task

Force should get priority attention at this session of Congress, in light of tourism's position as a leading export industry.

WHY TRAVEL RESTRICTIONS ARE NOT APPROPRIATE

With a strong and rapidly expanding world travel industry contributing about $18.5 billion to world trade in 1968, and producing an estimated $2.1 billion in earnings for the United States, it would seem dangerous to tamper with our travel relations with other countries.

As the world's leading exporter of travel services, it would seem unwise to set in motion restrictive measures which might be copied by other countries, to our detriment.

In Europe, our three largest customers, Britain, Germany, and France, all show travel deficits in their balance-of-payments accounts.

Last year, more than 7 million Canadians visited the United States. We also received more than 400,000 Mexican visitors. Most surprising, however, was a 17.6-percent increase in visitors from the United Kingdom.

These 231,000 British visitors arrived in the United States in record numbers, despite the fact that their Government had imposed rigid currency restrictions on travelers.

We might do well to study this phenomenon before we consider restricting our own citizens.

It is also interesting to note that of all the countries in Europe, France showed one of the largest percentage increases in sending travelers to the United States. The 116,000 French visitors represented an 85.2-percent increase in 1967 over the number of French arrivals in 1966.

During the past two decades, the United States has played a leading role in the progressive liberalization of international trade. The recent conclusion of the Kennedy round of trade agreements represents the most extensive liberalization of trade ever achieved, and was the result of long and difficult negotiations.

Prior to World War II, most of the leading industrialized nations followed a beggar-thy-neighbor policy in international trade relations. During the past 20 years, the United States has provided world leadership in a bipartisan national policy calling for continuing reductions in trade barriers as a means for increasing opportunities for world trade.

As a result, free world exports rose from less than $50 billion in 1946 to more than $180 billion in 1966. This remarkable expansion in trade has been accompanied by the most rapid increases in domestic growth rates ever experienced in the industrialized nations of the world.

To turn the clock backward and set an example of Government-imposed restrictions for an export category in which we are the world's leading exporter seems to fly in the face of 20 years' successful foreign trade experience.

EDUCATIONAL AND POLITICAL IMPORTANCE OF TRAVEL

In addition to economic considerations, there are other powerful reasons for encouraging Americans to travel to the developed and

developing regions of the world, including the countires of Eastern Europe.

If Congress is to reflect the views of its constituents, it is important to Congress that the citizens of the world's leading power be enlightened and understanding as to the changes and developments now taking place throughout the world.

The problem of keeping abreast of these developments requires the attention of our citizens, as well as our Government officials. As old doctrines and old policies become obsolete, new viewpoints must be developed on the part of the public through firsthand experience gained by foreign travel.

Since the birth of this country in 1776, the right to travel without governmental impediments has been one of the distinguishing marks of an American citizen.

It is my personal belief that nothing is more important in maintaining a peaceful and prosperous world than to have an enlightened citizenry, informed on world affairs through personal experiences gained through international travel.

THE DAMAGE WHICH MAY RESULT FROM TAX MEASURES DESIGNED TO RESTRICT TRAVEL

From the point of view of an international banker, I am opposed to the proposed tax measures and the reduction of the duty-free allowance for the following reasons:

1. These measures represent a reversal of a 20-year foreign trade policy calling for expanding world trade through continuing reductions in Government-imposed barriers.

2. The proposed taxes would discriminate between nations and possessions of nations.

It has been a long-standing policy of the U.S. Government to be nondiscriminatory in our trade relations. It makes little economic sense to treat Bermuda differently from Britain, Martinique differently from France, or Aruba differently from Holland. In fact, there is no reason to favor Brazil over Japan, or Venezuela over Israel. Once dollars leave the United States, there is no way of controlling or determining where they may flow. Dollars spent in Brazil one day can very well end up in France or Germany the next day. Certainly dollars spent in Martinique, an overseas department of France, are no different than dollars spent in Paris.

3. The proposed taxes will cause worldwide repercussions, will invite retaliation, and will injure our export expansion program. The net results will be unfavorable to our balance-of-payments position.

For example, the President has recently initiated high-level discussions with foreign countries for the purpose of obtaining their prompt cooperation in minimizing the disadvantages to our export trade which arise from differences in national tax systems. These present negotiations will be adversely affected by this proposed travel tax.

4. The proposed tax discriminates against a single industry—the travel industry.

It imposes severe financial hardship on 6,000 travel agents, who are mostly small businessmen, with an average of five employees each. It harms the airframe manufacturing industry, the air carriers, steam-

ship lines, the publishers of travel books and magazines, the hotel chains, and rental car organizations. While a single industry is selected as the sacrificial lamb, a wide range of other industries are expanding their imports because increasing prices and increased wages in the United States make foreign products more desirable.

Strikes and threats of strikes also increase imports. For example, the President has asked the travel industry to save $500 million in foreign exchange this year. At the same time, the labor dispute in the copper industry has shut down domestic mines, and has cost our balance of payments over $150 million. On an annual rate basis, the current trade deficit in copper is running between $750 million and $1 billion.

5. The bureaucratic structure which will be required to collect these taxes and duties will be enormous. Millions of citizens will be required to make deposits prior to leaving the country, file tax returns after reentering the United States, pay duties on souvenirs valued at over $10, and subject themselves to a new police force which will be required to investigate our citizens' overeas activities.

The documentation alone will require processing of tens of millions of Government forms. The employment and training of thousands of new Government employees to man this new bureaucratic structure will be an enormous task. By the time the machine is running smoothly, it will be time to dismantle it, since a termination date of September 1969 has been established.

6. A major problem today, in our gateway cities, is airport congestion. The new procedures at airports, which will be required by these taxes and lowered customs exemptions, will increase airport congestion enormously.

7. Finally, the excellent program to increase U.S. travel earnings from foreign visitors, proposed by the Presidential task force under the chairmanship of Ambassador McKinney, will be severely injured by these new tax measures. Most of the travel flowing to the United States is generated by foreign travel agents in cooperation with the national airlines of the foreign countries. It is difficult to see how we can get the wholehearted cooperation of the foreign travel industry in our selected target countries when the U.S. Government is taking such drastic measures to severely curtail the travel business they now receive from the United States.

RECOMMENDED COURSE OF ACTION

Now that America's long-neglected international travel industry has been recognized as an export industry with vast growth potential, we should lose no time in setting the machinery in motion to produce strong increases in foreign exchange earnings through increased promotion of foreign visitor traffic to the United States. This represents the proper path for the United States to follow.

The fact that we are now engaged in a national debate on U.S. travel policy is a healthy development.

There is much we can do to improve our reception and servicing of foreign visitors. There are ways to make a visit to the United States a less costly and more rewarding experience. Our U.S. Travel Service certainly requires a greatly expanded budget to enable it to properly carry out the duties for which it was created.

This Nation has all of the skills and ingenuity, in both Government and industry, which are needed to solve this problem. There is no need for a country which prides itself as a world leader in communications and marketing to have to depend on Government-imposed restrictions to solve the problem of competing in the world marketplace for our share of world tourism.

Mr. WATTS. Thank you, sir. That is a very fine statement.

Are there any questions?

Mr. SCHNEEBELI. Mr. Wilcox, on page 7, you say:

No other single commodity exceeds tourism as an earner of foreign exchange.

In the light of the information we have received, we have a $2 billion deficit in tourism. Could you amplify your statement?

Mr. WILCOX. Yes, sir. I think the confusion arises over what is an export and an import.

We earned $2.2 billion, referring to that paragraph on page 7, from export of automobiles and automobile parts.

Again these are 1966 figures. We earned in that time period $1.8 billion from tourists who came to this country.

Mr. SCHNEEBELI. Didn't we have a net loss of $2 billion?

Mr. WILCOX. Yes, sir. I think that gap is right at $2 billion, to the extent that we can be specific about it.

My point is that we are the largest exporter of services, that is to say, we earn most from tourism of any country in the world, at $2 billion, more or less.

I submit to you that that is without very much effort on our part. I don't think that we have a conspicuously favorable environment to the tourist, nor have we done anything significant on a national scale which would induce the people of the world to come visit the United States.

Mr. SCHNEEBELI. There was an item this morning that we were going to have an inducement by having the fares cut 50 percent, a recommendation of the President's panel.

Mr. WILCOX. Yes, sir. That is the McKinney report to which you refer.

Mr. SCHNEEBELI. Yes.

Mr. WILCOX. It is my judgment that if we have earned $2.1 billion from tourists from other shores to the United States without any conspicuous effort in that direction, that a little effort, properly mounted by professionally competent people, will not only close that gap, but provide a plus.

Mr. SCHNEEBELI. I think the inference in that paragraph indicates that we have a plus $1.8 billion tourism balance, but actually we have a minus $2 billion deficit.

Mr. WILCOX. Yes, sir. I did not intend it so. There is an income and expenditure side.

Mr. SCHNEEBELI. You have not considered the expenditures here?

Mr. WILCOX. No, sir, but I am responding that the expenditures exceed the income by $2 billion.

Mr. SCHNEEBELI. Your statement does not indicate that this is the net result. This is merely the plus factor, without considering the minus.

Mr. WILCOX. That is correct. In other words, I do not think that a category of activity that is producing as much as $2 billion should

not be a matter of grave concern to us. I think it should be. That is the point.

Mr. SCHNEEBELI. The point is that we should address ourselves to the loss?

Mr. WILCOX. To the gap, yes, sir. I agree.

Mr. BUSH. The $1.8 billion is the money that the tourists from other shores spend over here?

Mr. WILCOX. Yes, sir.

Mr. BUSH. So we have something like $3.8 billion that we are spending overseas?

Mr. WILCOX. Yes, sir.

Mr. CONABLE. I would like to explore the relation between the two, the deficit and the amount expended by foreigners in this country.

For instance, you say on page 11 that the proposed taxes would invite retaliation. Several people have made that statement before the committee.

I am not quite sure that there is a direct relationship between how much we spend abroad and how much other people are going to spend here, if you are talking about tourism. I see that might be so, if you are exchanging goods. What type of retaliation are you concerned about?

Mr. WILCOX. I am not certain that you can quantify this precisely.

I wish I were able to tell you to what extent France has lost tourist dollars. This is not a precisely parallel situation.

Mr. CONABLE. But someone has told us that French tourism in this country has increased by a very substantial percentage in the past year, despite tension between France and the United States.

Mr. WILCOX. We are talking about whether or not we are going to be impacted on this side.

I might make this judgment, and I might say this is a judgment shared by those who work every day in the travel business, that if we are dependent, as we are, on the recommendations of travel agencies in every country abroad, it is not likely that they are going to be gratified by our having denied their dollar income by restrictions we propose from this side.

In other words, if you had 10 options to offer a traveling Swede, I think probably you would not put the United States ahead of the list, if they had just reduced your inflow of dollars because of travel restrictions imposed here.

Mr. CONABLE. You are concerned, then, about retaliation on an individual level, and not necessarily on the governmental level.

It is true, is it not, that there are not very severe limitations now on the freedom of travel of the Europeans, and therefore they are free to go as they please? It would not be likely, unless there was a deficit situation similar to what we have here, that their governments would impose restrictions, would it?

Mr. WILCOX. If I may defer to Somerset Waters, who has a point that I think may be responsive.

Mr. CONABLE. Yes.

Mr. WATERS. Sir, the Japanese Government have just announced that if we put any restrictions on, they will do the same, almost immediately.

But the point you mentioned before is the real point. The travel, when it comes to this country, moves through a travel agent. It is the travel agents who are able to influence where the person goes.

If we suddenly wreck the travel business of Europe, the little people who make up the business, the travel agents, the tour operators, they are not going to feel very friendly toward us, and certainly we are going to suffer.

Mr. CONABLE. Even though it is possible for them to put together a much more attractive package, once our air fares have been reduced, for instance?

Mr. WATERS. I don't believe you win any friends by wrecking their business.

Mr. CONABLE. I quite agree. I simply wanted to explore the extent of this retaliation, which has been mentioned several times.

From what you have said, I agree it is difficult to quantify, but that there probably would be at most some psychological effect.

Mr. BATTIN. From what you say about the Japanese warning that they will immediately put on similar restrictions, it would appear from other testimony we have had, particularly from Government witnesses involved in consultation to solve these problems, that maybe our friends are able to help us, as long as it does not hurt them.

Is that a fair statement?

Mr. WATERS. As Mr. Wilcox mentioned, we are the biggest travel earner in the world. We are the big business, when it comes to earning through travel.

But any time we go out of our way to invent new devices to curtail travel, we are looking for trouble. We are giving other people ideas.

It does not look like good business, in the long run.

Mr. WATTS. Mrs. Griffiths.

Mrs. GRIFFITHS. Thank you very much, Mr. Chairman.

I would like to congratulate you, Mr. Wilcox. I think you have made an excellent statement.

Mr. WILCOX. Thank you.

Mrs. GRIFFITHS. Personally, I am for you. I feel it is ridiculous to feel that we are going to solve any problems by adding a travel tax.

I feel it would be much better if we went all-out to get some tourist business into America, and I think it would be even better if we tried to get Americans to tour America.

I think it is a vast mistake to assume that there is nothing in America worth seeing. It seems to me that most Europeans and most Asiatics would give almost anything to see America. We could put together a few packages that would make it possible for those people to come here, and get back some of that money we spend over there.

As someone in my office said yesterday, Vienna has been living 500 years just on tourism, and we have ignored the fact that it is a salable product.

I would assume that the Crusades were really tours.

Mr. WATTS. Any other questions?

Mr. BURKE. Mr. Chairman.

Mr. WATTS. Mr. Burke.

Mr. BURKE. Is it true there is a rather unofficial agreement among nations that they allow up to $50 duty-free goods to come into their country? This is the unofficial agreement that is now in existence?

Mr. WILCOX. I do not know the answer to that, Congressman Burke.

Mr. WATERS. The European countries recommended among themselves that that $50 allowance be made available in all the European countries, but they have not lived up to it. There are only a few that do.

Mr. BURKE. What do they do? Have less than $50 duty free?

Mr. WATERS. A great many of them do have less than $50, yes, sir.

Mr. BURKE. Do you think it is possible to put into effect the universal agreement of $50 duty free?

Mr. WATERS. I would certainly think that is something we should aim for, a liberalizing of trade, of which this is a part.

We are a country which has set a good example in this direction. We certainly hope that this would spread throughout the world.

Mr. BURKE. Do you think that if we reduce the duty-free goods, say to $10, then these other nations will be agreeable to have $50 duty-free goods, that they might change their system and reduce it to $10, at the most? Is that the type of retaliation that could be made?

Mr. WATERS. It could be.

Mr. BURKE. That is all.

Mr. WATTS. Mr. Bush.

Mr. BUSH. I wonder, in line with Mrs. Griffiths' statement, if you have any figures on how much it costs relatively for a tourist in Austria going to the United States.

Isn't it part of our problem that the cost of hotels, cost of things, are so high over here that a poor guy going on a vacation—could we get something from the bank for the record on the 10 leading countries that we could put in here?

Mr. WILCOX. Yes. I think maybe you would have some difficulty developing what is the optimum for the average tour. I do think the Industry-Government Task Force on Travel has addressed itself to this problem of lowering prices by numerous devices.

The principal among them, of course, is a package of tours, bring them over en masse in the big new jet aircraft, and bring them to the United States, again in rather large numbers, all together, as a device.

Mr. BUSH. That sounds like a horrible vacation, get herded into a big jet. I think it is one of our fundamental problems.

Mr. WILCOX. It is a problem.

Mr. BUSH. Is this report you referred to to be made a part of the record?

Mr. WILCOX. I am referring to the Industry-Government Special Task Force, which is Mr. McKinney's report, which was released just this morning, and reviewed in today's Times.

Mr. BUSH. Thank you.

Mr. WATTS. Any further questions?

Mr. Wilcox, of course all the members of this committee recognize there is a problem of balance of payments. We would like to solve as best we could, with the least inconvenience to the people of this country.

Now, there are some other countries that have restrictions on travel; are there not? For instance, the British only allow £50. Is that not correct?

We would not be unique in enacting some kind of tax, would we?

Mr. WILCOX. I am not sure that Great Britain is an example I particularly want to follow.

Mr. WATTS. I did not say that, but I got from your statement a few minutes ago that we probably would be the only country in the world that did impose any travel restrictions.

The £50 limit is a travel restriction of a kind; is it not?

Mr. WILCOX. Yes.

My statement did not say that we were the only one that did. I think I said it would be unbecoming of us, who are a leader in the world, working in the direction of free trade.

I think, secondly, we have the largest stake. Whatever the gap is, the travel gap, we still are earning $2.1 billion from receiving people here.

I am just saying that I would go very slowly about providing an environment in which that $2.1 billion might be materially reduced.

Supposing you could reduce the numbers from $2 billion coming in to $1 billion. Let us reduce the $4 billion going out to $3 billion, but if in the process we reduce the $2 billion coming in to $1 billion, then we would be where we are, and we would not be benefited in any way.

That is what I am afraid of.

Mr. WATTS. Don't assume from my line of questioning I am in favor of the travel tax. I am merely wanting to explore the matter.

I note you say it would be very unfair to put this tax on everybody except the Western Hemisphere. In the event we decided to do it, which we may not decide to do, would you advocate that it go on the Western Hemisphere is well, since you say it is unfair to not do so?

Mr. WILCOX. I think if you take the position that you are going to have travel restrictions, yes; I think I would have to apply it universally.

Mr. WATTS. Universally?

Mr. WILCOX. Yes, sir. I think I would have some difficulty distinguishing whom it benefited, or why.

Mr. WATTS. I notice in your statement on page 2 that the proper way to reduce the balance of payments is to increase the taxes. Domestic taxes, I assume you are talking about.

Does that mean you would take more money out of the people's pockets because that would prohibit them from traveling abroad?

I do not make the connection.

Mr. WILCOX. I am speaking of taxes as a matter of fiscal restraint; yes.

Mr. WATTS. That is not connected with the balance of payments, necessarily; is it?

Mr. WILCOX. Well, to the extent that there are more dollars floating around in this country than there are goods to buy, I suppose you could say it is.

Mr. WATTS. Then you said reduce Government spending. I assume you are talking about foreign aid and expenditures on soldiers abroad.

Mr. WILCOX. I am just thinking about operating the country within its income limitations.

Mr. WATTS. You are talking about spending abroad, or domestic spending?

Mr. WILCOX. Both.

Mr. WATTS. Spending abroad has more to do with the balance of payments than domestic spending; does it not?

Mr. WILCOX. Yes.

Mr. WATTS. You are tying the two together. You want a sound fiscal policy tied in with the balance of payments?

Mr. WILCOX. Yes, sir.

Mr. WATTS. Thank you, sir.

Mr. ULLMAN. Mr. Chairman.

Mr. WATTS. Mr. Ullman.

Mr. ULLMAN. Mr. Wilcox, do you really think that these measures that you recommend, increasing tourist travel here, plus some kind of tax increase, will stop the drain on gold and correct the balance-of-payments situation?

Mr. WILCOX. I think the problem is larger than those two steps will correct. I think they are important steps in the right direction.

Mr. ULLMAN. They would help?

Mr. WILCOX. Yes, sir.

Mr. ULLMAN. Of course, what concerns me is the continued drain and loss of gold, and where we are going to find ourselves if we allow it to continue.

Have you advocated any other actions besides what you reported to us here?

Mr. WILCOX. No, sir.

I have confined my remarks to the dimensions of this hearing, which is the impact of the implementation of Secretary Fowler's proposed taxes on tourism, as it might or might not help the balance-of-payments problem.

Mr. ULLMAN. You are not here, in other words, to give this committee recommendations on the overall problem, but you are limiting your recommendation to its application with respect to Treasury's recommendations.

Mr. WILCOX. Yes, sir. That is correct.

Mr. ULLMAN. You have other ideas that you are not expressing here?

Mr. WILCOX. That is correct.

Mr. ULLMAN. Thank you.

Mr. WATTS. Are there further questions?

Thank you very much, Mr. Wilcox, for a fine statement. We enjoyed having you and your group before the committee.

Mr. WILCOX. Thank you.

Mr. WATTS. The next witness will be Mr. John Seath.

Come around, Mr. Seath.

Please give your name, address, and in what capacity you appear.

STATEMENT OF JOHN SEATH, VICE PRESIDENT AND DIRECTOR OF TAXES, INTERNATIONAL TELEPHONE & TELEGRAPH CORP.; ACCOMPANIED BY LYMAN HAMILTON, TREASURER

Mr. SEATH. On my right, before I start, Mr. Chairman, is Mr. Lyman Hamilton, treasurer of International Telephone & Telegraph Corp., who will assist me, where possible.

Mr. WATTS. We are delighted to have you.

Mr. SEATH. Mr. Chairman, my name is John Seath. I am vice president and director of taxes for the International Telephone & Telephone Corp. I welcome this opportunity to present what I hope will be a constructive view of how the proposed travel taxes might affect the balance-of-payments problem.

I think that all of us have seen cartoons, usually appearing in magazines or newspapers around tax time, showing a taxpayer at an Internal Revenue Service office. The taxpayer appears somewhat dedraggled, and his pockets are generally turned inside out.

While these cartoons may or may not be funny, depending on one's general feelings on Federal taxation, all of us, I believe, have previously regarded such cartoons as somewhat overdrawn, and not as reasonably accurate portrayals of what happens to a taxpayer before an Internal Revenue official. None of us had previously felt that a taxpayer had to turn his pockets inside out before a Revenue official.

However, it now appears that all this may change. Under the travel tax program proposed by the Treasury, a taxpayer might, in fact, have to empty his pockets before IRS or customs officials, both when he leaves the country and when he returns, but with this difference—instead of being taxed on what he has, he will be taxed on what he does not have. In other words, you are to be taxed on what you do not have left over after you return from Europe or the Far East. The less you have, the more you are to be taxed.

We at ITT fully share with the President, the Secretary of the Treasury and the Congress their deep concern over the deterioration in the U.S. balance-of-payments position. We have cooperated fully in the past voluntary programs, and we well understand the motivation for the present President's action program, including the foreign direct investment program.

Our 1967 balance-of-payments deficit was some $3.5 billion. The travel tax is designed to alleviate that deficit by some $250 to $300 million, or roughly by some 7 to 8 percent. Thus, we must first recognize that we are dealing with but a relatively small item, both in the balance-of-payments deficit, and in the action program designed to reduce the payments deficit in the year ahead.

Granting that foreign tourism by U.S. travelers has only a minor effect on the U.S. balance-of-payments position, we recognize that it still may be desirable to counteract that effect. We do not oppose a program aimed at reducing or restricting tourism. But we do feel that if tourism is the problem, then the remedy should be aimed at the problem, and not at a far wider portion of the picture.

If there is a tourism imbalance, might it be wise to encourage travel to this country by seeking the cooperation of American firms with foreign operations. For instance, our Avis Rent-a-Car Division, in cooperation with the Industry-Government Special Task Force on Travel, is making available its overseas offices in order to help encourage more visits by foreign tourists to the United States.

The travel tax program announced by the Treasury does not affect only tourism. It extends to business travel. And it has by no means been demonstrated, or even maintained, by the Treasury that business travel, which is less than one-fourth of total U.S., European, and Far Eastern travel, in any way contributes to the balance-of-payments deficit.

On the contrary, we must point out our sincere feeling that business travel has contributed and will continue to contribute to the resolution of our balance-of-payments difficulties. Let us look at the new foreign direct investment program, the major part of the President's action program. To the extent that American corporations are to com-

ply with the foreign direct investment program, business travel abroad is, we believe, more essential now than it was before that program was announced.

With the new regulations on direct investment and repatriation of earnings, decisions have to be made, and foreign travel by American businessmen will be required. If earnings are to be repatriated from foreign subsidiaries, pursuant to a U.S. program, decisions again have to be made, managers and directors of foreign subsidiaries have to be talked with, plans made and revised, again requiring foreign travel by American businessmen. If exports are to be encouraged, someone has to sell such exports abroad. Again, foreign travel will be required. American business cannot carry out the mission entrusted to it under the President's program by pushing computer buttons and writing letters from New York, Washington, or California.

I should like to emphasize this point. The U.S. foreign direct investment program, which is the basic step now being taken by the administration to help cure our balance-of-payments deficit, must, of necessity, recognize the continuing need of business travel by American businessmen in those areas of the world where balance-of-payment problems arise. In seeking to impose restrictions on such business travel, it appears as if the Government, on the one hand, has asked that American business help put out a fire, and, on the other hand, has imposed a travel restriction on the businessman who wants to get to the scene of the fire.

As I said before, we object to the travel tax only insofar as it fails to distinguish between tourism, which may be a legitimate object of restriction when international payments are, as they are today, unbalanced, and business travel, which should not be a legitimate object of restriction. We all know that we are not here dealing with a tax designed to raise money. We are dealing with a tax to restrict travel.

I should like to interject at this point, if it works perfectly, not one nickel will be collected. In fact, the administration's proposal is that the tax be a deductible expense to the business traveler, which makes the tax look like a revenue-raising measure, rather than a deterrent.

I have tried to show that the broad effect of the Secretary's proposals go well beyond an overall objective of seeking to limit tourism, in order to cut down a drain, admittedly minor, in our balance-of-payments position. I should now like to point out specific elements in the proposed travel plan that I feel are fundamentally at odds with sound principles of tax administration.

The proposed collection procedures are both complicated and perhaps embarrassing for taxpayers involved. Imagine, if you will, Kennedy Airport, with travelers lined up to report how much money they have when they leave, and again how much money they have when they return. How will we control the impulse of some to commit fraud and save a 30-percent tax? Will travelers be searched? Does such a tax perhaps encourage the temptation to cheat, rather than to raise revenue?

And the estimated declaration. The traveler who spends more than he plans—who, for example, makes an unplanned purchase of an expensive item—will have to pay not only the 30-percent expenditure tax, but also whatever duty may be involved, plus the penalty for an improper estimate. Why should such an item, if purchased in Europe,

be subject to both the 30-percent expenditure tax, plus the duty, plus an estimate penalty, while the same item, if purchased in the States, be subject only to the duty?

And the rate of tax on travel. The man who travels from New York to London to Paris to Frankfurt to Stockholm and back to New York pays only a 5-percent tax on his air fare, provided that he does not stop over for 12 hours, or if his plane is delayed beyond 12 hours, then his air fare in Europe becomes subject to the 15-percent or 30-percent expenditure tax, not the 5-percent travel tax. I say, flatly, that this is an unworkable and unjust rule. A tax on air fare for foreign travel should not depend on the number of hours in a stopover.

But let us take the business traveler in Europe, at a 5-percent to 30-percent tax, as the case may be. He has worked hard all day and wants to go to the theater, or he wants to buy a present for his wife or children. He has to pay a 15-percent or 30-percent tax on his personal expenditure, an expenditure not normally of the kind to be reimbursed by his employer. But his American neighbor who is, perhaps in the next room, and who is on a trip for the same duration, and perhaps for the same purpose, is not subject to the 30-percent tax, or any other tax, on the same identical personal expenditure. Why? Because his neighbor works for the U.S. Government. While I respect our hard-working Government employees, I submit that this is unfair discrimination.

Gentlemen, if our balance-of-payments program requires a restriction on tourism, then I urge the Congress to adopt such restrictions as may be necessary. But let us not rush to enact a broad-brush travel and expenditure tax of the type urged by the Treasury Department. To create confusion in tax administration, perhaps to encourage fraud, to discourage for no real purpose necessary travel, and to discriminate unfairly, all in an area where no significant improvement in our balance-of-payments position is to be expected, are hardly hallmarks of a tax program worthy of inclusion in the action program proposed by the President to meet our balance-of-payments deficit.

As I mentioned earlier, we at ITT for some time have shared the Government's concern regarding our declining position in balance of payments.

The American dollar is the dollar of every American. To maintain a strong, stable dollar is not only in our best interest. It is a duty to be carried out.

We have subscribed to the basic concept of the President's program—to prevent an outflow of dollars—by financing our foreign operations from abroad, and not by means of a dollar infusion from the United States. This we will continue to do until the defense of the dollar is assured.

But while we cooperate with the spirit of the program, there is the necessity, I believe, to point out some serious shortcomings which, if left uncorrected, will prove self-defeating.

For example, regulations on direct foreign investment force some U.S. wholly owned companies operating in Schedule C countries to repatriate at a rate which can soon prove to be unbearable.

From a weakened capital position, U.S. foreign operations can be put at a serious competitive disadvantage, and vital dollar-earning

markets may be lost for some American firms for years, or, indeed, permanently.

Further, the formula for repatriations will most severely penalize those firms which have cooperated voluntarily with the Government by holding down dollar outflow from our country and increasing the inflow. The regulation's mathematics see to that.

Also, it is well to remember that forced repatriations at too high a rate will likely bring retaliation by foreign governments who may feel compelled to take steps to restrict the transfer of foreign-earned moneys to the United States beyond a certain level.

In conclusion, then, it goes without saying that strong steps must be taken to defend the dollar.

But what I suggest is that the regulations which embody these steps, as set forth in January, should now be reexamined to determine: Can our program be improved, are changes necessary, are there self-defeating measures built into it, and what can be done to assure an effective, meaningful plan, and the unquestioned integrity of our dollar?

As with the direct investment program, we also must be certain the travel tax proposals achieve the purposes for which they are intended—to restrict tourism—without limiting the ability of businessmen to pursue their role in commerce, which so effectively contributes to the positive side of the balance of payments.

Thank you for your attention, and for the opportunity to appear before the committee.

Mr. WATTS. Thank you for your fine statement.

Are there any questions?

Mrs. GRIFFITHS. I would like to say a few kind words on behalf of the Government employees, and explain to you the difference between the businessmen going to spend that money abroad and that Government employee.

In the first place, a businessman on business for his company is not going to pay anything. It is going to be tax free to him, his trip is tax free to the company, and he is not paying anything.

I would like to point out to you that a Government employee has a very careful limit on what he can spend, and in most cases he cannot stay in a decent room on what the Government permits him per day. That rule was passed by this Congress.

I would like to say further that I had a young man at one time in my district who was a supervisor of the installation of a tracking station that was put in Hawaii. He was not permitted to take his family. He could not afford it on his salary. But he was a supervisor.

The people who were installing the tracking station were, of course, just as much Government employees as he was. It was all being paid for by the Government. Those men were permitted to take their wives and their children, and they stayed at the Hawaiian Village.

He was barely able to survive on what he was being paid. Needless to say, he did not remain a long time as a Government employee.

But I really take exception to your type of analysis between a Government employee going abroad and a businessman.

Mr. SEATH. I would like to answer that, if I may.

I referred only to personal expenditures, which are not deductible for business purposes by an employee of a private business.

Mrs. GRIFFITHS. That is right, but you included the room and so forth.

Mr. SEATH. No, I did not.

Mrs. GRIFFITHS. Well, you said in the room next to him.

Mr. SEATH. Yes.

Mrs. GRIFFITHS. The real truth is that he is not even staying in a room next to that businessman, because he cannot afford it.

Mr. SEATH. I was referring only to personal expenditures. I was not referring to business expenditures of the type which may be put——

Mrs. GRIFFITHS. It may be the only travel expense he has over there, as compared to any other person over there.

Mr. SEATH. I wanted to make it clear I was not referring to business expenditures.

Further, I would like to straighten out one other thing, that even if it is a deductible expense, it is only 50 percent, it is not completely tax free.

Mrs. GRIFFITHS. But the businessmen can charge that off to his company.

Mr. SEATH. The company still has to pay tax.

Mrs. GRIFFITHS. Then they get 50 percent of that off on taxes, so the Federal Government is lighting the way all the way over, so don't talk about the poor Government employee in the same position, that we are sitting here making the rules for, that can hardly get there on what we are allowing him.

Mr. WATTS. Mr. Schneebeli?

Mr. SCHNEEBELI. If I may enter a rebuttal, I agree with you, Mr. Seath. I don't particularly see why the Government employee should have any particular privilege in bringing back a personal gift that he pays out of his own money—why he should be treated any differently than a college student that goes over and comes back.

I don't see why, under this law, a Government employee should get any particular privileges in this area.

Mr. SEATH. This is all I was referring to.

Mr. SCHNEEBELI. You indicated that a Government employee is treated differently?

Mr. SEATH. That is right.

Mr. SCHNEEBELI. I agree with you, that I don't think there should be any distinction or special privilege favoring the Federal employee in this area.

I believe the Congressman, when he travels abroad, is subject to the same duty payment on gifts he brings back, as is everybody else.

Mr. SEATH. That is my understanding.

Mr. SCHNEEBELI. I do not know why it should not apply in this area, as well. I agree with you.

That is all, Mr. Chairman.

Mr. WATTS. Mr. Battin.

Mr. BATTIN. I do not want to get caught in this exchange. I want to make sure it is over before I begin.

I was more interested in the travel restrictions that have been discussed in the last few days on this question of repatriation of earnings, and the effect that this might have on any individual company.

I asked the question the other day of the Commerce Department and Secretary Fowler concerning whether or not this was not a real interjection by Government into business decisions that had to be made by companies in order to compete competitively in foreign markets.

I think I used as an example then certainly any foreign competitor that a company such as I.T. & T. or General Electric or anybody else might have, when he realizes that his competitor is going to be short of capital in order to invest, expand, and compete, he would be foolish not to take advantage of it.

Now, do you have any comment to make on that?

Mr. SEATH. I would like to defer to Mr. Hamilton on that.

Mr. HAMILTON. As the treasurer of I.T. & T., I sit on top of the flow of funds out of the United States, and the flow back, and as Mr. Seath suggested, happily there is more of the latter. I.T. & T. contributes on a net basis to the balance of payments, and has for almost 20 years.

Based on our 1967 performance, I.T. & T. has been contributing at the rate of about a billion dollars every 10 years. If our past experience permits us to look ahead, this is likely to double in the next 10.

Now, the private sector, as I think most of you know, is also contributing positively to the balance-of-payments flow. In 1966, income from earnings and fees was about $5 billion, and the outflow, the so-called transfers of capital, which is net of long-term borrowings abroad, was about $3 billion. This was a net contribution from the private sector of about $2 billion.

This has been true for several years, now, and excludes all the portfolio transactions that are a little harder to keep track of.

Even though I.T. & T. is a net contributor to the balance of payments, we recognize well the balance-of-payments problem that confronts the country, and we are prepared in every way we can to improve our 1968 performance over 1967.

Now, in looking to this same problem, the administration has set a target from the private sector for 1968 of $1 billion of improvement over 1967.

Now, the problem that confronts us is that the regulations which were issued on January 3 were arrived at at about the same time that the target was set.

The Department of Commerce was handed the regulations on the one hand, and the target on the other, and really nobody to this moment knows exactly what the regulations, if applied, would yield by way of balance of payments benefit.

Now, the regulations themselves, as you know, have two aspects. The first is to limit capital outflow. This could be done by making an equity investment in a foreign affiliate, by making a long-term loan, and so forth.

This the U.S. companies can easily control. We feel it would have been possible to have obtained the $1 billion worth of reduced outflow solely from this source. That is $1 billion out of the $3 billion which has become the pattern.

The second part of the regulations directs repatriation of earnings. This was done, obviously, to avoid a loophole whereby the lower outflow could be offset by a higher retention of earnings abroad.

This repatriation provision for continental Europe, for example, provides that the direct investor will do the greater of the following: either maintain his 1964–1965–1966 average rate of pay-out of dividends. Secondly, that he will declare sufficient dividends in 1968 so that his reinvested earnings will be low enough so that together with his capital outflow, will be only 35 percent of what the reinvested earnings and capital outflow were in the two base years, 1965–66.

Now, in my opinion, this second provision, which was designed to close the loophole, actually over-reached the objective, because if you look at the second of these two requirements, which is the greater, and therefore for most companies, like ours, will be applicable, you find that you arrive at a requirement to include that pay-out, even if no funds whatsoever were to be sent abroad as transfer of capital in 1968.

With your permission, I would like to describe a very brief example, and I will take this slowly, if I may, because it is quite important.

You assume that a company is the only foreign affiliate of a U.S. direct investor. Assume that in 1968 it has a million dollars worth of earnings, and assume also that it had a similar level of earnings in the base years on the average for 1965 and 1966.

If that company, like an affiliate of a mature U.S. company, were paying a 50 percent dividend, it obviously would be distributing a half million dollars, and it would be retaining a half million dollars for reinvestment. Under this particular provision of the regulations, as they stand now, that company in 1968 can only retain 35 percent of what it retained in the base years.

That is 35 percent of a half million dollars. My arithmetic tells me that is $175,000, but that immediately provides a corollary.

If I have earned a million dollars, which is my assumption, and I can only retain $175,000, then perforce I must distribute $825,000.

My arithmetic agains tells me this is 82½ percent.

I submit to anyone who has been in business, or who can understand business, this is not a percentage pay-out with which you can sustain operations, to say nothing of a percentage pay-out with which you can grow.

Now, there has been common use of a figure of a 65 percent pay-out. Many people have said, well, the American companies have been paying out 65 percent out of Europe, and they have been retaining 35 percent, so this should be no problem. This is merely a continuation at the same level.

The problem is that the regulations, as they read, provide that what can be retained in 1968 is only 35 percent of that 35 percent, or somewhere in the neighborhood of 11 or 12 percent, therefore requiring again an excessive pay-out.

Now, we feel strongly that this could be highly damaging to mature companies like ITT. There are others, we are not alone in this. ITT and others already have for many years been paying out 50 to 55 percent of their earnings, and not only distributing, but bringing it back to the United States as a positive flow.

As Mr. Seath suggested, this carries with it the possibility of serious and long-range effects.

If you reduce the equity base by having so little reinvested earnings, then you reduce the amount of equity that you have for local borrowing.

We have normally been borrowing abroad from local facilities, and doing our expansion that way, as I have indicated before.

This, too, can affect competition.

As Mr. Seath suggested, retaliation by the Governments is a distinct possibility, and we have already had some indications from both the French and Spanish Governments that if excessive amounts are required to be repatriated, there will be retaliation.

You asked what our thought was, and what our proposal was. We think that repatriation at these successive levels is not necessary to meet the target.

What we do propose, not wanting to be just against regulations, but to have constructive proposals, is to allow the equivalent of 65 percent be the required pay-out, and that this be obtained through a distribution of dividends equal at least to the preceding year's base, but that the difference could be made up through other means available to the corporation. This would, among other things, include foreign borrowing.

This counterproposal, which would make a substantial contribution to the target, would achieve the objective without the long-range damage to a real national asset, that is, the heavy flow of funds from the subsidiaries of mature companies abroad.

We favor the revision of the regulations. If this cannot be done, the next best step is that they have to be administered by the Department of Commerce with flexibility to avoid the harsh results I have described.

There are able people in the Office of Foreign Direct Investment. We have been working with them. They have been trying to be helpful, but they have been really given what may prove to be an impossible job of trying to assess the flow of each company, and trying to make exceptions to avoid harmful results.

In short, we feel that the private sector has been making a significant contribution, and it should be given all the encouragement and flexibility that can be given to help defend the dollar.

I apologize for the length of my answer.

Mr. Battin. There was an announcement by the French Ministry of Finance that if we took the steps that are anticipated, they did not say they would retaliate, but they just said, if I can quote it, "It would be impossible not to draw the consequences."

Have you had any direct talks with, or have you been talked to, by either the French or, you mentioned the Spanish?

Mr. Hamilton. Of course, our French subsidiary works with the French Government at all levels. To my knowledge, there have been no specific talks between our company and the French Government on this subject.

Mr. Seath. The French statement did go a little farther than you mentioned.

What they said was that American-owned French companies have been allowed access to the capital markets of France. If we went into this program, they would have to reevaluate their prior permission.

Mr. Battin. They would really put the squeeze on the other end. Where our Government is encouraging foreign borrowing to carry on the operation of the foreign-owned subsidiaries, the French are suggesting if we go this route, they will dry up that source?

Mr. SEATH. Exactly, which is an impossible position.

Mr. HAMILTON. It could be self-defeating in that respect.

Mr. BATTIN. I do not think you really answered my first question, whether or not because of the actions being taken, determining how much you have to repatriate in earnings and suggesting where you have to borrow your money, doesn't that leave the Government in a position of making business judgment for the various corporations that have foreign-owned subsidiaries?

Mr. HAMILTON. Without question.

One of the most deleciate judgments a businessman makes is how much he takes out, and how much he puts back in.

Mr. BATTIN. I apperciate your statement.

I did ask a series of questions of the Treasury Department, one being how many exceptions have been issued to date, as was suggested in the testimony before us by the Commerce Department.

Do you know how many exceptions have been made to the rules that have been set down?

You say you have been in consultation with the Commerce Department.

Mr. HAMILTON. I really can't answer the question.

Mr. BATTIN. Have there been any?

Mr. HAMILTON. I cannot answer the question of how many have been granted. I know that we have received a few, and in effect, they have not been exceptions at all, because they have done what we call mortgaged the base, which has merely given us limited time in which to offset the direct investment, but they have not indeed given us an exception.

Mr. BATTIN. Thank you.

Mr. WATTS. Are there any further questions?

I was very much interested, even though not exactly connected with the subject matter that we were discussing, in the regulations of the Department of Commerce.

I am not too pleased with it, but I am satisfied there will be considerable improvement, for one thing, because it seems to me that those companies that have volunteered to do a decent job will be hurt more than those who have not tried to do a good job.

Those regulations are open to change.

Mr. HAMILTON. They have been amended once, and I assume after study, they can be amended again.

Mr. WATTS. I assume you are making presentations.

Mr. HAMILTON. We are making presentations, and I assume they are still under study, but at the moment, sir, they stand.

Mr. WATTS. They have given the companies a chance to ask for exceptions?

Mr. HAMILTON. Yes, but as I have indicated, so far no exceptions have been granted.

Mr. WATTS. Thank you very much.

The next witness is Mr. Timothy J. Murphy.

Mr. Murphy.

Mr. BURKE. Mr. Chairman, Mr. Murphy has been delayed, I understand, on his plane flight to Washington.

Mr. WATTS. Do you want me to pass Mr. Murphy at this time?

Mr. BURKE. I would like to have him passed, in case he does show up before the hearing is over. If not, I would ask unanimous consent that the record be held open so that he may file his statement.

Mr. WATTS. That may be done.

The next witness is Mr. Harvey Olson.

Is Mr. Olson here?

You are welcome before the committee. Give us your name and address and capacity in which you appear.

STATEMENT OF HARVEY OLSON, PRESIDENT, OLSON TRAVEL ORGANIZATION, INC., AND CAMPUS TOURS, INC.

Mr. OLSON. My name is Harvey Olson. I am president of the Olson Travel Organization, Inc., and Campus Tours, Inc., of Chicago, Ill.

Because of the pressure on the committee's time, and much of my prepared statement repeats important data already delivered, and because I would appreciate the opportunity to clarify points brought out in yesterday's questioning, I respectfully request the chairman's permission to enter my original remarks in the record and submit the following résumé, some of which is new material.

Mr. WATTS. Without objection, it will be so ordered.

(Mr. Olson's prepared statement follows:)

STATEMENT OF HARVEY S. OLSON, PRESIDENT, OLSON TRAVEL ORGANIZATION, INC., AND CAMPUS TOURS, INC.

Mr. Chairman, and gentlemen of the Committee on Ways and Means: I am grateful for this opportunity to express the views and recommendations of a businessman who has had four decades of fruitful and enlightening experience in the field of international travel. Because I have a vital stake in the preservation of our democratic way of life and in the soundness of our economic destinies, I vigorously oppose the restrictive travel legislation proposed by the United States Treasury Department. I enthusiastically support plans to balance the flow of dollars with a two-way flow of people.

To identify myself briefly, and establish my credentials, I point out that in 1929 I made my first trip to Europe, and since that time I have made more than 100 business trips abroad. In 1930, starting from scratch, I founded my own travel business. Through good fortune and hard work I survived the Depression years of the early Thirties and the threats of war in the late Thirties, but I was forced out of business by the outbreak of war in 1939. From 1942 through 1945 I fought in the Amphibious Forces of the United States Naval Reserve to preserve our democratic way of life and to destroy the tyrannical forces of dictators who poisoned the minds and shackled the limbs of free men and women.

Since 1947 I have been successfully engaged in rebuilding my business from the ashes of war. Today I am President of both the widely respected Olson Travel Organization and Campus Tours, Inc. of Chicago, Illinois. Olson Travel Organization specializes in quality travel abroad, while Campus Tours, Inc., is exclusively engaged in the sale of student tours to Europe. Both are wholesale companies dealing in pre-planned, pre-paid, all-expense foreign tours sold to the public through 6,000 retail travel agents in the United States. In the interest of brevity and clarity, the facts and figures relating to my two businesses will, in this discussion, be lumped as a single entity.

My unequivocable opposition to all phases of the proposed restrictive travel legislation (or any legislation designed to limit travel of Americans abroad) is based on the following:

1. The facts concerning the alleged gold drain (or travel deficit) caused by Americans traveling abroad do not represent the true (net) figures.

2. The disruption to our own economy by restrictive travel legislation has not been carefully considered.

3. The current favorable balance of trade (approximately 4.5 billion dollars in 1966) which we currently enjoy would be seriously jeopardized by withdrawal of travel dollars spent abroad.

4. If the proposed U.S. legislation is enacted, the retaliation of foreign governments prohibiting, or limiting, their citizens traveling in the U.S. would be swift and certain.

5. The proposed bewilderingly complex legislation invites evasion, would be extremely expensive and create a whole new bureaucracy to try to enforce and would subject Americans to indignities incompatible with our free society.

6. Travel, the greatest educator, is a potent favorable factor for world peace—nations which limit the travel of their citizens are those which pose the greatest threat of war.

7. Travel is one of our ingrained cherished freedoms.

8. Countries which have attempted similar plans have failed both in their enforcement and primary objective.

9. Any restrictive travel legislation would be discriminatory to one or more segments of our population.

10. If enacted, the "cure" of the proposed legislation would be more harmful than the so-called "disease" it seeks to remedy.

I favor balancing our flow of gold with the two-way flow of people and the free use of foreign funds now in the hands of the U.S. Government.

In support of the foregoing I respectfully submit the following:

1. The alleged 2.1 billion dollars travel deficit is, in reality, approximately 360 million dollars (source: Industry surveys compiled by the American Express Company and U.S. Department of Commerce figures), 580 million dollars being a so-called transportation deficit made up of the difference between the amount paid out to foreign airlines and steamship companies and the passenger revenues which American carriers received from foreign residents in 1967; but in 1967 foreign airlines purchased approximately 921 million dollars worth of our equipment and spent 192 million dollars in the U.S. for staff salaries, rents, printing, advertising, etc. (and more than 2.5 billion dollars worth of aircraft purchases by foreign flag airlines in the U.S. are currently under order or under option).

$607 million was spent in Canada and Mexico in 1967, which countries are not being considered in the restrictive area of the present legislation but with no Expo '67, Canada's share of U.S. spending will be much less in 1968. $148 million of the alleged 2.1 billion dollar deficit was spent in the West Indies, Central and South America, Asia and Africa (some of which areas are not affected by the proposed legislation), which are developing areas where many of the travel dollars purchase American goods and help defray existing aid programs.

In 1967, 980 million dollars was spent by American in Europe and the Mediterranean area while their people spent 230 million dollars in the U.S., a difference of 750 million dollars. It is reliably estimated that 52% of the American spending in these areas was for business, scientific, government and non-pleasure purposes. Travelers from these areas can quite accurately be assumed to be in approximately the same ratio of pleasure to non-pleasure travel leaving only 390 million dollars differential for non-pleasure travel spending. Subtracting all of the foregoing from the 2.085 billion gross deficit, leaves an estimated actual 360 million dollar difference in the amount spent by visitors from European and Mediterranean countries on pleasure travel and the amount spent by Americans in these areas—or only 17% of the 2.085 billion dollar so-called travel deficit.

2. The disruption of our economy on a national scale can be illustrated by my own business, which is small by American business standards, but important in the travel industry. I currently employ, directly and through our affiliated operational company, Lissone-Lindeman U.S.A., Inc. a full time staff of 39, with 40 part time workers. During the years 1966 and 1967 my business spent $5,774,000 abroad for meals, hotels, sightseeing, guides, and transportation in behalf of our clients (not including transocean transportation). My overhead for rent, light, salaries, printing, advertising, telephone, insurance, and postage was $1,274,000. In addition we paid $575,000 in commissions to travel agents for foreign land arrangements and enabled the travel agents to earn an additional $235,000 for the sale of air and steamship tickets in connection with our tours. Our clients used some $1,800,000 worth of American flag airlines transatlantic tickets. My small business thus infused $3,884,000 directly into the blood stream of the national economy in 1966 and 1967 plus estimated client expenditures of $1,400,000 for domestic transportation to and from their city of departure and purchase of luggage, cameras, film and clothing in connection with their trips, for a total

outlay of $5,284,000 in the U.S.—almost as much as we spent abroad. If the present legislation is passed, there is no way that I could possibly preserve my business. I would be forced to close. And my business is only one of thousands who would be so affected. I do not have available, at this time, the annual expenditure of the 6,000 travel agents of America for salaries, advertising, rent, light, telephone and other normal operating outlays; but the figure is a staggering one, and would be sharply curtailed if the proposed legislation is passed.

Industry sources indicate a total of 127 million dollars was spent in 1966 on domestic flights connecting with transatlantic flights. Foreign airlines, steamship lines and governments spent an estimated 300 million dollars in day to day operation in the U.S. Preparatory expenditures by Americans prior to going abroad probably exceeds another 250 million dollars, all of which will be radically reduced if the proposed legislation is enacted.

3. In 1966 (the last full year for which figures are available) the U.S. exported 30 billion dollars worth of goods and imported 25.5 billion dollars worth, leaving us a favorable balance of 4.5 billion dollars, much of which came from Western Europe. We sold 50% more to France than we bought from that country—our exports to Holland, Greece and Spain were from 3 to 4 times greater than our purchases. These, and other, countries would be hard hit by a reduction of tourist dollars and would reduce their ability to buy our goods. The Administration has announced it seeks a reduction of $500,000,000 in spending abroad. *If accurate, net, figures are used, the total travel deficit is already less than that figure.* But if gross figures are used and an additional $500,000,000 cutback in American spending abroad is achieved, *little, if any, further progress would be made in balancing the flow of gold because of the concurrent lessening in the need by foreign countries for all types of American goods*, including hotel supplies such as American computers, coca cola, cigarettes, toilet paper (much now in vogue in the better European hotels), air conditioning equipment and bathroom fixtures. Nor would foreign companies have sufficient dollars to buy medical products, of which we export 2 billion dollars more than we import or 6 billion dollars more worth of machinery and transportation equipment than we import.

4. We depend on, and hopefully will, increase, the 1.85 billion dollars spent by foreign visitors to the U.S. It is certain that if we restrict travel abroad the foreign governments will limit the travel of their people to our country. Between 1946 and 1966, 17 European airlines reported total net passenger sales of 2.079 billion dollars and in the same period spent 2.572 billion dollars in the U.S. for aircraft, engines, and spare parts. Aircraft orders and options by foreign airlines now in hand in the U.S. equal the total expenditures for the 1946–1966 era, *many of which orders no doubt would have to be cancelled if American travel abroad is limited.*

5. I respectfully point out the unbelievable complexity involved in the enforcement of the legislation as currently proposed. From my long experience in the travel business I know that it is virtually impossible to travel abroad for less than $15 a day—the average expenditure, for even modest travelers, is much higher, putting even low income travelers in the 30% taxation bracket for some of their expenditures.

If the present bill is enacted, within forty-eight hours of its signing, enterprising Europeans would be peddling complete documentation for trips of any duration ranging from one week to one year, which documentation would include *receipted* bills for hotels, meals and transportation under $7 a day, leaving the American traveler to spend whatever his purse and conscience would permit. If the traveler reports expenditures exceeding $15 per day, he must pay 30% on everything he spends including gifts purchased. Thus if a man buys his mother a small souvenir he must first pay 30% tax on the expenditure and, when he returns, he must pay 25% to the U.S. Customs, a total tax of 55%. The proposed law states that if a traveler uses a through air ticket and stops over 12 hours or more in a city, the tax (15 to 30%) will apply on the continuing segment. Airline tariff structures are themselves so complicated that as many as a dozen different point-to-point rates apply on through tickets—how is the uninitiated traveler to estimate his tax on these intra-European journeys? The Committee is aware, I am sure, that during Prohibition otherwise law abiding citizens thought no wrong would result in taking a drink in a speakeasy or buying a bottle of booze from a bootlegger. A bad law invites chaos. The proposed travel legislation, if passed, would create a police state atmosphere, requiring travelers going abroad to disclose the contents of purses, pockets and wallets, with search rights authorized. The traveler would be required to use

an intricate formula to estimate his tax, and would be faced with a fine if he erred. Imagine the confusion at J. F. Kennedy International Airport with thousands of persons milling about each day in an arithmetical haze, filling out endless forms, showing his money, and waiting to be searched. The indignity involved is humiliating to contemplate. And such a law would create a vast new expensive bureaucracy and could only invite subterfuge, such as picking up money from friends, relatives and business associates abroad, by taking blank checks abroad and cashing them through sources that would clear them with only American bank stamps at a date after the travelers return. Not only does such a law invite evasion but it would deal a crippling blow to the American travel industry. Under such a law the American traveler abroad would deal directly with European companies and hotels sensing that the records of his transactions abroad would thus escape the attention of the Treasury Department. It seems inevitable we would then see undesirable elements entering a heretofore legitimate small business field. Such a law attacks and suppresses the rights and liberties that Americans consider inalienable and provides an almost irresistible temptation to sacrifice our ingrained high moral standards.

6. It is widely acknowledged that travel is the greatest educator, the most potent factor for world peace. The present Administration has repeatedly stated that travel is a two-way street. President Johnson has said, "The principle of two-way travel and unhindered access by citizens of all countries to all other countries was reaffirmed and strengthened (by the 1967 International Tourist Year)." Vice President Humphrey in an address last May said, "Despite the pressures which continue on our balance of payments, we shall continue to resist any restrictions on the right of our people to travel where they choose."

In September of 1963, a United Nations conference on tourism in Rome with 83 nations represented, solemnly agreed to recommend to the General Assembly that world-wide tourism should be encouraged by all nations as a definite policy . . . and that all nations should endeavor to avoid putting any handicap in the furtherance of this worthy cause (report I.U.O.T.O. published in Geneva in 1963).

The freedom to travel is restricted by communist governments. In totalitarian countries citizens exist in a murky state of ignorance of what goes on in the world around them. The Russian Government will always be a threat to world peace as long as their populace remains locked up within the confines of their own country. We were all shocked when the Berlin Wall was built. Why were we shocked, Gentlemen? We were shocked because it belittled the dignity of man and prevented the freedom of egress and ingress of human beings.

Americans traveling abroad carry with them the torch of democracy bringing to the citizens of foreign countries an understanding of the American way of life to a greater degree than any planned propaganda that we can send out over the air or in the written word.

7. Travel is a cherished freedom inherent to the American way of life. Justice Douglas and Justice (now Ambassador) Goldberg have both publicly stated that the freedom of travel is closely related to the freedom of speech, the freedom of dissent and the freedom to assemble. To abridge this basic right, is comparable to the enslavement of the minds and bodies of the underprivileged citizens in totalitarian governments.

8. For almost forty years I have had my finger on the pulse on travel abroad. I have seen other governments try similar experiments, only to fail. The effect was morally degrading, and in the case of Great Britain, it only lead to her costly monetary devaluation. When the British Government limited the amount of currency that her citizens could carry abroad, it created a fiasco similar to that of our own ill fated Volstead Act. I frequently saw British subjects spending more in one day than their legal allowance for a fortnight—or more. The French Riviera was populated with wealthy British who lived in expensive villas with large staffs of servants. Even British subjects of moderate means quickly found ways to evade the regulations.

9. Any restrictive, or punitive, legislation, must of necessity, be discriminatory. The proposed travel legislation would place as harshly burdensome penalties on the little person who has saved a lifetime for a trip abroad as it would on the more affluent, whose rate of tax is higher.

CONSTRUCTIVE PROPOSALS

I am as enthusiastically in favor of balancing our flow of dollars with a balancing flow of people as I am firmly opposed to attempting to close the so-called

"Travel Gap" through complicated legislation and restrictive taxes on American travelers.

A good job has been done in the past six years in increasing the number of foreign visitors to our shores. In 1967, we had an increase of tourists to this country of 30% with a total increase of 125% in the number of visitors to the U.S.A. in the past six years. It is reliably reported that foreign visitors to this country spent 1,850 billion dollars in 1967. The increase of our own travel abroad in 1967 was only 14%, less than half of the increase of travel to this country.

This increase is in the face of the fact that the present budget for the United States Travel Service is at a low ebb, with four of their already too few offices about to be closed. The richest country in the world is currently spending approximately three million dollars to sell people on the ideas of visiting America. In contrast, Spain, not notably a big spender, invests 10 million dollars annually to attract tourists to the Iberian Peninsula. The United Kingdom and Argentina each spends in excess of seven billion dollars; Ireland, Mexico and France spend between six and seven million dollars, while Italy, India and Greece each invest between three and one-half and four and one-half million dollars annually to attract visitors to their countries.

I urge that as a first step we put American dollars and American ingenuity to work to attract more and more visitors to the United States. We are the richest nation in the world both in natural resources and merchandising know-how. But, Gentlemen, we cannot extend the glad hand of welcome of the United States to foreign visitors while we are, with the other hand, slamming the door shut in the face of Americans who wish to travel abroad.

The United States Travel Service must be implemented with professional travel skills. This organization has done a commendable job. But it has done so without wide spread specific tour programs, so essential to the success of this type of venture. We in the United States have a great reservoir of advertising, promotion, sales and marketing skills which can be put to work abroad to ensure the success of selling America. I urge that leading American travel experts be enlisted to work with the U.S. Travel Service to design specific all-expense programs to be marketed by wholesale and retail travel agencies in the more affluent foreign lands. We must simultaneously increase our own facilities for handling of foreign visitors, a point on which we are currently abysmally weak. In Europe, except in the most remote rural areas, there is no hotel so poor and no facility so inadequate that it does not have multi-lingual personnel to ease the lot of foreign visitors. Few hotels, or facilities, outside of New York City and Washington, D.C., are so equipped in the United States. We have few multi-lingual or even bilingual personnel in the United States to cope with an influx of visitors from abroad. This entire sad situation must be rectified immediately.

We in the travel industry can and will be of great assistance to the United States Travel Service. My colleagues and I are all willing and anxious to do everything humanly possible to close the travel gap by equalling the two-way flow of travelers and thus equalling the flow of dollars.

To further close the travel gap, I urge that we seek the means to make full utilization of the 1.4 billion dollars of non-restrictive foreign currencies now in the Treasury for use by Americans abroad and undertake a searching review of the possibility of using the additional 1.6 billion dollars in counterpart funds for this same purpose.

In conclusion, may I point out, Gentlemen, the Supreme Court ruled in 1958 that freedom of travel is a basic right of the American people. Let us not forge an American Iron Curtain, let us not build an American Berlin Wall. Instead, let us build up the United States Travel Service, let us infuse that organization with skilled travel people to merchandise the United States of America in foreign lands, let us increase the flow of foreigners to America at a rate that will far exceed the percentage of increase of our own travelers going abroad.

I respectfully request that the bill under consideration not be reported from this Committee. Let us not subject ourselves to the shame of public debate on restricting the freedom of movement of the American people.

Mr. OLSON. I have been in the travel business since 1929. Olson Travel Organization sells package tours throughout the world; Campus Tours, Inc., sells student tours to Europe.

There seems to be some confusion as to the function of the travel agent, the tour wholesaler, and the contents of a package tour.

A retail travel agent is essentially a broker who sells and promotes domestic and foreign transportation, steamship cruises, domestic and foreign package tours, and domestic and foreign prepaid independent trips and makes hotel reservations. There are approximately 6,000 U.S. retail travel agents employing about 50,000 persons, who are paid modest commissions, averaging less than 10 percent.

A tour wholesaler arranges complete prepaid packages of foreign and/or domestic travel, which packages include a tour conductor, complete transportation, hotels, meals, transfers between terminals and hotels, sightseeing and, in some instances, entertainment.

The wholesaler prepares and prints descriptive folders containing the itineraries, prices, and pertinent data relative to his tours; advertises the tours; and sells them through the retail travel agent, to whom he pays a commission.

The prepaid independent trip, arranged by the wholesaler—and sometimes by the retailer—is similar to a packaged tour, but is for individuals, couples, or small groups, without a tour conductor.

If the proposed legislation is enacted, it would deal a crippling blow to all U.S. travel agents, 60 percent of whose income is from travel abroad.

Because of spiraling costs and fixed commission income, many of the travel agents today are already operating on tissue paper-thin margins. From my close association with these hard-working, dedicated people, I know that many of them would be completely wiped out by the proposed legislation, and those who could survive, would do so only by decimating their staffs, cutting down on their advertising, and reducing already pitifully small salaries.

The disruption of our economy on a national scale can be illustrated by my own business, which is small by American business standards, but important in the travel industry. I currently employ, directly and through our affiliated operational company, Lissone-Lindeman U.S.A., Inc., a full-time staff of 39, with 40 part-time workers. During the years 1966 and 1967, my business spent $5,774,000 abroad for meals, hotels, sightseeing, guides, and transportation in behalf of our clients, not including transocean transportation. My overhead for rent, light, salaries, printing, advertising, telephone, insurance, and postage was $1,274,000. In addition, we paid $575,000 in commissions to travel agents for foreign land arrangements and enabled the travel agents to earn an additional $235,000 for the sale of air and steamship tickets in connection with our tours.

Our clients used some $1,800,000 worth of American-flag airlines transatlantic tickets. My small business thus infused $3,884,000 directly into the bloodstream of the national economy plus estimated client expenditures of $1,400,000 for domestic transportation to and from their city of departure and purchase of luggage, cameras, film and clothing in connection with their trips, for a total outlay of $5,284,000 in the United States—almost as much as we spent abroad. If the present legislation is passed, there is no way that I could possibly preserve my business. I would be forced to close. And my business is only one of thousands who would be so affected.

I respectfully point out the bewildering complexity of the proposed law, which invites evasion. From my long experience I know that

even Americans of modest means spend at least $30 a day in Europe for hotels, meals, transportation, sightseeing, and entertainment, which means he would be asked to pay 15 percent on one segment of his outlay and 30 percent of at least 50 percent for his foreign expenditures—which he must accurately estimate in advance—or face a penalty. To illustrate further the complexity of the proposed legislation, the traveler must pay the full 15 to 30 percent on his through ticket if he stops over some place for 12 or more hours. Airline tariff structures are themselves so complicated that as many as a dozen different rates apply between almost any two points in Europe. How is the uninitiated expected to estimate his intra-European transportation tax when it takes experts hours, even days, to compute these partial segments?

The question of loopholes in the enforcement of the proposed legislation was brought up yesterday—the most obvious is that a person could enter Canada without a passport, proceed to Montreal, fly to Europe on a foreign airline, using a previously procured passport, return to Canada and across the border to the United States, ostensibly having visited only our neighbor to the north.

If the present bill is enacted, I predict that within 48 hours of its signing, enterprising Europeans would be peddling complete documentation for trips of any duration, which documentation would include receipted bills for hotels, meals, and transportation under $7 a day, leaving the American traveler to spend whatever his purse and conscience would permit.

The proposed travel legislation, if passed, would create a police state atmosphere, requiring travelers going abroad to disclose the contents of purses, pockets, and wallets, with search rights authorized. The indignity involved its humiliating to contemplate. Such a law could only invite subterfuge, such as picking up money from friends, relatives, and business associates abroad, by taking blank checks abroad and cashing them through sources that would clear them with only American bank stamps at a date after the travelers return. Not only does such a law invite evasion but it would deal a crippling blow to the American travel industry. Under such a law the American traveler abroad would deal directly with European companies and hotels sensing that the records of his transactions would thus escape the attention of the Treasury Department.

It seems inevitable we would then see undesirable elements entering a heretofore legitimate small business field. Such a law attacks and suppresses the rights and liberties that Americans consider inalienable and provides an almost irresistible temptation to sacrifice our ingrained high moral standards.

It is widely acknowledged that travel is the greatest educator, the most potent factor for world peace.

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Americans traveling abroad carry with them the torch of democracy bringing to the citizens of foreign countries an understanding of the American way of life to a greater degree than any planned propaganda.

For almost 40 years I have had my finger on the pulse on travel abroad. I have seen other governments try similar experiments, only to fail. The effect was morally degrading, and in the case of Great Britain, it only led to her costly monetary devaluation.

The proposed travel legislation would place as harshly burdensome penalties on the little person who has saved a lifetime for a trip abroad as it would on the more affluent.

CONSTRUCTIVE PROPOSALS

I am as enthusiastically in favor of balancing our flow of dollars with a balancing flow of people as I am firmly opposed to attempting to close the so-called travel gap through complicated tax legislation.

To further close the travel gap, I urge that we seek the means to make full utilization of the $1.4 billion of nonrestrictive foreign currencies now in the Treasury for use by Americans abroad and undertake a searching review of the possibility of using the additional $1.6 billion in counterpart funds for this same purpose.

In conclusion, may I urge that we not forge an American Iron Curtain. Let us not build an American Berlin wall. Instead, let us merchandise the United States of America in foreign lands, let us increase the flow of foreigners to America at a rate that will far exceed the percentage of increase of our own travelers going abroad.

Thank you, Mr. Chairman and members of the committee.

Mr. WATTS. Thank you very much, Mr. Olson, for your statement.

Are there any questions?

The next witness is Mr. John J. B. Miller.

Come around, Mr. Miller.

Mr. Miller, you may state your name, address, and the capacity in which you appear, for the record.

STATEMENT OF JOHN J. B. MILLER, COLLEGE PARK, MD.

Mr. MILLER. My name is John J. B. Miller. I live at 4800 Berwyn House Road, College Park, Md. I am a professional geographer, working on my doctorate and teaching at the University of Maryland. My appearance today is as a private citizen only.

Most of the comment which I have heard to date on the proposals for a tax on tourist expenditures appears to be concerned only with certain types of travelers; namely, Americans desiring to observe foreign cultures. While some tourists are expected to observe these cultures only casually, or to travel for the purpose of participating in some form of luxury, it has been recognized that others go abroad as serious students. But the tenor of the comment I have heard regards the tourist as one who goes abroad to savor a foreign, or might I say exotic, experience. My contention is that there is another very important category of overseas travelers from the United States. These are citizens or permanent residents who are going back to visit the countries of their origin.

We must remember that we are a nation of immigrants, and for many loyal American citizens, strong cultural bonds nevertheless persist between them and their relations beyond the oceans. This is part of what makes America great.

Each year an ever-increasing number of these people are able to return to their motherlands to visit. These are happy occasions. The naturalized citizens are proud to show their families the fruits of their success in the land of opportunity. Expensive gifts are called for. It may be necessary to hire a private dining room at the town's best restaurant to entertain a party of some 30 or so uncles, aunts, cousins, nieces, and nephews, and perhaps even one's proud parents or grandparents. When possible, gifts of cash may be made, to help one's family, or perhaps to bring a younger brother to this country. No doubt many dollars leave our shores in this way. But the benefits they produce are visible an dobvious. The donor of this "foreign aid" knows exactly where his money is going, and how it will be used. And America gets the credit for having made it possible.

If a tax on tourist expenditures were enacted, I believe that such activity would be seriously curtailed. A division of loyalties would be created if the concept were generated that it was unpatriotic to spend money overseas, or take it to one's relatives. Often such gestures are quite out of proportion to one's income, and the travel would be reticent to make such a disclosure upon his departure from this country. As it is, these people are unable to claim their overseas relatives as dependents on their income tax. Are we going to penalize them further by taking away a portion of the financial assistance?

Figures on remittances abroad are hard to come by. So much of it is in the form of gifts other than cash. Some countries where such remittances are particularly important are Greece, Italy, and Lebanon. In the Lebanon, more than a dozen charter flights went back to the motherland from the United States during 1966. This summer, a "national homecoming" is planned, at which it is desired to achieve as large a representation as possible from Lebanese overseas. While Italy recorded more than $700,000 in remittances from overseas (all countries) in 1966, the actual figures may be more than double that amount, due to direct expenditures made by visiting Americans on behalf of their families residing there. It should also be recognized that most of the Italians in the United States come from southern Italy, so capital infused into that part of the country, where poverty is greatest, aids that country more than national figures would otherwise indicate. The same story could be repeated for Greece, and doubtless also in other countries with which I am less familiar.

Other related arguments can be made against a tax on tourist expenditures such as the importance of tourists to the economy of countries (Greece received about $30 million from tourists last year, and usually receives more), and the traditional freedom of Americans to travel. While no outright ban on overseas travel has been proposed, having a form of currency control at the point of exit presents an unhealthy psychological aspect.

I have done extensive travel in this country, having visited 48 of the 50 States. Geographers like to travel, and I have been overseas several times, as well. On a recent trip to Switzerland, curiosity prompted me

to inquire how does a foreigner set up one of those bank accounts I had heard of. I was informed that Swiss banks pay no interest on foreign deposits. One must have to be terribly unsure of the stability of one's national currency to be willing to freeze one's capital to that extent. I do not anticipate any significant flow of American dollars to Swiss bank deposits.

My main point, though, is about those people who go back to visit "the old country." They should not be unjustly treated. There should be no tax on overseas tourist expenditures. I believe that such a tax would not be in our national interest.

Thank you.

Mr. WATTS. Thank you for your statement.

Are there any questions?

If not, we are glad to have you bring this phase of the problem before the committee. We are well aware of the fact that many people do go back to visit their relatives, and also many do go as students.

Thank you very much for your appearance.

The next witness is Daniel Blatt.

Mr. Blatt, will you come around, please?

Mr. Blatt, will you state your name, your residence, and the capacity in which you appear?

STATEMENT OF DANIEL BLATT, BROOKLYN, N.Y.

Mr. BLATT. I am Daniel Blatt. I am the author of the book "Dollar Devaluation," published by Vantage Press and released in December 1967.

I am from Brooklyn, N.Y. I appear in my own behalf as a student of this problem.

Mr. WATTS. We are glad to hear from you, Mr. Blatt.

Mr. BLATT. Mr. Chairman and members of the committee, I appreciate this opportunity to present to you my dissent to the effort proposed to reduce the expenditures of U.S. citizens traveling outside the Western Hemisphere.

SUMMARY

My dissent to enactment of the administration's travel tax program is based on the fact that our international payments deficit is a natural result of past and present Government policies. The program deals mainly with restrictions on private commerce, and thus cannot have any influence on the basic causes of our deficit. Thus, the administration's program cannot possibly succeed.

Particular reasons why the present efforts to protect the dollar must fail include:

a. The deficits in the Federal budget remain to aggravate our international-payments problem.

b. The probability of various military or financial crises occurring in the months ahead.

c. The uncertainty of any substantial increase in our export/import surplus.

d. The counterproductive nature of the investment curbs.

e. The ineffectiveness of the travel tax program.

f. The failure to reform the Government policies that have caused the payments deficit.

Methods of dealing with our payments problem must begin with rejection of the administration's program. We must recognize the growing limitations caused by our growing financial weakness. We can no longer afford to fight indeterminate, and expensive, "wars of attrition." We must drastically reduce our military presence in Europe. We no longer have the ability to sustain the burden of a strategy that commits us to defend everything everywhere. We must objectively admit the seriousness of our financial problems, so that we can begin to plan realistically for the difficulties that lie ahead.

INEFFECTIVENESS OF RESTRICTION OF PRIVATE COMMERCE

The administration's program will fail because of the ineffectiveness of restriction of private commerce: the travel tax program is part of a larger program of restrictions on private commerce which is designed to deal with the chronic deficit in our international payments. It is a program designed to deal with a practical problem. Like any such program, it can only be judged by the strict criterion applicable to all practical problems: Will it work?

Our present monetary difficulties are no different from those that have afflicted many other nations in modern times. The basic causes are always to be found in Government policies. Restrictions on private commerce cannot change underlying forces which are the natural results of Government policies. Our private commerce shows a substantial surplus in its international transactions. Restrictions on investments will limit the growth and health of our commercial position in the near future. Restrictions on consumption of goods and services offered in international markets, including restrictions on travel, poisons the environment of world commerce and tempts reprisals.

Because of the benefits we derive from our substantial trade surplus, any movement to restrict world trade can only hurt us. Restrictions on private commerce cannot cure the increasing deficits caused by Government policies. These restrictions strike at symptoms of our monetary ailment, instead of their causes.

Above all, these restrictions won't work.

EFFECT ON OUR INTERNATIONAL PAYMENTS OF DEFICITS IN THE NATIONAL BUDGET

Even with the tax surcharge proposed by the administration, a substantial deficit will remain in the Federal budget. Moreover, economic reversal at home or abroad, or any of numerous possible crises, could materially increase this deficit. These deficits in the national budget must continue to apply increasing pressures to our international payments. The mechanism by which this occurs is quite simple and has been frequently emphasized by administration witnesses who have appeared before this committee in support of the tax surcharge.

Deficit spending tends to increase the Nation's income. People with more dollars to spend will naturally tend to spend more and to invest more. This, of course, includes consumption of imports and spending and investing abroad. It is no mere coincidence that the 8-percent annual increases in our gross national product in 1965 and 1966, consciously induced by Federal deficits, were accompanied by 16-percent increases in imports.

It is no mere coincidence that, after the recovery of Europe and Japan from the effects of World War II, the United States developed a chronic deficit in its international transactions. With a few exceptions, substantial deficits in the Federal budget have been the rule throughout this period.

This same effect of continuous deficit spending has been the invariable result in all nations at all times. Thus, logic and the observations of historians coincide. How egotistical we are to believe that the forces which have inhibited the actions of all other nations in all other times do not apply to us. The cost of deficit spending is the erosion of our financial reserves, leading to the eventual devaluation of our currency.

PROBABILITY OF CRISES

The administration's program will fail because of the probability of crises: Unforeseeable crises of one sort or another are almost certain to occur in the months ahead. They will add additional demands on our financial reserves for which the Administration has clearly not provided. It is ridiculous to "wish for the best" on this subject. A nation's finances and economy must always be ready to absorb the blows which will periodically afflict it. The list of logical possibilities include crises of currency devaluations and credit evaporation in foreign nations and the performance of the European economy. Europe may well stage anfurther calls on our military resources.

UNCERTAINTY OF ANY SUBSTANTIAL INCREASE IN OUR EXPORT-IMPORT SURPLUS

The administration's program will fail because of the uncertainty of any substantial increase in our export-import surplus:

Any growth of our exports is unlikely to be sufficient to substantially diminish our international deficits. The United States already has the lion's share of the world's export market. Future growth depends upon other of its remarkable booms. But it is the height of folly to make this wish the basis for our financial planning. High interest rates, the weakness of the English pound, and our own efforts to limit the flow of capital to Europe will all be tough hurdles for the European economy to surmount.

Furthermore, the extensive growth of our gross national product predicted for 1968, the increasing private and wartime demands on our economic capacity, and strikes in various industries, all indicate that the United States will have to run quite fast just to stay even with the growth of its imports.

COUNTERPRODUCTIVE NATURE OF THE INVESTMENT CURBS

The administration's program will fail because of the counterproductive nature of the investment curbs:

The program to curb international investment flows will prove to be counterproductive. Any actual inhibition of investment abroad will reduce future earnings and make it that much more difficult for future administrations to deal with their payments problems. The substantial investments presently being financed through European financial markets has increased demand in those markets and is pushing interest

rates higher in Europe and throughout the world. The financial pages of the newspapers already contain a constant flow of reports of economic difficulties caused by tight credit conditions. High interest rates in Europe also attract money from our own financial markets.

INEFFECTIVENESS OF THE TRAVEL TAX PROGRAM

The administration's program will fail because of the ineffectiveness of the travel tax program:

The travel tax program is too mild to be anything except annoying. It will probably induce many to take their travel this year for fear of more stringent restrictions in the future. Numerous subterfuges are open to avoid the heavier consequences of the per diem tax. Total expenditures for travel abroad will probably continue to grow whether or not this particular program is enacted. It may be that the only practical effect of the present program is as a forerunner of increasingly restrictive programs to come.

FAILURE TO CONCENTRATE ON REFORMING GOVERNMENT POLICIES

The administration's program will fail because of the failure to concentrate on reforming Government policies:

Restrictions on private commerce divert attention from the primary task; the reformation of those Government policies which are responsible for our payments deficit.

RECOMMENDATIONS

My recommendations are quite simple. The administration's program for restricting private commerce should be rejected as grossly insufficient and dangerously counter-productive. This program will not even appreciably delay the financial dislocation that is rushing uopn us.

The United States must recognize the grave and growing limitations to its financial strength. Like any other financially overextended nation (such as England) the United States must reduce its overseas commitments. We no longer have the financial strength to maintain large forces in Europe. We no longer have the financial strength to engage in "wars of attrition."

Rapidly draining financial reserves indicate that the United States may be losing the "war of attrition" in Vietnam. We must liquidate these expensive commitments now, while we still have some room to maneuver. If we wait until the moment of financial dislocation, we shall be forced to bring these forces home in unseemly haste.

We must stop lying to ourselves. Myths, half truths, and blatant lies inhibit our ability to see the scope of the problem and plan the actions required of us. Misconceptions recently read into the record of these hearings include;

(*a*) The gross national product as an illusion of strength: We have been assured that our great and growing economic production is a solid prop for our financial health. This puts the cart before the horse. Is the mass of economic production a reliable indicator of financial health? Then one would have had to conclude, in the summer of 1929,

that the American economy had never been stronger and its future more secure. It is financial health which is necessary for sustaining high levels of production. A financial crisis, such as the failure of the world's primary trading currency, cannot fail to have a grave impact on the production of goods and services throughout the commercial world.

(*b*) The value of gold: Many delude themselves that our paper currency is stronger than gold. Industry and the arts buy only a fraction of the gold produced at the current price of $35 per ounce. Thus it is argued that the price of gold would drop if the United States stopped buying gold at $35 an ounce.

There is much sophisticated talk about "demonitizing" gold. But no one has ever explained the mechanics of such an effort. Paper money serves well as a circulating medium for commercial transactions. But it is notoriously unrealiable as a store of purchasing power. Economists and political leaders often talk disparagingly of monetary "hoarding." A more objective term for truly objective study of the issue would be "insurance."

A noble and important industry is based upon the desire of individuals and institutions for various kinds of insurance. There is only one sure way to insure one's purchasing power against the probability of inflation or depression in the uncertain future. That is to hold gold. It earns no interest and costs something to safeguard. But people are willing to pay a price for their desired levels of insurance. And, come inflation or depression, the purchasing power of gold will appreciate substantially. As confidence in paper currencies continue to evaporate, the demand for gold will increase. This monetary utility creates a very real demand all around the world. It could easily drive the price of gold to anywhere from $80 to $120 an ounce within the next 5 or 6 years. This is already accepted as fact in all the financial centers of the world. Numerous financial advisory services keep investors accurately informed on this matter and free from the effects of the Government's studied ignorance and the academic community's Keynesian dogma.

What would happen if the dollar were not pegged to gold in foreign markets? For an idea of the effects on world commerce of cutting the primary trading currency from its gold peg, I recommend review of the effects of the devaluation of the British pound in September of 1931.

(*c*) Statistics juggling: Our Government and many presumably objective scholars juggle figures in a truely unconscionable manner. Typical of this is the administration's contention that the small loss of gold in the first three quarters of 1967 indicated that we were making good progress in dealing with our payments problem prior to the devaluation of the British pound. Hundreds of millions of other reserves, mainly obtained from the International Monetary Fund, were expended in lieu of gold. Additional hundreds of millions were borrowed from Germany during this period. This is hardly the picture of a healthy performance.

(*d*) Reliance on an international monetary unit: Can an international monetary unit solve our problem? The poorer nations of the world cannot be expected to indefinitely continue to provide us with

valuable goods and services in return for nothing but paper. No monetary scheme that is likely to be adopted will permit continuous and substantial payments for deficits.

THE NEED FOR REALISTIC PLANS

Our Government must make realistic plans for dealing with the after effects of the devaluation of the dollar. This crisis will probably mature some time during the next Presidential administration. For those who doubt, the planning effort can be considered an academic exercise in "contingency" planning.

Should we leave the dollar afloat in international markets to freely find its own level or shall we try to peg it again at some other price? If the latter; at which price? What will be the effect on international commerce? Will there be a trade war as nations and investors compete for the diminishing supplies of hard financial values? What should be our diplomatic response to these problems? How will we meet the internal social responsibilities and political challenges? How will we meet our external cold war commitments?

We must make effective plans for spurring recovery on a sound financial basis. The crisis will initiate fundamental economic adjustments which will provide the economic basis for recovery. But the speed, extent, and strength of that recovery are substantially dependent on the wisdom or stupidity of Government policies.

Above all, we must remember that economics is now, as always, the art of allocating scarce resources. Practical planning cannot proceed on the myth that we possess limitless resources. It requires conscientious attention to priorities for the utilization of our limited physical and financial resources.

CONCLUSION

My conclusion, Mr. Chairman, involves the total responsibility of government for the purchasing power of its currency.

It should be noted that all of my recommendations are for reform of past Government policies and realistic planning of future Government actions. We cannot blame our difficulties on President de Gaulle, or the Gnomes of Zurich, or on Wall Street; tempting though these favorite scapegoats may be.

It cannot be emphasized too strongly that governments are responsible for the purchasing power of their own currency. When confidence in a currency evaporates it must be due to the actions of the issuing government. Restrictions on private commerce must always be ineffective and counterproductive. Only elimination of the Government policies which cause the deficit in our international payments and realistic planning of future Government policy can restore financial strength.

Mr. WATTS. Thank you very much for a very fine statement. Is Mr. Timothy J. Murphy here? Has he arrived?

I suppose not. Well, he may file his statement and the committee stands adjourned until 10 o'clock in the morning.

(Whereupon, at 3:35 p.m., the committee recessed to reconvene at 10 a.m., Wednesday, February 21, 1968.)

ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS

WEDNESDAY, FEBRUARY 21, 1968

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. A. Sidney Herlong, Jr., presiding.

Mr. HERLONG. The committee will be in order.

The first witness this morning is Mr. Charles W. Stewart, president of the Machinery & Allied Products Institute, and chairman of the Council for Technological Advancement.

Mr. Stewart, will you please come forward.

STATEMENT OF CHARLES W. STEWART, PRESIDENT, MACHINERY & ALLIED PRODUCTS INSTITUTE; ACCOMPANIED BY CHARLES DERR, SENIOR VICE PRESIDENT; AND WILLIAM HEALEY, STAFF COUNSEL

Mr. STEWART. Good morning, sir.

Mr. HERLONG. If you will identify yourself and those who accompany you for the record please.

Mr. STEWART. Mr. Chairman, my name is Charles W. Stewart, president of the Machinery & Allied Products Institute and chairman of its affiliate organization, the Council for Technological Advancement. I am joined by Charles Derr, senior vice president of the institute, and William Healey, our staff counsel.

If it please the committee I should like to submit our full statement for the record and then briefly skim through it in order to conserve your time.

Mr. HERLONG. I was going to suggest that might be done, Mr. Stewart. Thank you very much. Without objection the entire statement as presented to us will appear in the record.

(Mr. Stewart's prepared statement, supplemental statement, and appendix follow:)

STATEMENT OF CHARLES W. STEWART, PRESIDENT, MACHINERY & ALLIED PRODUCTS INSTITUTE

THE NEW GOVERNMENTAL PROGRAM TO IMPROVE THE U.S. BALANCE-OF-PAYMENTS POSITION

A CRITIQUE

Introduction

It is a privilege for the Machinery and Allied Products Institute and its affiliate, the Council for Technological Advancement, to present their views on the

Administration's balance-of-payments program in hearings before the Committee on Ways and Means of the House of Representatives. These organizations are national in character and represent the capital goods and allied product industries. Their stake in foreign trade is extraordinary. Machinery exports are the largest single category of manufactured exports from the United States; in 1966 capital goods exports reached a level of $8.83 billion. Moreover, these industries have a very substantial interest in private investment abroad, in licensing, subcontracting, and other arrangements necessary to maintain a strong position in world trade.

Based on the experience of these industries and in reference to certain of the issues which will be discussed in our presentation, we should like to emphasize at this point that no private organization and no governmental program, whether the latter is drawn in the form of a control or an incentive, can afford to ignore one central fact about foreign trade. To achieve, sustain, and improve a company's or an industry's position in international trade, the approach must be on a wholly integrated basis, integrated in terms of exports, private investment, licensing, subcontracting, etc., and also integrated in terms of the world, whether the countries are developed, or at some intermediate stage in industrial development. No industrial organization or governmental program in the face of this irrefutable fact of life can attempt to segment or splinter the total foreign trade effort. As we shall develop, this is precisely the central blunder of conception implicit in the Administration's approach to balance-of-payments correction particularly as reflected in the foreign investment controls announced on January 1, 1968.

Perverse effect on exports.—Subject to later, more detailed, treatment, let me emphasize at this point the seriousness of the perverse or counterproductive character of the foreign investment controls and to some degree the proposed restrictions on travel. In brief the problem breaks down as follows:

1. There will be an immediate adverse effect on exports from the United States flowing from the direct investment controls. This effect will enlarge at the intermediate stage and grow very seriously in the longer run. It is documented by government studies that there is a very direct relationship between private investment abroad and exports, it being estimated that approximately 25 to 30 percent of exports from the United States are tied to foreign affiliates of U.S. companies. Also when you affect the growth, viability, and flexibility of those foreign affiliate operations there will be an immediate adverse effect on exports from the United States and as just indicated that adverse effect will grow in intensity.

2. Certain elements of the *structure* of the control program also will affect exports adversely, particularly rules governing open account transactions covering merchandise transfers.

3. As to all foreign countries affected by the controls program, it seems probable that reduction in inflows of capital from the United States, limitations on the growth of U.S. affiliates abroad, and restrictions on the flexibility of their management will in turn affect the economic growth of the host countries and in turn their importing capability. It is our judgment that this impact will be present to some degree in all foreign countries affected by the program but of course will be intensified in certain countries experiencing economic difficulties such as England and Canada.

4. The controls on foreign investment will disrupt in a general way the effective integration of individual companies' programs involving foreign trade. The energy, the time, and the money which will have to be expended to adjust or react to these controls, the adverse effects that they will have on the interacting elements of a company's foreign trade program—all of these things—undoubtedly will cut into the export performance of U.S. companies, their earnings, their job-creating potential in the United States, and their international competitive strength.

5. We have been discussing the boomerang effects of the controls program largely in terms of investment controls. To some degree at least, perhaps to a significant degree, there will be boomerang effects created by the controls on tourist expenditures. There can be no question but that these restrictions, if they work, will have an effect on the economies of foreign countries. There can be no question that these restrictions, if they work, will affect the capability of those countries to buy U.S. exports even if they are in a trade surplus position.

In general, the policy makers, with reference to the direct investment controls and to some degree at least also as to the controls on tourist expenditures, have