

not thought through on the counterproductive effects which will flow from these controls. They apparently live and think in a dream world that involves artificial separation of trade from capital flows into direct investment abroad. The two are inextricably related.

Philosophy and Characteristics of the Administration's Approach

Let us first turn to the philosophy governing the Administration's approach to the balance-of-payments difficulty which has worsened in recent months and examine the characteristics of that approach. Essentially the Administration has taken a "controlist" and negative approach to the problem. For all practical purposes, the "new" program consists only of *controls*, principally in the area of foreign direct investment abroad and also in respect to tourist travel and expenditures.

Focus on controls—absence of incentives.—Although the President in his message on January 1 attempted to describe a more rounded program including certain incentives to exports and certain incentives that might be offered to induce repatriation of accumulated earnings, and although the Special Representative to the President for trade policy, Ambassador Roth, in hearings before this Committee referred to some negotiations with foreign governments on nontariff barriers and tax rebates on exports, there is no current implementation of these non-control aspects. As developed in more detail later, the export assistance planks referred to by the President have been pending for years. The President's program now before this Committee consists solely of tourism controls; moreover, when and if the negotiations with foreign countries on nontariff barriers will produce anything in the way of substantial results is purely conjectural. This is hardly an approach involving a proper balance between punishing controls and incentives. Thus it is fair to say that the private sector, principally the business community, and the individual citizen who wishes to travel abroad are being asked to carry the principal burden of the program. We shall develop that this is paradoxical, at least as far as the business community is concerned, because the private sector has been the substantial plus factor in our balance-of-payments situation.

Absence of long-range view.—In addition to this fundamental aspect of the Administration's approach toward the balance-of-payments difficulty, the action program that has been outlined is essentially short range in its objectives although lip service is paid to the long range. The Administration itself concedes the very salutary effects on balance of payments which flow from foreign direct investment, but it is perfectly willing to restrict that foreign direct investment for what it considers to be a necessary short-term advantage. In our view no substantial long-range program is outlined. And the Administration is not even realistic about the disadvantages and boomerang potential for the short term of many aspects of the control program.

Burden.—Any system of controls involves heavy bureaucracy, painful paper work, and serious disruption of normal activity. We can look for nothing better than the traditional incidents of control programs from the direct foreign investment and travel restrictions. Moreover, inequities will abound. In respect to burden, both in industry and government, I suggest that the Committee examine, or possibly admit for the record, Base Period Form FDI-101 with six supplements and instructions which has just come off the press and is due on a mandatory basis by March 22.

Effect on freedom.—Controls always involve serious restrictions on freedom. In any system of democracy, even in its purest form, it is impossible to practice complete freedom. But it has always been an essential part of the United States' approach to government, to its institutions, and to all types of activity, human and institutional, to attempt to achieve maximum freedom consistent with the public interest. Any program which curtails freedoms must be undertaken only after the most careful examination of need, an appraisal of the probability of accomplishment of goals, and a determination to limit restrictions on freedom to the bare minimum. In our judgment, the control programs which have been launched by the Administration, including the one in effect and the one now proposed before this Committee, meet none of these tests; indeed, they fail miserably. They were hastily conceived, weakly structured, and poorly rationalized. They are offered without any apparent appreciation of their perverse effects both in general and in respect to the policy objective of improving our balance of payments. They are offered without any real and credible assurances as to termination and without a definitive program for their supersession by longer range and more permanent solutions to a problem that has plagued this country for many, many years; namely, the balance-of-payments situation. It should be added that

due consideration has not been given to the effect of these travel controls on foreign countries including their ability to import U.S. goods. We therefore consider it not only appropriate but we feel an obligation to appear before this Committee and express our disapproval in principle and in substance with respect to these ill-conceived programs.

Do mandatory controls work?—In the Annual Report of the Council of Economic Advisers transmitted to President Johnson January 25, 1968 under the heading *Price and Wage Policy* at page 119 the following statement appears:

"Direct Controls

The most obvious—and least desirable—way of attempting to stabilize prices is to impose mandatory controls on prices and wages. While such controls may be necessary under conditions of an all-out war, it would be folly to consider them as a solution to the inflationary pressures that accompany high employment under any other circumstance. They distort resource allocation; they require reliance either on necessarily clumsy and arbitrary rules of the inevitably imperfect decisions of Government officials; they offer countless temptations to evasion or violation; they require a vast administrative apparatus. All these reasons make them repugnant. Although such controls may be unfortunately popular when they are not in effect, the appeal quickly disappears once people live under them."

One need ask only the simple question: Is there any reason why mandatory controls as to foreign direct investment are more likely to work in a pragmatic sense or less likely to be repugnant to our system? It is our firm conviction that direct controls under the foreign direct investment program are certain to fail not only for some of the same reasons cited by the President's Council but because, as we have pointed out separately, they are addressed to an international scene involving the most complex elements one can imagine and having an impact on foreign governments and foreign entities as well as the interrelated factors of international commerce.

Reasons for commenting on travel restrictions.—Obviously from the standpoint of business spokespersonship, we believe that we can bring more experience, more knowledge and background to the Committee on the subject of the foreign direct investment controls than is true in the case of the Administration's proposals to restrict foreign travel by Americans. Moreover, there would be an understandable temptation for an organization such as MAPI to treat the tourism proposals of the Administration as more of a nuisance than anything else and therefore address ourselves only to other aspects of the Administration's program. But we reject this temptation because it is our firm conviction that the philosophy which pervades the foreign direct investment control program is also present in the travel proposals which are directly before this Committee. And we do not believe that it is proper for the Institute cavalierly to say that the international travel controls can be lived with and all that needs to be done is to tinker with these proposals. We, therefore, submit criticisms and recommendations regarding restrictions on travel and travel expenditures.

Proposed Travel Tax and Tightening of Customs Treatment of Tourist Exemptions

Before proceeding to a more detailed consideration of the proposals before this Committee regarding travel and travel expenditures, let us state briefly our broad conclusions as to these recommendations.

As indicated in the introductory section of this statement, we feel that both the program of direct private investment controls and the foreign travel provisions reflect a preoccupation with a controls approach to an effort to improve the balance-of-payments program. The announced goal of the Administration in respect to the statutory travel restrictions is a saving of \$400 million in the balance-of-payments account. Although \$400 million is by no means a small sum, in absolute terms it is a relatively modest goal in respect to the dimensions of our long-standing and continuing balance-of-payments problem. Moreover, it is our judgment that the actual saving will not approach the \$400 million goal. Any technical or gross saving must be offset by the cost of administration to government which we expect to be large, by the burden on the private citizen which will be substantial, and by the cost to American business. One is tempted to conclude that the only persons who will be deterred from travel as a result of these restrictions will be the low-income groups. The businessman who must travel will travel. The persons of reasonable to affluent means will undoubtedly decide to pay the cost.

Even allowing for the stress of the Administration on the objective of curtailed spending rather than trip cancellation, we think the goal will not be approached. In the net, therefore, we have a program conceived in a fundamental philosophy of controlism which will not even achieve its relatively modest goal and which will trigger a burdensome and complex system of procedures. These procedures not only will be annoying but they will be an encumbrance on the right of the American people to move freely on a domestic and international level except where the national interest absolutely makes it necessary to place restrictions on such movements. Beyond this, as usual, in terms of government's approach to the solution of the balance-of-payments problem as we see it, not enough attention is being given on an action basis to affirmative means by which we may improve our net balance-of-payments position with regard to travel, taking into consideration both U.S. trips abroad and foreign trips to this country. Although there are practical limitations, we have done far from a good job in attracting tourists to the United States. One might conclude that it is a case of too many studies, too many "pronouncements" and not enough action. Let us hope that a really affirmative program will develop and be aggressively implemented in connection with the Report of the White House Task Force headed by Ambassador McKinney. It should also be indicated that through the foreign direct investment control program, as we have pointed out above, businessmen will be put on a forced-draft schedule of foreign travel in order to try to compensate for the mischief which the government is creating through its investment controls. In a word, the foreign travel restrictions aren't worth the price which will have to be paid for creating them, administering them, and living with their restrictive burden. There must be some more imaginative, some more affirmative, some more sensible approach to balance-of-payments improvement than is reflected in this proposal.

Broadening of the transportation tax.—The Administration has proposed that the current 5-percent transportation tax on domestic air travel be extended to foreign air travel as well, and that it also be applied in the case of transportation by water. We can see some validity to taxing transportation by air and water to and from a foreign destination on the same basis as that applied to purely domestic air travel at the present time. So long as the tax is levied on fares paid in the United States, the collection problem would appear to be relatively simple. However, we have distinct reservations about attempting to deal with the problem of transportation taxes as part of a short-run program to cope with deficits in our balance of payments. We think it would be far better for Congress to consider taxes on air and water transportation in connection with examining the current tax treatment of other types of passenger transportation. At that time, basic relevant features relating to equity, relative competitive positions, financial strength, etc., can be given adequate consideration within the framework of transportation facilities and needs as a whole. For this primary reason, we suggest that the Committee defer action on this proposal at the present time.

Tax on foreign travel expenditures.—Under the Administration proposals, a tax would be imposed on the daily average expenditures for living, entertainment, and gifts, incurred by an American while traveling outside the Western Hemisphere. If this daily average expenditure figure exceeds \$7, a tax of 15 percent would be imposed, while any excess over \$15 would be taxable at a 30-percent rate. The tax would purport to be temporary with a scheduled expiration date of September 30, 1969, and it would not cover foreign travel of a student or businessman on a trip for more than 120 days.

The traveler would be required to make a declaration of the funds in his possession on leaving the United States. He would also have to pay an estimated foreign expenditure tax to the Internal Revenue Service at that time. On arrival back in the United States, the traveler would again report on his cash balance as he is processed through customs. Within 60 days he would be required to file a final return with the IRS, and the tax would be applied to the difference between the "departing" cash balance and the "returning" cash balance plus credit card charges and all other expenses attributable to the trip. A penalty of \$200 would be imposed for failure to make a declaration of estimated tax and a statement as to cash balance. In addition, a penalty of 10 percent of the underpayment of estimated tax would be imposed for underestimation. Any difference between the original estimated tax and 80 percent of the actual tax shown subsequently on the return would be considered an "underpayment" for this purpose.

In general, we think that the proposed foreign expenditure tax should be rejected on the grounds that it is poorly conceived, highly arbitrary, difficult to comply with, and burdensome in the extreme for persons who have legitimate

reasons to travel abroad. American industry, of course, would be forced to absorb the significant part of the burden of these proposals that would result from the application of the tax to American businessmen traveling abroad in the interest of their employers for periods of less than four months. The implications of this fact, of course, are significant in a number of ways: it penalizes the American businessman and his corporate employer at a time when he will be compelled by the foreign direct investment control program to travel more rather than less in order to attempt to make arrangements for borrowing and deal with administrative problems which will flow from the direct investment controls program; it runs up the costs of corporate American employers whose executives will be traveling; and adds to the inflationary impact both domestically and in terms of the company's ability to compete internationally.

What these proposals would evoke in the way of foreign countermeasures is a matter of conjecture, but we believe that the foreign reaction would like be swift and significant. Basically, we think that the tax would be an unjustified intrusion on the fundamental right of Americans to travel abroad, and we think for this reason alone the tax should be rejected.

Apart from matters of principle, we think it is clear that the techniques of requiring travelers to report cash balances on leaving and returning to the United States are going to cause tremendous administrative problems for the Internal Revenue Service and the Customs Service, and just as certainly there are going to be very difficult problems for travelers in attempting to distinguish between those expenditures which are subject to the tax and those which are not. Further, we suspect that the requirement for the final tax return to be filed within 60 days after the traveler's return to the United States is wholly unrealistic in terms of whether he can be expected as a practical matter to make a final accounting of his expenditures so soon after completing the trip. Clearly the \$7 and \$15 tax brackets as applied to daily average expenditures are wholly unrealistic in terms of what it cost Americans to travel abroad with any decent accommodations. Obviously it would be helpful to increase these dollar brackets considerably as well as to modify other aspects of the proposed procedures including the "60 day" final filing requirement, but frankly we think that the proposed tax is so bad fundamentally that we are reluctant to offer any palliatives which might make it endurable.

Tightening of customs exemptions.—Finally, the Administration proposes to reduce the duty-free exemption on property brought into the United States by travelers returning from abroad from \$100 to \$10. A companion proposal would lower the duty-free exemption on gifts mailed from overseas from \$10 to \$1. These measures would not affect the interests of the companies we represent to any significant degree. However, we think that they should be rejected on the ground that they are an integral, though an auxiliary, part of the overall package including the foreign expenditure tax and the broadened transportation tax.

We urge that the entire set of proposals now under consideration be rejected and that Congress express its desire that the Administration come up with a broadened, imaginative, and "action" program of attracting foreign travel to the United States.

The Basic Policy Decision on Investment Controls

We have grave reservations about the basic policy decision to adopt a system of mandatory foreign direct investment controls and we also object to the structure of the control program implementing the basic policy decision. We deal first with the basic decision. Reasons for our opposition are sketched below and a more detailed analysis is set forth in the Supplement to this statement.

A. *The wrong target.*—In the net, foreign direct investment is a favorable factor in our balance-of-payments situation when the outflow of capital is measured against the return to the U.S. of subsidiary earnings, licensing fees and royalties. In addition there is the increase in exports attributable to foreign direct investment. This favorable position is true both presently and historically. The income returns on direct private investments abroad, on a cumulative basis for the last thirteen years, exceed total outflow by \$16 billion.

B. *Controls breed controls.*—Controls beget controls and once having established a control mechanism with respect to foreign direct investment abroad there is a grave danger that these controls will be tightened further, continued for an indefinite period of time, and lead to controls over other aspects of foreign trade. Our concern in this area is reinforced by the fact that there has been a trend toward control of private decision-making with respect

to private investment abroad for a number of years. This trend¹ has been evidenced, for example, by the Interest Equalization Tax Act, the Revenue Act of 1962, the voluntary investment controls program, banking controls, etc. Moreover, it is impossible to accept with any credibility the "assurances" that are being offered currently that this is a temporary program. The country has had experience with "temporary" programs previously adopted that are now firmly embedded in our system.

C. *Protectionism in reverse.*—The control system that has been inaugurated represents protectionism in reverse. It is an attack on the ability of American industry to maintain and improve its position in international trade. It is a give-away to the competition. As for Europe, it is almost tantamount to a forced retrenchment of American industry's position in Europe.

In carrying on world trade in the broadest sense, American business confronts foreign competition abroad and at home. Nationalism and restrictionism abroad have created a wide variety of trade barriers. Regional trading blocs are growing in significance. U.S. private investment abroad has been a critical tool in our business effort to counter these obstacles. Now U.S. business' freedom to use that tool is being seriously disabled. The schedule of import-export ratios for certain capital goods products, shown on the next page, underscore a trend which should make it unthinkable for government to support a mandatory investment controls program. There is a limit to what business can sustain.

IMPORT-EXPORT RATIO FOR MAJOR CAPITAL EQUIPMENT CATEGORIES

[Imports and exports in millions of dollars, ratios in percent]

	1960	1961	1962	1963	1964	1965	1966
Engines and parts:							
Imports.....	24	35	28	49	136	195	331
Exports.....	490	565	694	661	676	841	975
Ratio.....	4.9	6.2	4.0	7.4	20.1	23.2	33.9
Agricultural machines and tractors:							
Imports.....	135	115	152	172	195	249	327
Exports.....	565	541	558	645	825	865	860
Ratio.....	23.9	21.3	27.2	26.7	23.6	28.8	38.0
Office machines:							
Imports.....	68	75	85	98	104	136	191
Exports.....	208	310	324	362	434	471	557
Ratio.....	32.7	24.2	26.2	27.1	24.0	28.9	34.3
Metalworking machinery:							
Imports.....	37	34	41	48	40	63	135
Exports.....	293	391	435	347	408	332	338
Ratio.....	12.6	8.7	9.4	13.8	9.8	19.0	39.9
Textile and leather machinery:							
Imports.....	70	82	94	93	127	157	221
Exports.....	180	210	200	190	228	207	227
Ratio.....	38.9	39.0	47.0	48.9	55.7	75.8	97.4
Other nonelectrical machines:							
Imports.....	104	114	140	175	269	360	472
Exports.....	1,650	1,725	1,876	2,004	2,289	2,558	2,822
Ratio.....	6.3	6.6	7.5	8.7	11.8	14.1	16.7
Power machinery and switchgear:							
Imports.....	23	28	25	22	41	67	105
Exports.....	250	255	264	326	356	472	488
Ratio.....	9.2	11.0	9.5	6.7	11.5	14.2	21.5
Telecommunications apparatus:							
Imports.....	127	160	216	220	225	314	486
Exports.....	228	274	367	390	404	345	381
Ratio.....	55.7	58.4	58.9	56.4	55.7	91.0	127.6
Other electrical apparatus:							
Imports.....	136	146	174	177	177	259	425
Exports.....	612	696	730	777	905	844	1,030
Ratio.....	22.2	21.0	23.8	22.8	19.6	30.7	41.3
Machinery, nonelectrical, total:							
Imports.....	438	455	540	635	871	1,160	1,166
Exports.....	3,386	3,743	4,087	4,209	4,860	5,274	5,779
Ratio.....	12.9	12.2	13.2	15.1	17.9	22.0	29.0
Electrical apparatus, total:							
Imports.....	286	334	415	419	443	640	1,016
Exports.....	1,090	1,225	1,361	1,493	1,665	1,660	1,899
Ratio.....	26.2	27.3	30.5	28.1	26.6	38.6	53.5
Machinery, total:							
Imports.....	724	789	954	1,054	1,314	1,800	2,693
Exports.....	4,476	4,968	5,447	5,702	6,525	6,934	7,678
Ratio.....	16.2	15.9	17.5	18.5	20.1	26.0	35.1

¹ See the MAPI statement to the Joint Congressional Economic Committee, February 28, 1967.

D. *Invitation to protectionism.*—These controls represent an open invitation for the Congress to proceed toward protectionist measures with respect to imports, and a similarly open invitation to industries concerned with import problems to press for quotas and tariff increases. The Administration cannot have it both ways. It cannot expect to adopt a restrictionist approach to foreign investment and hold the line with regard to the theory of free trade in other respects.

E. *A long-range problem.*—The balance-of-payments problem has been with us for a decade. In our judgment, no long-range program for its solution has been developed by government and yet it is clearly a long-range problem, not a short-range difficulty which lends itself to opportunistic, ad hoc, short-range palliatives. Not only does it not lend itself to this type of correction but the short-range prescription would be bad medicine in the long run. Not only has there been weakness in government policy making with respect to the long-range solution of this problem, but government insists on trying to isolate from the balance-of-payments problem many domestic economic policies which have a direct and significant impact on our international payments position. Only when the Administration desperately tries to find a new rationalization for a tax surcharge and avoid a substantial program of reduction in nonessential government expenditures does it attempt in its rationalization to relate domestic economic policy to international economic policy. On matters of domestic interest rates, for example, the government posture is to proceed on the basis that the interest rate policy in this country must be set for domestic reasons irrespective of international balance-of-payments considerations. With respect to budgetary policy the same approach is adopted.

F. *An unbalanced program.*—The President's message of January 1 referred to a multifaceted program to deal with the balance-of-payments situation. From an implementation standpoint, the multifaceted program has, for all practical purposes, been discarded and reliance has been placed on controls, and in this respect controls primarily on private investment abroad. This is not a balanced program. It is not a program sound in its long-range implications. It even has strong disadvantages for the short run. And it would seem to reflect a preoccupation with control for control's sake.

G. *Bias against private investment abroad.*—Aside from the clear drift toward controls over private decision making affecting private investment abroad, we are concerned that there is present in government, at least to some degree, a tendency to frown upon private investment abroad, to punish it in some respects, and to attempt to direct, influence or control it for a variety of reasons. As we look back over the last several years, we believe that the record evidences these tendencies. For example, there is the attempt to control private investment abroad because of our policy with reference to developing countries. This involves a desire to direct private foreign investment into the developing areas and away from the developed countries, an objective which unfortunately not only is unrelated to balance of payments but is in conflict with balance-of-payments objectives because of the much greater ability of developed countries to produce a prompt and significant payback from investment therein. As previously suggested, the Revenue Act of 1962 is in some respects a control device with respect to private investment abroad. There have been statements made by government officials to the effect that business has not done a good job in making its private investment decisions with respect to foreign countries, particularly in Western Europe in the last few years. This suggests that government may undertake to second-guess decisions on matters as to which business is more experienced than government; namely, where and why and how to invest their resources abroad.

Beyond this retrospective audit tendency, government policy makers have said on occasion that private investment abroad has been "overdone." Such a statement, referring specifically to "the early 60's," was included in the 1967 Economic Report of the Council of Economic Advisers and quoted with approval by the "Blue Book"¹ of the Treasury just published. There undoubtedly is in the minds of some a conflict in reference to allocation of U.S. resources between domestic investment and foreign investment, between domestic programs and projects abroad. And there undoubtedly are some in

¹ *Maintaining the Strength of the United States Dollar in a Strong Free World Economy*, U.S. Treasury Department, January 1968.

government who would like to see government reshape this allocation of resources to the detriment of private investment abroad and for the theoretical benefit of the domestic side. These tendencies, these signs, are not always crystal clear. But as we observe the Washington scene, as we read government pronouncements, as we study the implications of the law and regulation affecting private investment abroad, we are obliged to assert that there is at least some evidence that the road along which we are now being led with reference to private direct investment is not only the wrong one but that our course is being fixed by considerations beyond balance of payments.

H. Temporary or indefinite.—In all candor, we have no confidence that government has a determination to end this program of mandatory controls at the earliest possible date. As pointed out above, the record of government with respect to such "promises" is poor. Moreover, as we have suggested, controls by their very nature seem to create an apparatus or bureaucracy which tends to perpetuate itself, and finally there is the built-in reluctance of government to dismantle a program once it has been instituted. The judgments made here—which we believe to be widely shared in the business community, although not necessary widely articulated—are underlined and strengthened by a conviction that there is no strong will to use this control program on a very short-term basis, and to replace it at a very early date with something that makes more sense from a long-range standpoint. That something in the form of a long-range program does not appear to be on the horizon. We are not reassured by the exchanges between Ways and Means Committee members and witness on the issue of the temporary character of this program.

I. Legal aspects.—We are concerned as to the legal aspects of this program. At best it seems that the legal authority cited for the inauguration of this program without new legislation from the Congress is strained. I may be subject to challenge at least as to repatriation requirements. But let us take the more charitable view of the legal situation and assume that, by straining, the program can be justified on legal grounds and that furthermore there is realistically a natural reluctance on the part of business to try to assert contrary views on such a subject through law suits. Even if this is the case, we believe the Administration should have accorded the Congress and the business community an opportunity to suggest alternatives to the mandatory program through public hearings or some other system of administrative procedure. In our judgment, whatever may be the answer to the legal question, to undertake a program of this type without hearings, without discussion of the issues, both from the government and industry viewpoints, is unconscionable in terms of American institutions and American processes. We cannot overstate our deep concern with this aspect of the launching of this extraordinary system of controls on the part of the federal government.

J. Administrative problems.—Finally, no program, either in terms of conception or structure, particularly one involving controls, can survive if it is bogged down by tremendous administrative problems. Although it is a little early to judge conclusively, there are signs that this program is almost unadministerable. In the first place, the processes of international investment are extremely complex. They involve foreign entities and foreign government relationships. By their very nature these processes constitute a continuum over periods of years as distinguished from "stop and go," "in and out," moves which can safely be interrupted and turned on and off. As we will attempt to develop in discussing in more detail the structure of the control program, these characteristics of the foreign direct investment process, these complexities, these interrelationships make equitable, consistent, and reasonable administration almost impossible. And this difficulty is aggravated by the fact that the objectives of the program of controls are mixed, even partially contradictory, and are not exclusively tied to balance-of-payments considerations.

K. Basic decision should be reevaluated.—In the net, what is really needed is a reevaluation of the original basic policy decision. If government is determined against that reevaluation, then clearly the structure of the control program itself must be thoroughly reevaluated and overhauled. Anything less than this will not only produce short and particularly long-range disadvantages to the public interest, but it may very well produce chaotic conditions in reference to the stream of business decisions which must go

on. Those decisions, we should emphasize are not just cold, calculating private decisions—they affect intercountry relationships, they affect employment here as well as abroad, they affect the balance of payments; in general, they affect the public interest.

Criticisms of the Structural Concept and Details of the Control Program and Regulations

General theory of the structure of controls.—The building blocks for the control structure over U.S. direct investments are these: First, the controls are addressed to capital outflows, reinvestment, repatriation of earnings, and the reduction and repatriation of certain liquid foreign balances. Second, restrictions on investment and mandatory requirements as to repatriation are defined by formulas which in turn depend upon the direct investor's experience during prior base periods. The base periods selected are 1965-66 for capital transfers and limitations on liquid foreign balances and 1964 through 1966 for repatriation of earnings by affiliated foreign nationals. Third, the countries of the world are divided into three schedules, with each schedule of countries given different treatment under the control formulas. For Schedule C, consisting primarily of Western Europe and South Africa, there is an absolute moratorium on capital transfers from the U.S. and the toughest requirement as to repatriation is applicable. Schedule B, given a somewhat more moderate treatment, includes Japan, Great Britain, Canada, Australia, and certain oil-producing countries.

Schedule A, for all practical purposes, consists of the so-called developing countries and they receive within the control system the most generous treatment. In applying the controls the company is required to treat all of the countries in a given schedule as an aggregate. Four, it is the theory of the system that the impingement of controls on private decisions in the foreign investment field can be partially relieved by permission for companies to borrow abroad—or to guarantee borrowing abroad—with no immediate effect on the individual direct investor's current investment quota. Pertinent regulations contain, of course, detailed and complex provisions respecting application of the foreign direct investment program but the propositions just outlined comprise the heart of the control structure. In developing our criticisms of that structure, we give attention first to these basic elements and then turn to other aspects.

The base period.—Base periods arbitrarily selected for the application of controls always create inequities whether one deals with the excess profits tax, foreign direct investment controls, or any other area. The base periods adopted in this case are especially faulty because they discriminate against those companies whose performance under the Commerce Department's Voluntary Balance of Payments Program made especially important contributions to improvement of our international balance of payments. The base period for capital transfers discriminates against seasoned investors who did not substantially increase their foreign investment during 1965-66; similarly, the base period covering repatriation imposes a harsh standard on those companies which have good records of repatriation and, especially when such a record is improved further by artificial increases during the base period in response to the Voluntary Program. Since so much of the inequity resulting from base period selection results from its identification with the period of the Voluntary Balance of Payments Program, it would seem that something approaching entrapment is involved.

The base period seems to have been chosen in part because certain aggregate data was available under the Voluntary Program for the base period years—a statistical reason that has no relevance to selection of a base for control purposes.

Aside from those inequities growing out of established base periods already cited, it may be useful to identify some additional problems from this source that have come to our attention. They include such cases as:

1. Direct investments before or after the base period which do not enter into calculation of the direct investment quota.
2. Abnormal earnings during the base period upon which the repatriation formula is based.
3. Ownership by two U.S. direct investors of unequal shares in an affiliated foreign national where both such investors have other foreign investments within the same schedule of countries. How are the investment and repatriation quotas to be distributed?

4. The latecomer to foreign investment with little or no investment during the base period and thus no base against which to work in the future.

Division of the world into schedules with preference for developing countries.—The adoption of the direct foreign controls program in one breath implies a balance-of-payments crisis but in another seems to say the situation is not so serious that we cannot accommodate the policy objective of assisting developing countries. Doesn't the federal government have to make up its mind as to which policy objective is more important? The result is to blunt the objective of balance-of-payments improvement by accommodation of the developing country policy. The structuring of the program into schedules appears to reflect a determination to force a "retreat of American business from Europe," an area from which substantial dividends benefiting our balance of payments have been received. Paradoxically, the program gives favored treatment to investments in countries which are not, because of the stage of local economic development, capable of a quick and generous payout on such investments.

If there is to be a control program it would seem the Administration should give absolutely priority to the balance-of-payments objective. At the same time it should structure the control program in such a manner as to give business maximum flexibility with regard to its foreign investment decision making. This argues clearly for abandonment of the schedule system and the adoption of a worldwide single application. Indeed, the Voluntary Program—acknowledged a resounding success by government—had the great virtue of preserving flexibility in corporate decision making. With the mandatory program that flexibility is gone.

Obviously, a division of the globe, dictated by political considerations, arbitrarily prevents the normal flow of funds to those points which offer the greatest return on investment. Moreover, by "scheduling" the globe in the manner in which the regulation does, the Administration has created a very great administrative problem for companies which have investments in more than one schedule because of the substantial lateral dealings between members of a group of affiliated foreign nationals across these arbitrary lines.

We are critical of the scheduled approach which compromises between the balance-of-payments improvement objective and the objective of favoring developing countries. We do not believe, for the reasons stated, that this further sacrifice of flexibility for American business within the control program can be justified and that the scheduled approach ought to be abandoned in favor of a single worldwide approach. Thus, assuming the controls program is continued, the total goal of the Administration would not be changed. Business would be put in a more flexible position and the administrative nightmare created by the schedule approach would be avoided.

We recognize that the federal government has a long-standing national policy of helping developing countries which is believed to be in the interest of the United States as well as international development. We adhere without hesitation and irrevocably to the proposition that pursuit of this objective should not result in a further burden on or creation of a further inflexibility for, business with regard to the total private investment effort, particularly under a control system. If the government wishes to give some extra boost to the developing countries in the light of the imposition of a controls program it should not discriminate against developed countries under the controls program but should provide some direct incentive for investment in the developing countries. This is already being proposed through negotiation of tax treaties and undoubtedly the Treasury Department together with other interested departments could develop a more potent incentive in this respect. At the same time that we make this comment, we insist that first things must come first and if the Administration feels that the balance-of-payments problem is the central problem then it ought to treat it as such and not attempt to splinter its effort.

A realistic look at foreign borrowing.—A central part of the theory of the foreign direct investment program is the proposition that the program is designed primarily to reduce overflows and increase repatriation of earnings and that foreign direct investment may be carried on at a reasonably high level by recourse to foreign borrowing. This proposition stands up better in theory than it does in reality because of certain very important restrictions on borrowing facilities and on the borrowing freedom and capacity of companies involved:

1. In the first place capital facilities abroad are limited, although they are developing. This is true even in sophisticated areas like Western Eu-

rope and it is even more true in areas like Latin America and the Orient. Foreign capital markets obviously already serve domestic customers and as their requirements increase so the load on the capital market from domestic institutions and companies grows. The United States as a result of the pressures of the Voluntary Balance of Payments Program has added very substantially to the burden on foreign capital markets. While the Euro-dollar market is still available to larger companies at rates not greatly above those of the U.S., it is not yet clear what the effect of increased borrowings by U.S. firms will be on the cost and availability of these funds. With respect to borrowings in national currencies, we understand that there is already speculation that some countries may be compelled to ration credit in the near future in ways that would adversely affect the access of U.S. companies to local capital markets.

2. Beyond these limitations in terms of size, flexibility, and similar factors, we understand that certain foreign countries have specific restrictions by law, regulation, or practice against borrowing for certain specific purposes; for example, borrowing to pay dividends may be limited or prohibited.

3. As previously indicated, many companies have already borrowed heavily abroad in response to the voluntary program. The servicing of these obligations will place a substantial burden on foreign affiliates' financial structure and to some degree the parent company, and might in turn require further borrowing when other factors are taken into consideration including the points below.

4. The repatriation requirement of the mandatory control program places an effective limit on all types of foreign borrowing in many cases. Clearly, payments of principal under foreign borrowing agreements are not accounting deductions prior to the calculation of earnings so that the foreign creditor and the U.S.—under the mandatory program—will be “competing” for the same dollars. The effect is to partially close the escape hatch presumably provided by foreign borrowing.

5. Because of the manner in which the repatriation requirement affects many, many companies subject to the mandatory controls program, the repatriation requirement plus debt service cannot be met out of current earnings abroad. Thus, there will be additional pressure for this reason on borrowing outside the United States.

6. Further, one should not overlook the costs of borrowing—either in the form of increased interest charges to the parent corporation or in the form of reduced earnings of the foreign affiliates. At a time when the Administration is addressing itself so persistently and strongly to the inflation problem and at a time when the Administration is very much concerned about exports and the effect of costs increases on the ability of companies to increase their export position, the additional costs which will be involved in borrowing abroad are wholly inconsistent with either of these considerations.

Only in the light of these limitations and influences can one examine realistically the degree to which foreign capital markets will sustain—and foreign affiliates or their parents will have the capability and the flexibility to borrow to sustain—increased borrowing by U.S. affiliates for necessary expansion or new investment in order to maintain a sound position in international trade.

To sum up, the ability and freedom to borrow abroad in order to compensate for the restrictions imposed by mandatory investment controls is limited. Moreover, it will be especially limited for the small and medium-sized company. Further, the impact on the foreign countries may very well be adverse and produce restrictions or resentment and the impact on the total costs of the American worldwide operation could very well be substantial.

It should be said in conclusion with respect to the so-called borrowing alternative that these limitations on borrowing coupled with the severe restrictions of the direct investment program create an even more serious factor. American business just can't maintain its position in international trade in a total sense if a dynamic approach to foreign direct investment is thwarted. This point of course is relevant throughout our statement, but it is emphasized here in the context that borrowing is not the panacea which some in government and other circles may believe to be the case.

Adverse effect on exports.—In the context of the structure of controls, and at the risk of repetition, may we emphasize again the perverse effects on exports.

The overriding point is that there is a definite relationship between investment abroad and exports with the two rising together. Studies made by the Department of Commerce have documented this fact strikingly. ("U.S. Exports to Foreign Affiliates," *Survey of Current Business*, December 1965.) Reduced foreign investments cannot fail to affect exports unfavorably both in terms of sales to U.S.-owned affiliates and in terms of reducing foreign exchange availability to foreign countries. Moreover, at least one element of the control program, specifically that provision of the regulation which is interpreted to mean that increases in open account balances between a U.S. parent and its foreign affiliate represent capital investment, will tend seriously to curtail exports. Indeed, it could tend to place a ceiling on exports to Schedule C countries where there is a moratorium on capital outflows.

As we have indicated previously, and as the free trade philosophy of this country reflects, exports are limited by the ability of foreign countries to import. Both the direct foreign investment controls and the proposed tourism programs will reduce the capacity of foreign countries to buy from the United States. In conclusion on this point, it is our judgment that merely cleaning up technical points in the regulation cannot correct the inequitable conflict between a desire on the part of this country to increase its exports and net trade balance and the actions taken to restrict foreign direct investment and the proposals regarding tourist expenditures. We are obliged to observe that the Administration ought to read its own pronouncements about the need for maintaining free flow of trade, about the interrelationship between various elements of trade, and about the fact that we cannot isolate the United States from the rest of the world and maintain our position in world trade and improve our balance of payments.

Other shortcomings.—There is a wide range of other deficiencies or fallacies in the structure of the controls program. They can be summarized as follows:

A. The foreign direct investment program clearly raises the possibility of foreign reprisals by countries disaffected or disadvantaged by one or more elements of the program. An example is provided by the requirement of repatriation of earnings. Foreign countries wishing to react against the United States' interests could adopt any one or a combination of approaches. There could be an embargo or partial embargo placed on repatriation to the United States of an affiliated foreign national's earnings or a possible increase in taxes on such items as management fees and earned royalties, and of course a possible restriction on investments in the United States by foreign nationals. Clearly, forced and enlarged repatriation of earnings to the United States is disadvantageous to the host countries. We can't believe that foreign countries will not react by some means.

B. There will undoubtedly be special unfavorable impacts on some foreign countries. The Canadian problem which has already been recognized in a special statement by the Treasury Department is a perfect example.¹ Belgium may be another; England certainly another. It is not necessary to elaborate on the fact that England is already in serious trouble. The controls on investment and possible restrictions on tourist expenditures are certain to hurt England further. In addition, the general reduction in our capital flows abroad and the proposed restrictions on tourist expenditures will reduce foreign countries' ability to import from the United States.

Finally, it will be very difficult for this country to respond in an entirely even-handed manner to meritorious arguments advanced by countries unfavorably affected by our new control programs. We have already responded to the Canadian difficult and in a manner which is hardly consistent with the investment controls philosophy and approach. It is entirely possible that some private actions in the planning stage which will

¹ Treasury Department Release, January 21, 1968:

"There have been reports that, during the past week or two, some Canadian subsidiaries of U.S. corporations have been transferring abnormally large amounts of funds from Canada to the United States and that these transfers have resulted in some pressure on the Canadian dollar in the exchange market.

The new U.S. balance-of-payments program does not call for and is not intended to have the effect of causing abnormal transfers of earnings or withdrawals of capital by U.S. companies having investments in Canada. Moreover, the U.S. Government has already made it clear, and now repeats, that Canadian subsidiaries of U.S. corporations are expected to act as good corporate citizens of Canada. The new U.S. balance-of-payments program covering private capital flows and the Canadian exemption from the Interest Equalization Tax provide scope for continued large flows of capital to Canada."

be interrupted, restricted, or canceled because of the new controls are of such significance to foreign governments that they will receive attention at the diplomatic level. The international politics will vary from country to country and from complaint to complaint as they develop among our friends abroad. It is absolutely naive to proceed on the assumption that our friends abroad will do nothing while being adversely affected by the controls program.

The relationship between U.S. direct investors abroad and the host country, both in the short and long term, is a very important factor in the ability of a company or an industry to operate flexibly and with dynamism in the foreign area. Sometimes clearances or government approvals abroad are necessary in order to establish the proper kind of relationship. When these procedures are interrupted or hobbled by withdrawal action of the U.S. government affecting our U.S. direct investors, the impact will not stop with the short run. The relationship between the U.S. company or industry and the foreign host country may be interrupted or set back for a great many years to come. This, of course, is implicit in the whole process of international trade including direct investment abroad which cannot be operated on an "off again-on again" basis.

C. So restrictive are the foreign direct investment regulations that they permit no credit to the direct investors' current investment quota for such inflows of capital as purchases by foreign affiliates of American equipment, receipts of royalties or management fees and receipts representing an increase in export sales. Each of these items makes a positive contribution to our international balance of payments and should, in our judgment, authorize at least a partially offsetting liberalization of the current investment quota. Indeed, if this program is to be continued in effect, this kind of safety valve could go far to mitigate the very harmful long-range effects of the mandatory program by providing an incentive for enlarged current contributions to our balance of payments which in turn would make possible current investments not otherwise authorized and which would yield returns in the future.

D. Now let us turn to a central problem with regard to the direct investment controls program; namely, its administrability, both from the standpoint of government and industry. Before proceeding with our criticisms, we should like to make it clear that the Institute is very much aware of the tremendous administrative burden placed suddenly—almost overnight—on the Department of Commerce. The personnel involved in this program are making a valiant try in administering what we consider to be a non-administrable program and a program which is thoroughly fallacious in conception. They have been particularly zealous to try to assist in urgent situations where, as President Johnson indicated, firm commitments were involved and almost immediate answers were required in the form of special authorizations. But we are obliged to conclude that no matter how conscientious or industrious the administrative organization within government is, it cannot possibly make this new creature of government work either in the public interest or in the private interest. The almost incredible variety of businesses and business situations to which this program must be applied makes it virtually impossible to come up with a single program fairly applicable to all. And it is our firm conviction that the program as originally announced cannot be patched up. It needs to be dismantled and reevaluated on a 100-percent basis.

It is by now obvious that issuance of a general authorization—for action not otherwise permitted under the regulations—is an excruciating experience for the Department of Commerce—made so probably for the very same reasons described above in respect to the difficulty in establishing a single broad program. As a result we have had to go the special exemption, case-by-case route and we shall probably have to continue on that basis under the present program.

The reporting burden on business will be immense. For example, there is the necessity of converting to accounting reports responsive to accounting principles generally accepted in the U.S., the products of accounting systems responsive to foreign rules of accounting, the delays involved in the collection of information necessary to complete reports from all affiliated foreign nationals and the magnification of that latter problem in the case of those affiliated foreign nationals in which the U.S. direct investor has only a minority interest.

An obvious administrative problem involves a combination of two points already discussed. Where a U.S. direct investor holds a minority interest, he may find it impossible to comply with the repatriation requirement either because of foreign law or the intransigence of a foreign board of directors. In either case, it will be necessary for him to obtain a specific exemption from the literal application of the regulations which adds in turn to the case-by-case administrative burden already noted.

E. Despite the fact that we have been encountering balance-of-payments difficulties for some years, the Treasury Department has not been as flexible as it might be in making tax changes with regard to Section 482 and other aspects of the Code to encourage repatriation of foreign earnings on a purely voluntary basis.

Under the controls now in effect there will undoubtedly be some unfavorable tax impact on U.S. companies triggered by the repatriation requirements. This is discussed in more detail elsewhere in this statement. Suffice it to say that in some situations where, for example, manufacturing income abroad is involved and the repatriation is not voluntary but forced under the regulation, there will be tax consequences in the United States. There is no provision in the control program for relief from these effects. This problem is doubly serious from the standpoint of public policy because the program was instituted by government on the basis of alleged legal authority grounded in an ancient statute and without consultation or approval by the Congress in which is vested the taxing authority. Finally, as indicated elsewhere in this statement, the Administration has apparently dropped its tentative plan to offer tax inducements to repatriate accumulated earnings.

Affirmative Recommendations

We turn now to an identification and discussion of certain affirmative recommendations which we believe should be considered, first as an alternative to the controls programs that have been instituted or proposed, or as accompanying steps in the event the investment controls remain in effect for at least a limited period of time and the proposed tourist restrictions are legislated. We recognize, of course, that Congress may choose to permit the foreign direct investment program to continue solely as an Executive Branch effort, although it may see the need for legislation in some areas such as those aspects of the program involving taxation. We will deal first with the nontax aspects.

1. *A prompt return to a voluntary system affecting direct investment abroad.*—Although we have certain misgivings about even a voluntary system of restrictions on foreign investment, it is clearly preferable to mandatory controls. It preserves maximum flexibility for decisions to be made in the market place and for management to consider various approaches to meet established goals. It avoids the very costly machinery of control from the government viewpoint and it relieves business of the tortured process of formal compliance, government conferences, tedious paper work, exacerbation of relationships with partners abroad, etc. By preserving an important degree of flexibility, it will make business better able to avoid some of the perverse effects of the mandatory program—as, for example, a reduction of exports and a disruption of total world trade planning—which will inevitably flow even in the short run from a rigid system of controls. Both from the government and private viewpoint, it will facilitate the avoidance of gross inequities arising either from the fabric of the control system or from the varying circumstances attendant on individual company positions.

As already acknowledged by government, a voluntary program can accomplish a substantial adjustment in the balance-of-payments situation at an acceptable cost in the terms of both national policy and private impact. In sum, when all of the adverse factors of mandatory direct foreign investment controls, as outlined herein, are taken into consideration, it is our firm belief that the net performance of the voluntary system will be at least as productive as that which can be achieved under mandatory controls. We recommend, therefore that the spectacular move which the Administration felt obliged to take on January 1 should be reversed at the earliest possible date.

2. *Foreign investment and domestic fiscal policy.*—Up to a point we agree with the Administration's position concerning the fiscal situation in the United States. We accept the proposition that perhaps the most serious aspect of our balance-of-payments problem is to be found in domestic policy. Continuing budgetary deficits—huge deficits—which inflate the economy and thus raise the costs of exporting companies are a grave threat to our international competitive position. We do

not accept the proposition that the 10-percent surcharge is necessarily the keystone of a program of correction of deficiencies and fallacies in our domestic economic policy. On the contrary, we believe that the weight of government action in this area should be placed on substantial, very substantial, reductions in non-essential government expenditures. We do not believe that the administration has gone far enough in this direction and we sympathize with the attitude of the Ways and Means Committee as reflected in its deliberations thus far which seem to conclude that:

First, a clear and unmistakable economic case must be made in terms of business conditions in the United States for a tax increase; and, second, that even with such an economic case persuasively made any tax surcharge must be conditioned upon a substantial decrease in nonessential government expenditures.

The Institute feels that a much more substantial reduction in nonessential government expenditures must be promptly undertaken. If a tax surcharge is enacted, it is to be hoped that expenditure reductions would at least equal revenue from the tax increase.

In brief retrospect, the exports of the United States have been maintained at a remarkable level when one considers the disadvantage at which U.S. exporters are placed by domestic economic policies which include high wage policy, inflationary fiscal policies and an inescapable subordination of international commercial policies. As previously indicated, until the Administration sought a new argument for its surcharge proposal and pressed for the tax surcharge as the centerpiece of its balance-of-payments program, the general posture of the federal government has apparently been to consider the domestic economy in isolation from international economic considerations.

3. *Prompt implementation of export expansion proposals.*—The President's program, as outlined in his message of January 1, includes a number of recommendations affecting export financing, including a special \$500 million fund for liberalized export insurance and export credit guarantee facilities, and prompt development of improved rediscount facilities. In addition, intensified export promotion activities under the aegis of the Department of Commerce was proposed.

All of these ideas, all of these recommendations, have been urged upon government by business for a number of years. They have not been dynamically implemented, in some respects they have not been implemented at all. One is entitled to ask whether there is an element of window dressing in the current revival of these proposals.

The President's message acknowledged that the United States was at a disadvantage because of the practice of foreign countries, permitted under GATT, to provide export rebates of indirect domestic taxes. The testimony of Ambassador Roth before this Committee is not reassuring as to the likelihood of early action for improvement in this area. This problem has existed for a decade or more. The fact that nothing has been done about it is unmistakable evidence that the federal government has not attacked the balance-of-payments problem on a consistent, hard-hitting, long-range basis. On the contrary, when an aggravation occurs it is dealt with on an ad hoc, panic basis.

Why have these export assistance objectives and programs referred to in the President's message not been fully implemented before? Why has this problem of nontariff barriers not received more attention? Why does this practice of foreign countries with respect to export rebates or border taxes go unattended from a policy viewpoint for so many years?

We can only conclude as we have already stated that these problems have been brushed under the rug and they are now being restated and related programs revised in order to provide a sense, and we believe an artificial sense, of balance to this program of controls on foreign direct investment and tourist expenditures. Without going into detail, obviously action should be taken along these lines particularly with regard to export assistance programs, but the fact that such action is taken is neither an excuse nor a rationalization for the controls aspects of this program. Nor should they be permitted to obscure the fact that the heart of the new balance-of-payments program is the control structure which applies primarily to direct investment abroad and banking activities.

4. *Modification of the control structure if it is continued.*—We have already alluded to certain points which we believe should be given central attention if a control system on direct investment abroad is to be continued even for a short

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

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

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

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

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

We recommend three specific areas of administrative action which will help to remove tax barriers to exports:

1. The realistic administration of laws providing for reallocation of income and expenses between related companies: recent Treasury efforts to clarify practices in this area have been helpful but guidelines on the reasonableness of selling prices are needed.
2. The adoption of rules on the repatriation of funds and the use of foreign tax credits when reallocations have been made by the Internal Revenue Service between related companies, consistent with policies now governing tax years prior to 1963.

3. More liberal policies on the transfer of industrial property to foreign corporations in tax-free exchanges to permit favorable rulings in more cases.

We also recommend four specific areas for legislative changes in the tax provisions:

1. Less complicated and more liberal rules for export trade corporations under Section 970 of the Internal Revenue Code.
2. An additional capital allowance for equipment producing goods for export.
3. An incentive deduction for promotion expenses in connection with export sales.
4. The extension of the investment tax credit to purchases of U.S. produced equipment used abroad.

The Administration has taken at least limited action in response to the Committee's recommendations for administrative action. With regard to the second administrative recommendation, the Treasury has extended special procedures relating to repatriation of funds and use of foreign tax credits following a "Section 482" allocation to 1963 and 1964. We strongly urge that such procedures be extended to all periods prior to the promulgation of new Section 482 regulations which the Treasury has not yet issued.

However, the Administration's reaction to the first three of the legislative proposals has been negative—at least there has been no official comment on them, much less any indication that the Administration will support them. We note that in this connection Senator Smathers of Florida, a senior member of the Senate Finance Committee, has introduced S. 2574 which would implement that part of the Committee's proposals relating to the liberalization of the present Internal Revenue Code provisions relating to export trade corporations. We think that favorable action along the lines of this set of proposals would do much to stimulate U.S. exports which cannot fail to be adversely affected by the direct investment control program.

[Supplement to Machinery & Allied Products Institute Statement]

THE U.S. BALANCE OF PAYMENTS AND THE GOVERNMENT'S MANDATORY RESTRICTIONS ON DIRECT PRIVATE INVESTMENT ABROAD—A DETAILED EXAMINATION

INTRODUCTION

The Administration's U.S. balance-of-payments program announced on January 1 represents but another in a series which have entailed progressively more restrictive controls over the movement of dollars in international markets. The major difference in the latest program is that the measures just taken far exceed anything which has been attempted heretofore. They are mandatory and unprecedented. These steps were taken, of course, in response to a renewed attack on the dollar and a deteriorating balance-of-payments situation which accelerated sharply in the fourth quarter of last year. In light of this deterioration and if one accepts a continuation of the enlarged U.S. military commitments abroad as essential, it would be irresponsible to oppose any or all measures to halt and reverse this decline in our payments position. The question is whether these particular measures are sound. When viewed within the context of the government's approach over the past decade toward this country's chronic balance-of-payments problem, the current program has, in our opinion, serious implications for the future. Certain elements are in our judgment particularly regrettable and could, in the retrospect of the early 1970's, prove to have been tragically wrong.

MAPI has, of course, reviewed this problem on several occasions.¹ However, the extent and the nature of the actions just taken are sufficiently serious that it is desirable to reconsider once again the nature of the problem we are facing. This analysis is confined to the mandatory controls over direct private investment abroad.

MAJOR SHORTCOMINGS OF THE CURRENT PROGRAM

Program Deals With Symptoms Rather Than Causes

Our basic concern about the current program is that it is directed at symptoms rather than the causes of the problem. This is not new. It is the history of the government's approach toward the recurring U.S. balance-of-payments difficulties.

The assumption appears to be that we are dealing with a temporary phenomenon which presumably calls for short-term restrictive measures. (Indeed, the current program, as in the case of earlier programs, was announced as a temporary one.) But history shows us that this is not the case. The U.S. balance of payments was first recognized as a serious problem following the huge balance-of-payments deficit incurred in 1958. More than a decade has passed and we are still seeking ways to correct it. More than once we have been led to believe that the restoration of a healthy payments position was imminent, but that hope never has been realized.

The problem has been attributed to various causes from one period to another. At one time a declining trade surplus was fingered as the major difficulty. At another time rising capital outflows were assigned the blame. Most recently, of course, our difficulties have been attributed to the Vietnam war. The persistence of the deficit, however, makes it clear that we have been suffering from a basic imbalance—i.e., our international commitments consistently have exceeded our current resources. We have, in a very real sense, been continually drawing on our capital without, in the interim, taking steps to match our commitments to our current availabilities.

Given the fact that we are confronting more than just a short-term problem calling for temporary emergency measures, it should be clear that palliatives are insufficient, and that our basic economic policies must be responsible and realistic. In this connection, it is regrettable, for example, that at a time when unemployment remains relatively low and we have suffered a particularly rapid increase in costs and prices we are simultaneously experiencing a domestic budget deficit of huge proportions which only can have further damaging effects in terms of the international competitiveness of the U.S. economy.

Our concern would be somewhat relieved if the current program were really a temporary measure designed to buy time while we "get our house in order" or until there is a lessening of Vietnam war requirements. However, even should we attribute most of our current difficulties entirely to the Vietnam war, there is as yet no clear indication that this war will be any less of a drain on our resources in the foreseeable future. More important, the balance-of-payments problem long preceded the Vietnam war, and there is no solid evidence to indicate that it will not outlast it. We have entered the eleventh year of deficits which have been considered unacceptably large, and a solution is not yet in sight. Such a history, together with the new program, provides ample evidence that the government has not taken sufficient advantage of the time purchased by earlier programs.

Hasty Action; Widesweeping Coverage

Of further concern to us is the apparent haste with which the current program was drawn up and its broad coverage. It is particularly difficult to understand, with respect to controls over sectors which do not appear to have been under any undue pressure, why more time was not taken to consider their positive contribution in the light of all the facts. At the very least, greater deliberation in the drafting of additional controls would have avoided many of the administrative problems which have already arisen.

The current program, which was undertaken in response to a huge fourth quarter deficit of \$7.3 billion (at seasonally adjusted annual rates), was drawn up so hurriedly that not even preliminary figures were publicly available for the fourth quarter at the time of its announcement. Indeed, preliminary data were not made publicly available until February 15 or one and one-half months following the initiation of the program.

¹ See, for example, *U.S. Manufacturing Investments Abroad and the Government Program for Balance of Payments Improvement*, Machinery Institute, 1965.

While the preliminary data fail to identify movements in certain sectors, including the direct investment sector, they do show that an important part of the fourth quarter deficit resulted from a nonrecurring type transaction, namely the liquidation by the British Government of some \$500 million of U.S. securities in order to defend the exchange value of the British pound. Another important factor was a \$720 million decline in our non-military merchandise trade surplus reflecting a sharp rise in imports and a small decline in exports.

These two items account for some two-thirds of the total deficit. While other major adverse movements have not yet been identified, there is no reason to suppose that capital outflows into direct private investment (i.e., investment in brick and mortar as opposed to portfolio investments and the buildup of other dollar assets abroad) contributed to the large adverse movement in the fourth quarter. On the contrary, one would expect direct investment, unlike other types of private capital, to be generally insensitive to currency devaluations. Accordingly, it is particularly unfortunate that the Administration applied hastily devised controls to the direct investment sector. Indeed, there is still no indication that stringent direct investment controls were called for at all. Developments in this sector were very favorable in the first three quarters of last year, as described below.

Growing Controls Over Private Sector

This is the crux of the problem in our view. Recent history leads us to question whether the government really has the will to make and execute the difficult decisions necessary to assure a healthy payments position in the absence of controls. A more likely prospect seems to be a continuation of strict controls on the private sector while the government attempts some restraints in certain areas within the public sector but continues to increase its overall world commitments.

Certain steps have, of course, been taken from time to time within the government sector but they have been entirely inadequate as is conspicuously demonstrated by recent events. Further, prospects are not good for a matching of commitments with availabilities in the foreseeable future.

The Vietnam war has, of course, resulted in a rapid acceleration in our international commitments. At the same time, there has been no clear evidence that, prior to the new program, any really strong efforts were made to cut back significantly in other public sector areas. We may note, for example, that U.S. government grants (excluding military) and capital outflows, after declining somewhat in 1964 and 1965, accelerated sharply to a new peak of \$4.7 billion in 1966 from \$4.3 billion in the preceding year, and sharply further to an annual rate of \$5.2 billion in the first three quarters of 1967. While much of this was probably Vietnam-related, the fact that the size of the increases was so large suggests that efforts to undertake cutbacks in other areas probably were minimal. Yet, additional steps could have been taken as evidenced by the fact that several measures have just been initiated. But, relying in part, no doubt, on beneficial effects from the voluntary balance of payments program in limiting private capital outflows, the government simply had an inadequate sense of urgency until it felt forced to take further strong measures, and again the major burden of these measures is placed on the private sector.

There is little reason to believe, against this background, that government intends that the present controls will be lifted in the near future. Insofar as U.S. international commitments are concerned, there is certainly nothing on the horizon to indicate that they will be reduced any time soon. Indeed, the contrary would seem to be indicated in view of the continuing Vietnam conflict, trouble in Korea, and Britain's increasing withdrawal from world commitments which creates strong pressures for a corresponding increase in U.S. commitments. Further, the longer controls on the private direct investment sector remain in effect the more difficult it will be for control-minded government to rationalize removing them. For the favorable impact of such investments will tend to diminish with time as a result of their reduction, while the potential investment opportunities will accumulate. It follows that the adverse short-run effects of removing the controls will increase over time.

Danger of Restricting Ability of Private Sector To Contribute to Reductions in Payments Deficits

The tragedy of maintaining these controls over an extended period is evident. As our international commitments continue to mount, a major means of support-

ing them (in the form of currency inflows generated by direct investment activity abroad) is being seriously impaired. This fact, combined with the lack of an adequate sense of urgency on the part of the government and the consistent tendency to act belatedly and with insufficient vigor to correct our basic payments imbalances, can ultimately have serious repercussions.

By way of pointing up our concern about the continuing ability of the private sector to support public commitments abroad we should point out that our balance of payments was already showing a deterioration prior to the fourth quarter *due in a major degree to the increasing deficits in the public sector accounts.* The overall balance (on a liquidity basis) had shown some improvement in 1964 and 1965 but reflected no further improvement in 1966 and then moved in a strongly adverse direction in the first three quarters of last year to a seasonally adjusted annual rate of \$2.3 billion, an increase of \$0.9 billion over the entire year 1966. (See table below.)

SELECTED U.S. BALANCE OF PAYMENTS TRANSACTIONS

	1966	1967 ¹	Change
Merchandise trade surplus.....	+3.66	+4.35	+0.69
Capital outflows into direct private investment, net.....	-3.46	-2.89	+0.57
Income from direct private investment (including fees and royalties).....	+5.09	+5.40	+0.31
Other long-term private capital outflows, net.....	-0.26	-1.14	-0.88
Short-term private capital outflows, net.....	-0.41	-1.02	-0.61
Government grants and capital outflows, net ²	-3.45	-4.25	-0.80
Military expenditures.....	-3.69	-4.25	-0.56
Military sales.....	+0.85	+1.17	+0.32
Overall balance ³	-1.36	-2.28	-0.92

¹ First 3 quarters at seasonally adjusted annual rates.

² Excluding "Military grants of goods and services," "U.S. Government pensions and other transfers," and "Official reserve assets."

³ Detail does not add to total because only selected items are shown.

This overall deterioration in our payments balance occurred despite a major improvement in the first three quarters of 1967 in both the merchandise and direct investment sectors. Our merchandise trade surplus (converted to a seasonally adjusted annual rate) showed an increase of \$0.7 billion over 1966. At the same time, capital outflows into direct private investment abroad declined by \$0.6 billion, and income from direct private investment (including fees and royalties from such investment) rose by \$0.3 billion for a net improvement of \$0.9 billion in the direct private investment sector. These improvements were more than offset, however, by large adverse movements in other sectors. There was a major adverse movement in government grants and capital outflows which increased by \$0.8 billion in the first three quarters of last year (at seasonally adjusted annual rates) over 1966, and there was a large increase in the rate of military expenditures abroad (by some \$0.6 billion) although this was offset to a significant degree by an increase in the rate of military sales abroad (\$0.3 billion).

Adverse movements were also experienced in "other private capital outflows" with other private long-term outflows increasing by \$0.9 billion and short-term outflows by \$0.6 billion over 1966 in the first three quarters of last year (both at seasonally adjusted annual rates). These offset in part the favorable movements in the trade and direct private investment sectors. It can be seen, however, the major elements contributing to the adverse movements were in the government sector.

Inasmuch as the government sector continued to be the prime contributor to the balance of payments deficit (the merchandise trade and private investment sector together have consistently contributed to the plus side of the payments balance) and in light of the large increase in the payments deficit on government account last year, the government should, in our view undertake further intensive efforts to reduce the deficit in its own sector. We so conclude even though we must recognize the necessarily adverse effects of Vietnam developments on the government sector.

More importantly, in view of the private sector's historic role in reducing the payments deficit incurred in the public sector, the government should be careful to avoid taking steps which will impair the ability of the private sector to ful-

fill that role in future years, particularly since the history of the last decade strongly supports the proposition that the role will be at least as essential and probably more so in the future.

A CLOSE LOOK AT DIRECT PRIVATE INVESTMENT ABROAD

In seriously restricting direct private investment abroad and, more specifically in flatly prohibiting further direct private capital outflows to most of Europe (excluding the United Kingdom and certain less advanced countries) the government is taking a step which could have most unfortunate effects for the future of this country's international payments position.

Role of U.S. Corporations in Minimizing Payments Deficits

It is ironic that the government should be taking such drastic action against U.S. corporations at this particular juncture. According to President Johnson's statements and the U.S. Department of Commerce reports on the government's voluntary program to improve the U.S. balance of payments, American business has cooperated closely and has stayed well within the targets set under that program. Further, corporations made a substantial contribution toward minimizing the balance of payments deficit in 1967, as noted earlier, with direct private capital outflows declining significantly and remittances from direct investment abroad continuing their long-term climb. Finally, there is every indication that capital flows to Europe, which have been heavy in recent years but which appear to have declined sharply last year from 1966, will continue at more moderate levels in the future. There is a growing consensus that Europe's future growth rates will be markedly slower than they were prior to the 1966-67 recession. This should be reflected in reduced U.S. corporate investments in that region. The latter is suggested, for example, by recent surveys (e.g., the U.S. Department of Commerce) indicating a reduced rate of expansion in plant and equipment spending by U.S. subsidiaries and affiliates in Europe in 1967 and very little growth in 1968. At the same time, remitted earnings from past investments in Europe could have been expected to continue their rapid increase with a reduction in European capital requirements, particularly as recent investments became seasoned and hence more profitable.

It is true, of course, that U.S. capital outflows to Europe in the first three quarters of 1967 (\$1.5 billion at annual rates) continued to exceed remittances from such investments (\$0.7 billion at annual rates) but the size of the difference is diminishing as outflows are beginning to decline and remittances are continuing to show substantial increases. Further, this difference is highly misleading because dollar inflows generated by investment in Europe exceed dollar outflows into such investments by a substantial volume when one takes account of the export impact of such investments and of the royalties and management fees deriving from these investments.

For example, we estimate that U.S. exports to European affiliates of U.S. companies exceeded \$1.5 billion last year and this estimate excludes exports that would have occurred in the absence of these affiliates.² This itself is far greater than the adverse differential between remittances from and outflows to direct U.S. investments in Europe last year. Further, there is the added income in the form of royalties and management fees from direct European investments which were at an annual rate of some \$450 million in the first three quarters of last year. Hence, it is clear that the positive contribution to the balance of payments deriving from direct European investments is very large indeed.

A strong adverse impact can be expected from controls on direct investment

It is perfectly apparent that a flat prohibition on capital outflows to Europe will have an immediate favorable impact on the U.S. balance of payments by eliminating outflows while inflows continue. This favorable impact must be discounted even in the short run because of detrimental effects on exports which will flow from the control program. Moreover, given the long-term nature of our balance-of-payments problem and the unfortunate fact that payments controls, once established, often take on a permanent aspect, the ultimate effects of the mandatory controls on direct investment can be highly detrimental. For they

² We developed a rough estimate of \$1.7 billion using U.S. Department of Commerce data. This represents only the roughest of approximations but does give some notion of the order of magnitude of the export impact. Assumptions underlying these estimates and other details concerning their derivation are described in the attached Appendix and tables.

will reduce the ability of this key sector to help in offsetting the large government sector payments deficits which have trended strongly upward and, on the basis of the historic record, can be expected to continue in that direction.

By way of illustration we will consider the new controls on foreign investments. We recognize, of course, that conclusions drawn from a partial analysis of the balance-of-payments accounts must necessarily be qualified because of the interdependence of the various sectors. For example, restrictions on the outflows of direct private investment capital tend to lower interest rates in this country by increasing the supply of domestic funds, thereby discouraging the inflow of foreign capital. Similarly, to take another example, a cutback in government aid programs overseas tends to depress exports to the extent that they are tied to the purchase of U.S. goods. (Indeed, we feel that the President's objective of an overall improvement of \$3 billion in our payments balance as a result of the new program is far too optimistic because it is based on this sector by sector approach.) Nonetheless, despite the limitations of a partial analysis, it should give some indication of the self-defeating aspects of the proposed controls insofar as the direct investment sector is concerned.

We will further confine our attention to controls on European investments since this has been the area of greatest investment activity in recent years and is now subject to the most rigid controls. We pose the question, "What would have been the result had the controls instituted on January 1 of this year been introduced on January 1, 1959, following the large balance-of-payments deficit in the preceding year?" (These controls prohibit capital flows to direct investment in most European countries, excluding the United Kingdom and certain less advanced countries, and permit reinvestment of earnings in an amount no more than 35 percent of average annual investments in Europe during 1965-66. The remainder must be remitted to this country.) The consequences of introducing this program 9 years ago, when the United States' balance of payments was first recognized to be a problem, would have been roughly as follows.³

Adverse impact on balance of payments.—The book value of direct investments in Europe (excluding the United Kingdom) would have been in the neighborhood of \$4.0 billion at year-end 1966 instead of \$10.5 billion. Earnings from such investments would have been about \$517 million in 1967 instead of actual earnings in the neighborhood of \$750 million. Remittances would have totaled \$233 million in 1967 instead of roughly \$473 million. Exports to European affiliates of U.S. companies would have totaled some \$417 million instead of roughly \$1.1 billion. (We have excluded from both export estimates, those which could have been expected to take place in the absence of U.S. affiliates.)⁴ Management fees and royalties from U.S. investments in Europe (excluding the United Kingdom) would have been roughly \$119 million instead of \$297 million.

In 1967 the dollar inflow from these three factors combined—i.e., remitted earnings, royalties and management fees, and exports would have been in the neighborhood of \$769 million instead of some \$1878 million. Assuming actual outflows in 1967 of \$1129 million to Europe (excluding the United Kingdom) the balance-of-payments effects would have been only slightly more favorable if the ban on capital outflows (inflows totaling \$769 million) had been instituted in 1959 than they actually were in the absence of controls (i.e., \$1878 million income less \$1129 million outflows for a favorable balance of \$749 million).⁵

³ It should be stressed that these figures represent only the roughest of approximations. Again, our purpose is only to give some general notion of the magnitudes involved. Assumptions underlying these computations are described in the Appendix. Results are shown in the tables attached to the Appendix.

⁴ We should not in this connection that, given the nature of the export impact, even the immediate effect of the ban on capital outflows is vitiated to a marked degree by a significant reduction in the exports that otherwise would have taken place. This is because a significant portion of U.S. capital invested in U.S. affiliates abroad has been in the form of capital equipment for installation in new, expanded, or modernized facilities and there has also been a substantial export of materials, parts, and components for further processing or assembly in U.S. facilities in Europe.

⁵ Less onerous restrictions have been applied to investments in other developed countries including the United Kingdom, Canada, Australia, Japan and the oil-producing countries of the Middle East. The adverse impact would have been correspondingly less than that for investments in continental Europe. For example, rough estimates suggest that if these controls had been instituted on January 1, 1959, the value of direct U.S. private investments in these countries at year-end 1966 would have been roughly \$21.8 billion instead of an actual value of some \$26.8 billion. It appears on the basis of historical data that the restrictions on investments in countries other than those comprising these two groups would have a minimum impact on the investments of a majority of companies.

It is true, of course, that our international reserve position would have been somewhat improved inasmuch as the net impact of the controls would have been favorable in the earlier years. Indeed, although the favorable differential diminishes under our hypothetical illustration during the period under review,⁶ it persists through 1967. Nonetheless, our present posture would have been far worse. Our cumulative deficit on direct investment account (in the absence of offsetting reactions in other sectors) would have been reduced by about \$3.1 billion from the end of 1958 through the third quarter of last year (from \$22.2 billion to \$19.1 billion). The nature of the deterioration in our international reserve position since year-end 1958 suggests that some 36 cents out of every dollar accumulated abroad was converted into gold (with much of the remainder held in the form of dollars and short-term dollar claims).⁷ On this basis we may speculate that our gold holdings would have been about \$1.1 billion greater and our short-term liabilities about \$2.0 billion less at the end of last year's third quarter than they actually were. Our gold holdings would have declined from \$22.5 billion to \$16.0 billion (instead of to \$14.9 billion) and our short-term liabilities would have grown from \$15.4 billion to \$26.8 billion (instead of to \$28.8 billion).

This difference of \$3.1 billion out of a cumulative deficit of \$22.2 billion would hardly have been sufficient to set at ease the world's concern about the U.S. position in view of our immense international commitments and the direction which we have been moving. Further, this favorable cumulative differential would have been increasingly dissipated as the favorable annual differential turned adverse. The favorable annual differential would have virtually disappeared in 1967, and almost surely would have turned adverse this year based on our illustration. And, of course, if such rigid controls over direct investment had already been instituted along the lines of our assumption, the government would have been unable to fall back on such controls (voluntary or otherwise, permanent or temporary) in an attempt to alleviate the situation which we face today.

One final point should be made concerning our hypothetical illustration. It might be argued that, being unable to use U.S. capital for accomplishing their investment objectives in Europe, U.S. companies and their affiliates would have borrowed abroad to this end with favorable effects for the U.S. balance of payments. Such borrowing would *not* have been reflected in increased book values of U.S. investments, inasmuch as the Commerce Department treats foreign loans as liabilities to foreigners rather than U.S. companies. However, it might have served to increase earnings to book value ratios to the extent that the added earnings attributable to the use of the borrowed funds exceeded interest costs and it might also have raised somewhat the ratio between U.S. exports to European affiliates and the value of their investments in those affiliates, insofar as the borrowed funds facilitated increased purchases from the U.S. On the other hand, some companies presumably would have been unwilling to borrow abroad, more would have at least reduced their commitments, and companies without established reputations or contacts abroad would simply have been unable to gain access to foreign capital. Indeed, given the limited development of capital markets in Europe and elsewhere, capital would not have been available on anywhere near the scale needed to replace U.S. sources and the borrowing costs would, of course, have been increased, perhaps sharply. Finally, we feel that we have, in any case, been very conservative in our estimates to the point where we have tended to understate the adverse effects that could have resulted from the controls. In short, we do not consider that including the effects of foreign borrowing in our illustration would have significantly modified the conclusions.

⁶ This favorable differential is, of course, less than the difference between the actual value of investments at the end of a given year and what that value would have been under the controls. That is to say, the reduced level of investment values resulting from the controls is by no means a measure of the improvement in the payments balance that we might have expected as a result of their imposition. The reduced investment resulting from an elimination of capital outflows brings in its wake a comparable reduction in earnings and a corresponding reduction in funds available for reinvestment (and for remittance to the U.S.) leading in turn to a further reduction in investments greater than the reduction in capital outflows resulting from the controls. This adverse effect is cumulative, of course, as the divergence between actual foreign earnings and those which would have occurred in the absence of controls becomes ever wider. Eventually, the adverse effects from the reduction of earnings from which remittances (and reinvestments) can be made more than offsets the favorable effects resulting from the prohibition of outflows and the controls thereby prove ultimately to be self-defeating.

⁷ See Appendix for explanation.

We do not wish to unduly labor the point insofar as our specific illustration is concerned. We feel, however, that the thrust of our argument is so important that it was better brought home when stated in specific terms, thereby indicating the dimensions of the problem that could be created if such a program were maintained for longer than a short period of time. On the basis of this illustrative example, and given further growth in U.S. international commitments and the glaring failure of the government to correct the basic causes of the current problem over the past decade, it would be appropriate to ask how in the light of the new program, the private sector could be expected indefinitely to continue to offset the deficits caused by the public sector.

Adverse Impact on International Competitiveness of U.S. Industry

While the direct balance of payments impact of the restrictions is of major importance in considering the significance of the new controls, other factors are of at least equal weight. The inability to invest any capital in European facilities from the U.S. reduces very greatly the flexibility of response essential for U.S. industry if it is to maintain its competitiveness against foreign industry in both domestic and foreign markets. The inability, for example, to establish new plants abroad in order to serve areas which can no longer be served from U.S.-based facilities because of cost or other considerations enables foreign companies to move at once to preempt that market. Or, to take another example, the inability to enter into a partnership or joint venture with a foreign firm whereunder each partner supplies new capital to the venture, may result in the prospective foreign partner's turning to another foreign company to serve this objective. In this connection, it should be stressed that such a total ban on capital outflows can seriously damage the international position of U.S. companies even if it is of relatively short duration. Timing is a central ingredient in maintaining a company's competitive position, and an opportunity not grasped when it presents itself is often lost forever.

As such lost opportunities accumulate, we will find a greater portion of the imports into this country and of sales into third country markets will be from foreign-owned industry, and the earnings and dividends deriving from such sales will accrue to foreign companies rather than U.S. companies to the detriment of the U.S. payments balance and the strength of U.S. industry. By the same token, we will find that a greater proportion of equipment, components, and parts will be purchased from other than U.S. suppliers. The results will be strongly adverse for the U.S. balance-of-payments position and the international competitiveness of American industry.

Further, it is those industries which are not yet established abroad but which are finding foreign operations increasingly necessary in the face of stiffened foreign competition which will be hindered most by these restrictions because more often than not they will have less access to foreign capital markets and, of course, internally generated funds from their foreign operations are minimal. Yet, it is these very companies whose need is greatest for establishing themselves in foreign markets in order to maintain a competitive position both abroad and at home in the face of rapidly increasing foreign competition.

CONCLUSION

In conclusion, we cannot emphasize too strongly two of the basic underlying reasons for our grave concern over these developments; namely (1) the indefinite nature of the controls and (2) the inability or unwillingness of government authorities to take adequate steps to develop a healthy balance-of-payments position within the context of freely competitive markets, and to set realistic public policy objectives consonant with available U.S. resources. Considering the first, one has only to look at the history of controls over the past decade. Once imposed they have normally been maintained. This has been the case, for example, with the interest equalization tax and the voluntary program to improve the balance of payments which were both introduced as "temporary" measures and which have evolved into the rigidly restrictive, mandatory programs which have now been imposed.

As to the question of developing a healthy balance of payments, the government seems incapable of bringing itself to undertake in a vigorous manner the necessary steps to this end. Instead of adequately using the time purchased with the increased restrictions to pursue policies which can increase the international competitiveness of the U.S. economy (or, alternatively, to cut back on our international commitments), the government seems to find temporary improvements

in the payments balance resulting from such restrictions an excuse to continue on the same economic course only to conclude that controls have to be tightened even further at a later time.

It must, of course, be recognized that the Vietnam war is an important factor underlying the present difficulties and, unfortunately, there is no clear indication that the resources directed to this war can or will be reduced significantly in the near term future. However, this is almost beside the point. While the extent of our foreign commitments have no doubt been increased because of Vietnam, they have been heavy throughout the post-World War II period, taking the form of large scale military and economic commitments in extended areas of the world.

It has long been apparent that even the U.S. has limited resources and that realistic public goals must be established with this fact in mind in order to avoid sapping the strength of the private sector in the pursuit of short-term goals to the point where there will ultimately be no alternative to a sharp, involuntary reduction in international commitments to the detriment of the country. We must find a proper balance between our foreign and domestic objectives. If we feel certain sacrifices on the domestic front or cut back on other international objectives. We must, in short, establish a realistic scale of priorities in terms of available resources, and postpone less urgent requirements.

Our major concern is that we will continue to put too great a burden on the private sector in order to carry out publicly established objectives both at home and abroad without regard to the adequacy of our resources. In so doing we may place such a burden on the private sector as to significantly impair its ability to compete commercially and to support important publicly-established objectives in the future.

It is our contention that we are doing precisely that today. We are impairing the future ability of American industry to support important public policy requirements. In accord with this general line of thinking, and the recent course of history, it appears likely in our view that, in lieu of easing controls with a lessening of Vietnam war requirements, the U.S. government may well, on grounds of urgency, take on added international (as well as domestic) obligations and maintain the present controls with unfortunate effects both for industry and the country over the longer term. We are convinced that if these controls are maintained beyond the very near term future the effects will be very serious.

APPENDIX

Estimated Balance-of-Payments Impact From Instituting Controls Over Direct Private Investments In Europe at Year-End 1958

The following is a description of the methods used in estimating the impact on the U.S. balance of payments that would have occurred had the new controls over direct private investments in most of Europe been established at year-end 1958. Results from our computations are shown in the attached tables.

1. The new controls specify the following: New capital outflows from U.S. to direct private investments in most of continental Europe are prohibited. Earnings in excess of 35 percent of average annual investments in 1965-66 (or the percentage of earnings remitted during 1964-66) must be remitted annually from most of continental Europe. The larger figure is controlling.

2. It was assumed that the current program was instituted at year-end 1958 and maintained to the present time. This would have meant (a) that new capital outflows to Europe were prohibited beginning in 1959, and (b) earnings in excess of 35 percent of average annual investments in 1956-57 had to be repatriated or the same percentage of each year's earnings had to be repatriated as was repatriated during 1955-57. The larger figure is controlling. (In our computations it developed that the 35 percent requirement was controlling through 1964 when the percentage of earnings requirement became controlling.)

3. It was assumed that U.S. corporations remitted only the minimum required amount. This amounted to \$191 million annually for the years 1958 through 1964 and \$202 million, \$217 million, and \$230 million in 1965, 1966, and 1967, respectively. The remainder of the earnings from these investments was reinvested.

4. The rate of return in each year was assumed to be 13 percent as measured against book value at the beginning of the year in question. The actual annual rate of return averaged 13.2 percent during 1956-61 and then began to decline, reaching 8.2 percent by 1966; it averaged 10.5 percent during 1962-66. Part of the decline was a result of the large increase in investments during this period which led to an increasing proportion of facilities which were not yet fully

productive. Another part can be explained by some decline in the rate of return on European investments generally during the last few years. Of course, the increase in U.S. investments would have been reduced in the face of the above investment restrictions, thereby reducing the extent of the decline in the rate of return. Hence, we simply assumed that the rate of return was 13 percent throughout. The volume of earnings so computed less the volume of computed remittances was added to beginning-of-year book value to estimate book value at the beginning of the following year.

5. A relationship between U.S. exports and U.S. investments in Europe (excluding the United Kingdom) and the value of these investments at the beginning of the year in question was "guesstimated" on the basis of data published by the U.S. Department of Commerce covering the years 1962, 1963, and 1964. Department of Commerce data show estimated total exports to U.S. affiliates in Europe (including the United Kingdom which is not shown separately) in those 3 years. (Sample data were expanded to estimated totals by the Commerce Department.) We deducted from the estimated totals one-half of the value of exports other than exports of capital equipment and parts, components, and materials for further processing or assembly in the case of exports to affiliates other than trading affiliates, and we deducted two-thirds of exports other than capital equipment and parts, components, and materials for further processing or assembly in the case of exports to trading affiliates.

The deductions were made on the basis that they would have taken place even if said foreign affiliates had not been established. This admittedly involved guesswork. However, we feel that the deductions were more than adequate. The local incorporation of U.S. affiliates to promote greater local identification and greater acceptance of the company and its products, and the creation of a permanent interest on the part of the company in European markets unquestionably have been important elements in the export volume enjoyed by those companies. Further, such local acceptance no doubt helped to promote the sale of U.S. manufactured goods through channels additional to those included in the Commerce survey.

We then computed the ratio of the residual export values in each year (1962, 1963, and 1964) to the value of total U.S. investments in Europe at the beginning of the year in question and averaged the three ratios. Estimated exports derived on this basis were \$860 million, \$880 million, and \$1,103 million in 1962, 1963, and 1964, respectively, and the computed ratios were 11.1, 9.9, and 10.7 percent, respectively, for an average of 10.6 percent (rounded to 10.5 percent). On the basis that the ratio for total Europe was reasonably representative of that for Europe excluding the United Kingdom we applied it to beginning-of-year investments in Europe excluding the United Kingdom for each year included in our review to estimate the volume of exports generated by such investments over this period which would not have taken place in their absence.

6. Finally, we computed the ratio of fees and royalties from U.S. investments in Europe (excluding the United Kingdom) to the beginning-of-year value of such investments for each year from 1960 through 1966. Such data are not readily available for the years prior to 1960. The ratio was 2.8 and 2.9 percent in 1960 and 1961, respectively, and ranged from 3.2 to 3.4 percent thereafter. We used a figure of 3 percent which we applied to the estimated book value data to get estimated royalties and fees.

Estimated Effects on U.S. International Reserve Position From Instituting New Controls at Year-End 1958

It was assumed in the discussion of the U.S. international reserve position (pages 9-10) that 36 percent of the increase in foreign dollar holdings resulting from the cumulative deficit between year-end 1958 and the end of September 1967 was converted into gold with the remainder held in the form of dollars and short-term dollar claims. This assumption was derived in the following manner:

The cumulative deficit from the end of 1958 through the third quarter of 1967 (\$22.2 billion) has been accompanied by increased short-term liabilities and reduced gold holdings of a comparable magnitude over this period (i.e., an increase of \$13.4 billion in short-term liabilities and a decline of \$7.6 billion in gold holdings for a total adverse movement in our reserve position on this account of \$21.0 billion). On the basis that the relative change in dollar liabilities versus gold holdings over the period reflects the propensity of foreigners to hold dollar claims in lieu of presenting such claims for gold, it follows that 36 percent of this cumulative deficit was converted into gold with the remainder being held largely in the form of short-term dollar claims.

Thus, the statistics show the following:

[In billions of dollars]			
End of period	Short-term liabilities	Gold	Net adverse change
1958.....	\$15.4	\$22.5	-----
September 1967.....	28.8	14.9	-----
Net change.....	+13.4	-7.6	\$21.0

Of the total net adverse change, 36 percent (\$7.6 billion) comprised a reduction in gold, the remaining 64 percent (\$13.4 billion) comprising an increase in short-term liabilities.

TABLE I.—U.S. BALANCE OF PAYMENTS ON DIRECT PRIVATE INVESTMENT ACCOUNT WITH EUROPE EXCLUDING UNITED KINGDOM—RELATION BETWEEN BOOK VALUES, EARNINGS, REMITTANCES AND REINVESTMENT UNDER HYPOTHETICAL ILLUSTRATION

[In millions of dollars]					
Year	Beginning of year-book value (value in preceding year plus re-investments (col. 5))	Earnings (0.13 times col. 1) ¹	0.45 times col. 2 ²	Minimum remittance requirements ³	Earnings less remittances ⁴ (reinvestment or additions to book value)
	(1)	(2)	(3)	(4)	(5)
1959.....	2,426	315	142	191	124
1960.....	2,550	332	149	191	141
1961.....	2,691	350	158	191	159
1962.....	2,850	370	166	191	179
1963.....	3,029	394	177	191	203
1964.....	3,232	420	189	191	229
1965.....	3,461	450	202	191	248
1966.....	3,709	482	217	191	265
1967.....	3,974	517	233	191	284

¹ Assume return on investment equals 13 percent (see appendix text).

² Assume 45 percent of earnings must be remitted if this exceeds 35 percent of investment in 1956-57 (see appendix text).

³ Assume 35 percent of investment in 1956-57 (or \$191,000,000) must be remitted unless or until 45 percent of earnings exceeds \$191,000,000; 45 percent of earnings exceeds \$191,000,000 beginning in 1965 and hence the larger amount must be remitted (see appendix text).

⁴ Col. (2) less col. (4) or col. (5). (See footnote 3).

⁵ Actual value.

TABLE II.—U.S. BALANCE OF PAYMENTS ON DIRECT PRIVATE INVESTMENT WITH EUROPE EXCLUDING UNITED KINGDOM DOLLAR INFLOWS AND CAPITAL OUTFLOWS—ACTUAL AND HYPOTHETICAL SITUATIONS COMPARED

[In millions of dollars]						
Year	Actual beginning-of-year book values	Estimated exports (= 0.105 × col. 1)	Actual royalties and fees	Actual remittances	Actual outflows	Balance (col. 2 + col. 3 + col. 4 - col. 5)
	(1)	(2)	(3)	(4)	(5)	(6)
A. Actual:						
1959.....	2,426	255	173	162	-294	196
1960.....	2,846	299	80	171	-373	177
1961.....	3,451	362	100	240	-528	174
1962.....	4,171	438	143	309	-697	193
1963.....	5,106	536	174	308	-800	218
1964.....	6,168	648	197	378	-1,174	49
1965.....	7,562	794	242	498	-1,162	372
1966.....	8,862	931	306	475	-1,421	291
1967.....	10,548	1,108	297	473	-1,129	749

¹ Estimated at 3 percent of beginning-of-year book value. Actual figure not available for 1959.

² First 3 quarters at annual rates.

Year	Estimated beginning- of-year book values	Estimated exports (=0.105× col. 1)	Estimated royalties and fees (=0.03× col. 1)	Estimated remittances ^a	Hypothetical outflows	Balance (col. 2+col. 3+ col. 4-col. 5)
B. Estimated:						
1959	2,426	245	73	191	0	519
1960	2,500	268	76	191	0	535
1961	2,691	283	81	191	0	555
1962	2,850	289	86	191	0	576
1963	3,029	318	91	191	0	600
1964	3,232	339	97	191	0	627
1965	3,461	363	104	202	0	669
1966	3,709	389	111	217	0	717
1967	3,974	417	119	238	0	769

^a See table 1.

TABLE III.—U.S. BALANCE OF PAYMENTS ON DIRECT PRIVATE INVESTMENT ACCOUNT WITH EUROPE, EXCLUDING UNITED KINGDOM—ACTUAL AND HYPOTHETICAL FLOWS COMPARED

[In millions of dollars]

Year	Book values		Outflow, income, and balance						Cumulative balance	
	Estimated	Actual	Estimated			Actual			Estimated	Actual
			Capital out- flows	Return dollar flow	Balance (col. 4 minus col. 3)	Capital out- flows	Return dollar flow	Balance (col. 5 minus col. 4)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
1959	2,426	2,426	0	519	519	294	490	196	519	196
1960	2,500	2,846	0	535	535	373	550	177	1,054	573
1961	2,691	3,451	0	555	555	528	702	174	1,609	547
1962	2,850	4,171	0	576	576	697	890	193	2,185	740
1963	3,029	5,106	0	600	600	800	1,019	218	2,785	958
1964	3,232	6,168	0	627	627	1,174	1,223	49	3,412	1,007
1965	3,461	7,562	0	669	669	1,162	1,534	372	4,081	1,379
1966	3,709	8,862	0	717	717	1,421	1,712	291	4,798	1,670
1967	3,974	10,548	0	769	769	1,129	1,878	749	5,567	2,419

¹ 1st 3 quarters at annual rates.

Mr. STEWART. That, I trust, will include the supplemental as well as the statement.

Mr. HERLONG. The supplemental as well.

Mr. STEWART. I was amused, Mr. Chairman, to find this statement in the editorial of Tuesday, January 9, in the Washington Post referring to the foreign investment controls, a part of the President's program on balance of payments:

The initial reaction by business to the controls on direct foreign investment was predictably "responsible". This is why the government is able to pursue such irresponsible and self-defeating balance of payments policies.

In appearing here today with reference to the entire program we shall endeavor to be both responsible and critical.

I shall touch upon the proposals for legislation that are immediately before this committee but pay principal attention to other aspects of the balance-of-payments program in accordance with the invitation of the chairman.

You will note that at the beginning of this statement in the introduction we refer to the fact that in our judgment the central blunder

of conception implicit in the administration's approach to balance of payments is a failure to recognize that foreign trade is a wholly integrated effort.

It includes exports, investment abroad, subcontracting, licensing, and all other similar arrangements. It cannot be splintered by business in approaching foreign trade challenges nor can it be splintered by a Government program either in the form of a control or an incentive. And yet that is precisely what the balance-of-payments program thus far revealed does.

We emphasize next in the statement that particularly the direct-investment controls, but also to some degree the proposed restrictions on travel, would have perverse effects on exports, and hence our balance of payments. Let us run quickly through the rationalization of that conclusion.

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, the estimate being, according to Government figures, 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 affiliates there will be an immediate adverse effect on exports from the United States and, as just indicated, that adverse effect will grow in intensity.

Second, certain elements of the structure of the control program also will affect exports adversely, particularly rules governing open-account transactions covering merchandise transfers, because as those accounts build up and increase it is the thrust of the control program that the extent of that buildup is a capital investment and therefore subject to restriction, creating a direct and adverse effect on exports of such items as components.

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, bear in mind, their importing capability.

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, undoubtedly will cut into the export performance of U.S. companies.

Finally, we have been discussing thus far 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 policymakers, with reference to the direct-investment controls, and to some degree at least also as to the controls proposed to this committee on travel expenditures, have not thought through on the counterproductive effects which will flow from these controls. They apparently live and think in a dream world that involves artificial separation of trade from capital flows into direct investment abroad. The two are inextricably interrelated.

I was interested one morning on the NBC Today program to listen to the distinguished visitor from the Common Market, Mr. Rey. He was asked questions by the correspondent about his reaction to the U.S. balance-of-payments program. He said he would have nothing to say about those measures which were being taken on a unilateral basis by the United States in terms of controls on foreign investment or proposed controls on tourist expenditures, because they did not affect trade. But he would have a good deal to say on any proposals to grant export rebates or to create a curtain in terms of an import duty or to press in that direction by other means.

Mr. Rey also was making the same mistake that is implicit in this program as espoused by the Federal Government because he distinguished between so-called capital outflows into direct investment abroad as not being trade, and imports and exports as being trade. Obviously, anyone who knows anything about foreign trade in terms of the practicalities of entering and holding a market knows that these are all a part of trade and you cannot affect one element without affecting the other.

As Ambassador Roth stated in appearing before you, in terms of our foreign-trade position, trade is like a web and all parts are affected by all other parts.

I would like to run through quickly the philosophy and characteristics of the administration's program. It focuses on controls. There is almost a complete absence of incentives with the exception of certain programs which have been on the docket for years in the export field, have not been implemented and have now been restated in the spirit of creating an impression of a balanced program.

There is an absence of a long-range view. The burden that will be created for both Government and business with respect to both of these programs, investment controls and travel restriction, will be tremendous. And the committee might be interested in examining or admitting for the record, if it is convenient, the newly issued commerce Form FDI-101 and six supplements, which is the first base period reporting form under this investment controls program. If you haven't anticipated a shock you will sure get one when you see it.

Mr. HERLONG. Is it your desire to submit that?

Mr. STEWART. If it is appropriate from the committee standpoint.

Mr. HERLONG. Without objection it will be received and included in the committee's files in this matter.

Mr. STEWART. We have developed in connected with the philosophy underlying these programs the serious effects on freedom—which I will not take the time to read. We think that they are present, both in terms of the direct-investment controls as well as the travel program.

A very important section in the early part of this statement is that which appears on page 7, entitled "Do Mandatory Controls Work?"

I should like to read the quotation included in the statement, a quotation from the Council of Economic Advisers' report to the President for this year, 1968. It reads, referring to price and wage controls:

Direct controls.—The most obvious—and least desirable—way of attempting to stabilize prices is to impose mandatory controls on prices and wages. While such controls may be necessary under conditions of an all-out war, it would be folly to consider them as a solution to the inflationary pressures that accompany high employment under any other circumstance.

And listen to this reasoning, if I may interject:

They distort resource allocation; they require reliance either on necessarily clumsy and arbitrary rules or the inevitably imperfect decisions of Government officials. They offer countless temptations to evasion or violation; they require a vast administrative apparatus. All these reasons make them repugnant. Although such controls may be unfortunately popular when they are not in effect, the appeal quickly disappears once people live under them.

We ask the very simple question: Is there any reason why mandatory controls as to foreign direct investment, or even as to travel, are more likely to work in a pragmatic sense or less likely to be repugnant to our system?

Please bear in mind that the individual who approved that passage for the Council of Economic Advisers, Mr. Ackley, had extensive experience with controls during World War II. Indeed, it is our firm conviction that direct controls under the foreign direct investment program entail more difficulties and more complexities than is even the case under price and wage controls because here we are dealing with international situations. We are dealing with international entities. We are dealing with foreign corporations. We are dealing with foreign laws, and foreign restrictions, and foreign relations, and we are dealing with this very complex and indivisible web of foreign trade.

Now, in general, for reasons that are spelled out in our statement and because of our concern about the philosophy of the approach to this balance-of-payments programs, because we believe that the goal is quite a limited one in respect to the travel restrictions, because we believe that the process will be administratively very difficult and costly, because we believe that there will be a boomerang effect on the ability of foreign countries to buy imports from the United States as a result of restrictions on exchange, and for the other reasons set out in this statement, we oppose the enactment of the travel restrictions before this committee.

In terms of dimensions I call your attention to the fact that all that is being sought here is a \$400-million saving. There is an additional \$100 million that the President believes he will achieve from his request for voluntary cutback in foreign travel.

Just for purposes of comparison, bear in mind that your own record in these hearings spells out that we are losing in balance of payments at the rate of \$600 or \$700 million a year just because of the copper strike.

In terms of the statements that have been presented to you we have read those of Messrs. Frankel, Wilcox, and Seath, and I believe that their presentations are cogent and persuasive.

May we turn now, having made clear our opposition to the travel proposals that are before you, and the rationalization for that opposi-

tion is spelled out in the institute's statement, to our reaction to the basic policy decision on investment controls. That begins on page 15.

You will note that we refer to the supplement to our statement. The supplement I shall not deal with in detail except to call your attention to the fact that it contains a very interesting exercise. Our economic staff made an assumption that investment controls were placed in effect on direct foreign investment as of the year 1959 and then, by rather complicated but we think quite fair and accurate calculations, we took a current fix on where this country would be in its balance-of-payments position with respect to investment abroad and what it brings to us in terms of payback if controls had been in effect since 1959. I commend for the study of the committee the analysis contained in the supplement.

As to our objections to the basic policy decision on investment controls, first of all, contrary to all of the chatter that you read in the newspapers, direct investment is the wrong target.

The income returns on direct private investments abroad on a cumulative basis for the last 13 years exceed total outflow by \$16 billion.

And you will note that in the rationalization in the so-called Treasury Blue Book, although it is suggested that we sent too many dollars in direct investment overseas in the early years of the 1960's, in the very next breath the writer says in effect that because we made that "mistake" we are now going to receive great dividends from it in terms of payback in the late 1960's and the early 1970's which we will take advantage of under the controls program.

There can be no question, our argument continues, that controls breed controls. This has been true in respect to the trend regarding direct private investment abroad ever since the Revenue Act of 1962, the Interest Equalization Tax Act, the banking controls, and so on. Now at the bottom of page 16 and carrying on to 17 I should like to call your attention to two terribly critical points in our judgment.

The control program affecting direct private investment abroad is protectionism in reverse. It is an attack on the ability of American industry to maintain and improve its position in international trade.

It is a giveaway to the competition. As for Europe, it might even be interpreted as being tantamount to a forced retrenchment of American industry's position in that part of the world, which is the most productive part of the world as far as the payback in balance of payments from direct investment is concerned.

In carrying on world trade in the broadest sense, American business confronts foreign competition abroad and at home. Nationalism and restrictionism abroad have created a wide variety of trade barriers. Regional trading blocs are growing in significance. U.S. private investment abroad has been a critical and necessary tool in our business effort to counter these obstacles.

Now U.S. business' freedom to use that tool is being seriously disabled by this controls program.

If you will turn to page 18 you will see a series of import-export ratios for major capital equipment categories. These ratios show imports as a percentage of exports and you will notice in recent years how there has been a tremendous surge in the percentage of exports represented by imports.

The purpose in bringing that to your attention is not to enter a plea for tariffs or protectionism.

The purpose is to inform you as to the trend which is taking place in terms of the international competitive position of these very important industries and at the same time to suggest that in the face of that trend it seems to be almost unbelievable that the Government would contemplate disabling, or partially disabling, business confronting these conditions by encumbering its ability to invest abroad.

At we point out, this is an open invitation to protectionism. These controls represent an open invitation not only to the Congress but to industries which are confronting problems in this area. The administration can't have it both ways. It cannot expect to adopt a restrictionist approach to foreign direct investment and to foreign travel and hold the line with regard to its theory of free trade.

We have already pointed out that this is an unbalanced program, as referred to on page 20, and now I should like to take you to another very significant aspect of the total picture with regard to this total program as it affects private investment.

There is a bias against private investment abroad growing in Government that is not solely related to the question of balance of payments. There is a growing tendency to frown on private investment abroad.

For example, there is the attempt to control or to direct foreign investment with respect to the developing countries versus the developed countries. The Revenue Act of 1962 draws some lines of demarcation which represent bias against direct investment in the world at large.

There have been statements made by Government officials, some of them included in the Treasury Blue Book, to the effect that business has not done a good job in making its private investment decisions, particularly in the 1960's, which represents an effort to make a retrospective audit regarding business decisions abroad.

At the same time the administration is delighted to have the benefit, the payback, from those investments, particularly during this very difficult period. And then there is the statement quoted in the Treasury Blue Book from last year's Council of Economic Advisers' report that in the early 1960's investment abroad, particularly in Europe, was "overdone."

Now, we are concerned that this controls program with respect to direct private investment abroad is not solely related to the balance-of-payments objective, in addition to the fact that we believe that it will have perverse and counterproductive effects on the balance of payments.

We have no reason to believe in all candor that this controls program will be temporary. You will recall your examination of the Department of Commerce representative. He refused to be pinned down on the length of this program, and we have had the experience with the Interest Equalization Tax Act and the Renegotiation Act and we know what "temporary" legislation is, or "temporary" programs.

Then we turn finally to the legal aspects. The record contains the Attorney General's letter to Secretary Trowbridge. We feel that at best the legal authority for the direct investment program is strained. It may be the subject to challenge at least as to repatriation requirements, but let us take the more charitable view of the program in

terms of its legal situation and say that it may be supported by the courts.

Despite the fact that it might be supported by the courts, we feel that the administration should have accorded the Congress and the business community an opportunity to suggest alternatives to the mandatory program through some system of communication.

In our judgment, whatever may be the answer to the legal question, to undertake a program of this type without hearings, without public discussion of the issues, both from the Government and industry viewpoint, is unconscionable in terms of American institutions and American processes.

Finally, we turn to the administrative problems which are going to be horrendous. To put it in a nutshell, as is spelled out in our statement, in our judgment this program in its present form is unadministerable.

Conclusion: We feel that the basic decision to invoke these controls should be reevaluated from scratch. If the administration is determined, however, to continue a program of some type in this area on a mandatory basis then it needs to dismantle the present program and re-think it and restructure it.

Now, why the latter recommendation in the event the program stays in effect? That is dealt with in the criticism of the structure of the present program beginning on page 26, and I call your attention, in the interest of time, only to one or two of these many difficulties which are merely symptomatic of the character of this program. I think it is apparent to all of you by now that this program penalizes most directly and in the most punishing way the very companies that cooperated to the maximum degree under the so-called voluntary program.

This is true with respect to both restrictions on capital outflows and repatriation of earnings. This in itself seems to be wholly unjustifiable, but think of it in these terms: Put yourself in the position of a businessman who did more than was expected of him under a voluntary program, who, therefore, in effect created a base which is impossible to live with for purposes of repatriation requirements or destroyed his base for purposes of capital outflow. What is his reaction to being in that posture under the mandatory program? Can the Government ever expect this kind of affirmative cooperation from the business community again when it follows voluntary controls with a program that is so badly conceived and so badly structured that it punishes the very companies which gave maximum cooperation in the first place?

We underline on page 28 that the division of the world into schedules with a preference for developing countries makes absolutely no sense at all for purposes of balance of payments. We suggest ways in which the developing country objective might be carried out but it should not be done at the expense of companies which have a worldwide problem with regard to investment abroad.

The schedule approach also maximizes the complexity of this program and makes it unlivable, in our judgment, both for Government and private industry.

It is suggested by Government that we have no serious problem with regard to the restrictions on private investment abroad except for a little adjustment because we have the freedom under the program to

borrow abroad. Beginning on page 31 we take that allegation apart and conclude that borrowing is no panacea, particularly in view of a number of factors, including the limitations on foreign capital markets, the extent to which many of these companies are already in "hock" under the voluntary program, and also that many of them will be compelled to borrow in order to comply with the repatriation requirements.

And so it goes. There will be an invitation to foreign reprisals. There will be special unfavorable effects on foreign countries, and in this connection have you read the Treasury Department release with regard to Canada which came out on January 21? It is reproduced at the bottom of page 37. It almost creates the impression that we don't have a compulsory program with regard to private investment abroad. And why did the United States have to issue that press release? Because Canada was in trouble. Apparently there was a threat of devaluation and if business had complied in the spirit of the controls program without this warning, serious damage to the Canadian situation might have been caused. How many Canadas are we going to have in the world before this program is over?

And then there is the serious problem of administerability to which I have already referred.

Now, I am exhausting my time. I will merely say that at the end of the statement we suggest some affirmative recommendations that begin on page 621, the first of which is a prompt return to a voluntary system affecting direct private investment abroad, if we need any at all. We need to get our domestic fiscal policy house in order and we believe that the big place to hit there, as we have said before this committee on many occasions is at the nonessential expenditure side. We urge that under no circumstances should you, in our judgment enact the tax surcharge except on condition that a substantial program is developed beyond what has already been offered in terms of expenditure reductions.

In this connection we have recently completed a memorandum which is called "Government Expenditures in the Postwar Era: The Bulge in the Nondefense Area."

I offer it for the benefit of your staff, or the record, as the committee pleases.

We suggested that there be prompt implementation of the export expansion proposals and we call your attention to the fact that these programs have been on the desk of Government for years, going back to the White House Export Conference in 1963. Many of them are very good. Many of them should be dynamically implemented. But they are no excuse for the direct foreign investment controls or for these travel restrictions. Finally, at the end we call your attention to certain tax implications that are implicit in the direct foreign investment program, particularly with regard to the repatriation of earnings. We suggest that a careful inquiry by this committee into those implications and into what should be done either administratively or legislatively to deal with them is very much in order.

I apologize for skipping through the statement. We appreciate very much the opportunity to be heard.

(The memorandum referred to follows:)

GOVERNMENT EXPENDITURES IN THE POSTWAR ERA: THE BULGE IN THE NONDEFENSE AREA

INTRODUCTION

The growing debate over federal government expenditures has served to focus attention upon the magnitude of spending by all levels of government and to underscore the role of the public sector of the economy. An examination of the trends in the federal administrative budget since World War II pinpoints the growth pattern in federal outlays and perhaps suggests the direction and magnitude of government spending in the next decade unless government spending philosophy and fiscal control procedures change drastically.

THE TREND OF GOVERNMENT EXPENDITURES SINCE WORLD WAR II

A. *The Overall Picture*

Nondefense Expenditures

The fiscal year 1948 marked the beginning of a period of steadily rising expenditures by the federal government in the postwar era. In the following two decades total federal outlays (the administrative budget and the trust funds) quadrupled from \$33.7 billion to an estimated \$184.9 billion for fiscal 1968. Although defense spending has been massive, a very substantial portion of the increase in federal expenditures came in nondefense spending which rose from \$22.8 billion in 1948 to an estimated \$104.0 billion in 1968. Toward the end of this period the trend of rising nondefense expenditures accelerated and exceeded the rate of growth of defense spending. Whereas the average annual (compound) increase for nondefense expenditures was 7.9 percent between 1948 and 1968, it rose to 8.9 percent for the eight-year period beginning in 1960. This 8.9 percent per year growth in nondefense expenditures in the 1960-68 period can be compared with a rise in the Gross National Product of 5.2 percent per year. A major factor in this growth in government expenditures has been the introduction of new programs and the expansion of old ones. These have significantly influenced both the level and the rate of increase of such expenditures.

Defense Expenditures

Total expenditures for national defense are estimated at \$80.9 billion in 1968 as compared with \$10.9 billion in 1948. While a large part of these expenditures in 1968 reflects the costs of operations in Vietnam, the bulk of the defense outlays are devoted to forces assigned to other missions. These include capabilities for nuclear, conventional, and countersubversive conflict and as such cover the activities of the Atomic Energy Commission and various defense-related functions of other agencies.

In terms of rates of growth, the rise in expenditures was 10.2 percent per annum between 1948 and 1968; for the 1960-68 period it fell to a 7.3 percent increase per year. Defense spending, of course, has increased substantially in the past two years because of the rising cost of the Vietnam war.

Some Background Considerations

This memorandum discusses primarily the rise in federal nondefense expenditures in the postwar period by examining the separate functional categories of the federal administrative budget. The administrative budget data are used throughout this review because they represent the more traditional and thus better understood measure of governmental revenues and expenditures. Furthermore, it is the working document for government operations, subject to congressional appropriations. However, use of this budget as contrasted with the consolidated cash budget does lead to a serious understatement of government expenditures for it does not include the trust funds which finance such programs as social security, federal highway aid, and unemployment compensation. For this reason, special note will be made of these programs when considering the various functional groupings.

One final comment should be made in order to put this discussion in perspective. A more detailed report would call for a number of adjustments in the data which show the very substantial growth we have been experiencing in federal expenditures. For example, the population of the United States over the twenty-year period we are reviewing has grown from some 145 million persons in 1947 to our present level of some 200 million. This in itself would lead to increased expendi-

tures by government even if no new programs were introduced, but the same ones were continued. Second, the rise in the price level has taken its toll on the public purse as well as on the private purse. While the Gross National Product has increased almost threefold from 1948 to 1966 (\$258 billion to \$743 billion), when adjusted for price changes¹ this rate of expansion is reduced to one-half (\$324 billion to \$653 billion). Nonetheless, even when both these adjustments are made we find that federal government expenditures have more than doubled during the twenty-year period under study. As noted earlier, this increase is in major part attributable to new programs that have been introduced and to the enlargement of existing ones. Stated somewhat differently, new programs are continually being introduced and, once adopted, they rarely end.

B. A Look in Detail

To quickly summarize the expenditures of the federal government by functional groupings, the following table compares budget expenditures for fiscal year 1948 with budget and trust fund outlays for fiscal year 1968 and shows the percentage increases over this twenty-year period. The functions are listed in descending order according to total dollar expenditures (column (4)).

TABLE 1.—FEDERAL GOVERNMENT EXPENDITURES 1948 AND 1968¹

[Dollar amounts in billions]

Function	1948 Administra- tive budget	1968 Administra- tive budget ²	Trust funds ³	Total	Percent increase, 1948-68
	(1)	(2)	(3)	(4)	(5)
National defense.....	\$10.9	\$79.5	\$1.4	\$80.9	642
Health, labor, and welfare.....	1.8	11.9	37.1	49.0	2,622
Interest.....	5.2	14.9	-----	14.9	186
Commerce and transportation.....	1.0	3.3	3.7	7.0	600
Veterans.....	6.6	6.2	.6	6.8	3
Space research and technology.....	-----	5.3	-----	5.3	∞
Agriculture and agricultural resources.....	.6	3.6	1.2	4.8	700
International affairs and finance.....	4.8	4.3	-----	4.3	-10
Natural resources.....	1.1	3.5	-----	3.5	218
General government.....	1.5	2.9	-----	2.9	93
Education.....	.1	2.8	-----	2.8	2,700
Housing and community development.....	.1	1.7	1.0	2.7	2,600
Total.....	33.7	139.9	445.0	184.9	-----

¹ Data are for fiscal years ending June 30 and are taken from "The Budget of the United States Government, 1968."

² "1968 administrative budget" estimates in col. (2) incorporate revisions contained in the "Summer Review of the 1968 Budget," issued by the Bureau of the Budget on Aug. 17, 1967.

³ Data for trust funds for 1948 were not readily available. In those few cases where such funds were significant in 1948, comparisons between 1948 and 1968 would be, of course, somewhat overstated.

⁴ Actual total for trust funds in the 1968 budget was \$44,500,000,000. Figure in the table does not include certain trust funds listed in the budget in the "All other" category and does not allow for deduction for interfund transactions.

The Nondefense Picture

Health, labor, and welfare.—When trust funds are added to the administrative budget estimate for 1968 in this category, the total expenditure of \$49.0 billion for this function looms as the largest nondefense outlay in federal spending, accounting for 47.1 percent of nonmilitary expenditures. Federal government spending on health, labor, and welfare programs skyrocketed from \$1.8 billion in 1948 to \$49.0 billion in 1968, a twenty-six fold increase over these two decades. Nor has there been any slackening in this pace; expenditures increased \$15.0 billion between 1966 and the estimate for 1968.

Outlays in this category cover a wide range of programs administered by the Department of Health, Education and Welfare. In addition to social insurance and welfare expenditures these include the manpower training, air pollution control, antipoverty and food stamp programs. In this connection it is interesting to note that new programs and expanded coverage under social security have increased these funds to the point where they are by far the largest single item in the entire nondefense budget.

Interest on the federal debt.—Interest expenditures on the federal debt increased from \$5.2 billion in 1948 to an estimated \$14.9 billion in 1968 as the debt itself rose from \$252 billion to a recent estimate of some \$337 billion during this

¹ 1958 prices.

twenty-year period. Whereas the growth of the debt in these two decades was 1.5 percent per annum, the annual increase in interest expenditures on it was 5.4 percent. For the 1960-68 period the rate of increase of the debt rose to 2.6 percent while the increase in interest expenditures jumped to 6.2 percent per annum.

The effect of government expenditures in excess of receipts is dramatically shown in looking at the magnitude of the interest on the federal debt which now ranks third in terms of total federal expenditures by function. Only national defense and health, labor, and welfare account for greater dollar expenditures.

Commerce and transportation.—Prior to 1960, expenditures in this budget classification were distributed over two other categories which also included items no longer encompassed in commerce and transportation. In 1948 outlays in the budget classifications Transportation and Communication and Finance, Commerce and Industry totaled \$1.0 billion. In the twenty-year period, expenditures increased over sevenfold, to \$7.0 billion in 1968—the combined figure for the administrative budget and trust fund. Expenditures reached a high of \$7.4 billion in 1965, edged downward to \$7.2 billion in 1967 and then fell slightly to an estimated \$7.0 billion for 1968. The rate of increase for the eight-year period 1960-68 was 2.2 percent per annum.

Programs in the commerce and transportation budget include: the collection and presentation of economic and demographic statistics; assistance to depressed areas for redevelopment; loans to small business; expenditures for air, water, and ground transportation; and postal services. Slightly more than one-half of the budget funds for this category are accounted for by the highway trust funds.

Veterans' benefits.—Payments to veterans of \$6.6 billion in 1948—the last of the high expenditure years in the early postwar period—edged up slightly to an estimated \$6.8 billion in 1968. After declining for four years beginning in 1950 they rose from \$4.3 billion in 1954 to \$6.8 billion in 1968—an annual rate of increase of 3.3 percent for this period. For the eight years 1960-68 the growth rate was 2.1 percent per annum. Expenditures of \$5.6 billion in 1966 increased to \$7.2 billion in 1967. They declined \$400 million in 1968 because of the sale of government-owned loan assets of the veterans' housing program. However, benefits for veterans can be expected to rise considerably as increasing numbers of younger veterans seek educational assistance and older veterans and survivors apply for health and income benefits already authorized by law.

Federal outlays in this category are for service-connected disabilities, life insurance, medical care, servicemen's dependents, and the veterans' rehabilitation and education and training programs.

Space research and technology.—From a modest expenditure of \$400 million in 1960, America's space program increased astronomically to a peak of \$5.9 billion in 1966. Prior to 1960, space expenditures were included in the defense budget. The annual growth rate for space spending in the eight-year period 1960-68 was 38 percent. Expenditures tapered off slightly after 1966—from \$5.9 billion that year to an estimated \$5.3 billion in 1968—as we passed beyond the peak expenditures for the manned lunar landing project and no new major programs were begun. Currently the space program is experiencing significant cutbacks by the Congress.

The space program is designed to achieve a manned lunar landing by 1970 and to develop and put into orbit manned space vehicles for scientific and engineering investigations. Although space spending is now primarily a nondefense classification, these outlays are undeniably related to national defense at least to some extent.

Agriculture and agricultural resources.—From an outlay of \$600 million in 1948, federal expenditures on agricultural programs (primarily commodity purchase and storage but also including the financing of rural electrification, telephones, and housing and conservation operations) increased to a combined \$4.8 billion in administrative budget and trust fund spending in 1968, a sevenfold rise which represents a 10.9 percent per annum increase. After reaching a peak of \$7 billion in 1963, agricultural expenditures declined at a rate of 12.2 percent per year to \$4.4 billion in 1967. The estimate for 1968 is \$4.8 billion. The decline in federal outlays has been due largely to the liquidation of surpluses to the Commodity Credit Corporation. It does not appear that a return to the peak of 1963 is likely in the next few years.

International affairs and finance.—Expenditures in this category were \$4.8 billion in 1948 and reached a postwar high of \$6.5 billion in 1949 reflecting America's extensive financial participation in the economic restoration of Western Europe. International affairs spending fluctuated downward after 1949 to a

low of \$1.8 billion in 1960 before turning up and rising at an annual rate of 11.5 percent to an estimated \$4.3 billion in 1968. In this connection, it should be noted that our military commitment in Vietnam triggers increases in the so-called nonmilitary area. For example, one-half billion dollars of the 1968 estimate represents increased "nonmilitary" expenditures in Vietnam.

The international affairs budget includes economic, financial, informational, and educational activities under such programs as: the Agency for International Development, Peace Corps, Export-Import Bank, Food for Freedom, and the United States Information Agency. While rising budget outlays in recent years have resulted from the enlarging scope of activities performed by these agencies, AID authorizations and expenditures have been sliding noticeably.

Natural resources.—Federal outlays grew from \$1.1 billion in 1948 to an estimated \$3.5 billion in 1968, an increase of 5.9 percent per annum for the twenty-year period. Beginning in 1960 the rate of increase to date has been 9.1 percent per year. Natural resources spending grew \$400 million between 1966 and 1968.

Included among a broad range of federal programs in this area are expenditures for multiple-purpose land and water resource projects (e.g., providing electric power, water supply, and recreational benefits and serving flood control or irrigation purposes), pollution control, development of national seashores and recreation areas, and research into mineral production and utilization.

General government.—Federal expenditures in the general government classification increased from \$1.5 billion in 1948 to an estimated \$2.9 billion in 1968—an annual growth rate of 3.3 percent. Since 1960 the rate of growth has been 4.7 percent per year. General government expenditures rose from \$2.5 billion in 1966 to \$2.9 billion in 1968.

Outlays for general governmental activities cover mainly federal legislative and judicial functions, general administrative and fiscal activities, and programs for law enforcement and criminal justice.

Education.—From an outlay of about \$100 million in 1948, federal expenditures in education escalated to an estimated \$2.8 billion in fiscal 1968. While the annual rate of increase for this twenty-year period was 17.6 percent, the growth per year between 1960 and 1968 slowed down slightly, to a gain of 13.7 percent per year. Federal outlays for education increased from \$1.5 billion in 1965 to \$2.8 billion in 1966 and to \$3.3 billion in 1967 before dropping back to an estimated \$2.8 billion in 1968.

Federal outlays in education, embracing a broad spectrum of programs designed to improve and expand the quality of all types and all levels of education, have been heaviest in assistance to education of the disadvantaged and in federally impacted areas as well as in general aid for elementary and secondary schools and higher education institutions, and loans for college housing.

Housing and community development.—Federal administrative budget expenditures for housing and community development increased enormously from about \$100 million in 1948 to an estimated \$2.7 billion including trust funds in 1968. The annual growth rate for this twenty-year period was 17.4 percent and for the eight-year span, 1960–68, was 23 percent per annum. Combined expenditures of the administrative budget and the trust funds increased from \$3.5 billion in 1966 to \$3.9 billion in 1967 and then dropped to an estimated \$2.7 billion in 1968.

Ranging from land supplements and mortgage insurance to grants and loans for the preservation of open spaces and for beautification, these outlays also include allocations for urban mass transportation, water and sewer systems construction, and research on the problems of central cities.

Defense Expenditures

In 1948 a trend began toward higher government outlays in national defense which accelerated rapidly after the outbreak of hostilities in Korea in 1950. In the two decades beginning in 1948 defense expenditures increased from \$10.9 billion to an estimated \$80.9 billion in fiscal 1968—an annual rate of 10.2 percent. For the 1960–68 period the increase in national defense outlays from \$45.9 billion to \$80.9 billion represented a yearly growth of 7.3 percent.

Increases in defense spending during the past two years have resulted from the rising costs of the war in Vietnam. In 1966, for example, \$5.8 billion or 9.9 percent of the total defense spending was accounted for by Vietnam. The following year the cost of the war escalated to \$19.4 billion, 27.2 percent of the total defense expenditure that year. In January 1968 when the federal budget was released, the estimate of the cost of the war in Vietnam for the fiscal year was

\$21.9 billion or 28.5 percent of the defense expenditure. The present annual cost of the Vietnam war is estimated to be from \$25 to \$30 billion.

The impact of the Vietnam war can also be measured by year-to-year changes in defense spending. Whereas between 1966 and 1967 defense spending would have edged down 1.5 percent in the absence of Vietnam, instead it rose 21.9 percent. Between 1967 and the January estimate for fiscal 1968, the increase in defense spending without Vietnam would have been 6.0 percent. With Vietnam included in the January estimate, plus a \$4 billion additional war expenditure since then, however, total defense spending in 1968 is 13.5 percent above 1967. The war fraction is now 32 percent of total defense outlay.

There can be no question that defense costs, the bulk of which are devoted to missions other than Vietnam, are very substantial and represent a tremendous burden for the country. On the other hand, as this discussion has developed, the sharp increases in nondefense expenditures not only are having a potent effect on budgetary problems but they are in danger of being obscured by discussions directed to defense expenditures alone.

Federal employment.—While not a separate budget category, it is interesting to look at the data for federal employment. Federal civilian employment rose from 1.6 million in 1950 to 2.6 million in 1966 while the average compensation of federal employees increased from \$3,504 to \$7,115 per year. This represented a 62.5 percent increase in federal jobs and a 103 percent hike in wages over this sixteen-year period. By way of comparison, total government employment, including state and local, was at 6.0 million in 1950 and 10.9 million in 1966.

CONCLUSION

As noted at the outset, we have limited this memorandum to a review of past and present expenditures. A look at the future would call for detailed analyses of each program of a type not attempted here. Further, it would require—on the basis of the record—some major assumptions as to the growth in present programs and the scope and number of new ones. This much can be said: Unless both the philosophy and fiscal control procedures behind government expenditures change drastically, the numbers can only grow larger with all that implies in terms of the redirection of resources and the resulting shift in benefits and burdens.

Mr. HERLONG. Thank you very much, Mr. Stewart, for your thoughtful presentation to the committee.

Are there questions?

Mr. BYRNES. Mr. Chairman.

Mr. HERLONG. Mr. Byrnes.

Mr. BYRNES. I want to compliment Mr. Stewart for the study that the Machinery & Allied Products Institute has made in this instance. There is no question but what it is a very valuable document both for the committee and the various Government agencies—and particularly the Commerce Department—which are trying to administer the President's program.

I don't know where they are going to end up. They might get some very fruitful information from the study you have prepared and I would hope they would pay some attention to it.

Mr. STEWART. Thank you. We would be glad to make it available.

Mr. HERLONG. Mr. Curtis.

Mr. CURTIS. I want to join in Mr. Byrnes' commendation for the work that has been done here.

Mr. STEWART. Thank you, sir.

Mr. CURTIS. I have had a chance to go over this and my feeling is strong because I agree so basically with the main point that you are making.

Let me ask, What has your organization done to publicize these views? It is important to present them here before the committee, because this is representative government. We are a committee of the

peoples' representatives to study these issues, but the people need to be informed.

Have you been able to do anything in this respect?

Mr. STEWART. We have published in this area previously, Mr. Curtis, and made the material very widely available in pamphlet form. We intend to do the same with this material promptly.

Mr. CURTIS. Very good. The executive branch of Government has developed a tremendous propaganda machine and the viewpoints of the Government witnesses that have been presented to this committee have been spread from one end of this land to the other. Although you are testifying here today your remarks and the points I have made will not be publicized. Witness the attendance of the news media when witnesses from the private sector testify in contrast to when the Government witnesses testified.

I have made these remarks for the purpose of the record before. Hopefully, the people who make the decisions of what reporters go where and when and what they do report will realize the importance of getting out both points of view.

I am talking not so much about the daily newspapers, which would have a more difficult time to report these kinds of things, as I am talking about the Time, Life, Newsweek, U.S. News & World Report, and the Monthly, because what you have said here is no more in my judgment than what I tried to say in minority views and on the floor some time ago in opposing the original interest equalization package.

Mr. STEWART. That is right.

Mr. CURTIS. Regrettably, the fears I had about the changing course have come about and the public doesn't know this. They won't get the benefit of the points you have so ably presented and documented.

I must point up one thing that I was so pleased that you stressed:

This is not quite just solely related to balance of payments. There is a tendency on the Government's part to frown on private investment abroad.

I would add one other thing: To supplant private investment abroad with Government investment. I think it is notable that at the same time that these restrictions are being imposed on the private sector this same administration is asking for increases in Government investment abroad through the various development banks, including the Eximbank which was supposed to have been a commercial bank.

Just 2 weeks ago the Eximbank was perverted or corrupted into a bank that deals in Government policy, financing purchases of munitions, sophisticated weapons of war by private companies, with a billion-dollar increase. I brought that out, or tried to, in debate on the floor of the House.

The news media haven't even reported these serious developments which are going to badly damage the balance of payments. The area of examining Government investment abroad is almost a sacred cow. Who dares question foreign aid? I am talking not just about AID.

Mr. STEWART. I understand.

Mr. CURTIS. I am talking about Public Law 480, and I am talking about these soft loans, and the various development banks. If you dare question, the wrath of the people who seem to dominate this news media falls on your head in the form of criticism that you are an isolationist or not concerned about true aid which has helped nations get on their economic feet.

Yet I think an examination into our Government investment policies abroad reveals why these less-developed countries are becoming poorer, not richer. The gap between rich and poor is widening. The false misrepresentation by the Government over a period of years about AID expenditures being tied to exports from the United States has been exposed.

I asked the Secretary of Treasury last week, under-cross examination, if I was misstating the falsity of the 80 percent, and now the 90 percent, tie-in of AID expenditures to exports they are claiming. He said "Yes," and referred to a portion of the Treasury document which tries to discuss it.

Yet the news media is so unconcerned. I must emphasize the news media because this is the only way the people of this country can be brought in to understand these issues. This was ignored, and yet it is what I think is the guts of the problem of our international balance of payments—Government spending. Private investment is getting a healthy return, as you point out.

The other plus in our balance of payments is our exports over our imports. You rightly point out that investment is necessary for exports and travel is necessary for exports. The tragic thing to me was when we had our private enterprise people before the committee this week on the travel proposal, they urged that Government spending for the purpose of encouraging tourists to come to the United States be increased at the very time Government is asking that private expenditures on getting tourists in this country be cut back.

There in a little neat package is the demonstration of the complete inconsistency of the administration's proposal and the almost stupidity of the private sector if they think they can latch on to a little Government money to be spent for programs that will benefit them.

By George, if they didn't buy that bit of dope and come in and encourage it.

Now, an examination into what the USTS has done to improve tourism in this country would reveal, as one might expect, how wasteful and ineffective these expenditures have been, particularly in contrast to the expenditures of the private airlines, of our Hertz and Avis, and all the people that are usually concerned about it.

You would never know, from listening to the testimony here, that the United States is the biggest host country in the world. Yet the figures are there and the figures show that there has been a tremendous increase in people visiting the United States. There were 9 million people that visited last year, I think. I don't know how to proceed here in this area against the vicious propaganda machine of the executive department which has the assistance of the news media.

How do you get reasoning, discussion of the rationale that you present to us and other witnesses present? Congressmen have to run for reelection and they go back to their communities and if we quote things like this they say, "Well, we never heard of it before," but they have heard the propaganda of the administration.

I wanted to make these remarks at this time for the record because it does relate to your testimony, which is a fine document. In a much broader context, I think we have lost representative government if we don't get back to using Congress as the place to make decisions based on public hearings, based on adducing the knowledge and wis-

dom of the society, instead of this present process of decisions being made behind closed doors down in the White House. With the decisions then imposed ultra vires. I think this Executive order is illegal, unconstitutional, and certainly violates the very point that you have made of bypassing the Congress.

My final observation is, that if the leaders of this Congress, the chairmen of the committees, who are good citizens but are in the same party as the President, aren't going to blow the whistle on an Executive that has just ridden roughshod over the Congress, then indeed, this becomes in my judgment the major issue in this 1968 campaign, because it is the only place it can be resolved.

Thank you.

Mr. HERLONG. Mrs. Griffiths.

Mrs. GRIFFITHS. Thank you. First let me say that I am in some agreement and I was very interested in the facts that you presented. However, I don't really know whom you represent. Who is the Machinery & Allied Products Institute? What is it?

Mr. STEWART. We are a trade group, Mrs. Griffiths, originally organized as a federation of associations growing out of the NRA codes when the NRA was collapsed. Our constituency is capital goods and allied products as distinguished from consumer goods. To give you a notion of the dimensions of these industries, on the first page of our statement we referred to the fact that capital goods exports in 1966 reached a level of \$8.83 billion.

I might add that the investment abroad in machinery affiliates of U.S. companies is on the order, as of 1964, of \$3.4 billion. So this is a very large complex of American industry engaged in the production of what are called producers' goods, as you know.

Mrs. GRIFFITHS. Is it supported by dues?

Mr. STEWART. It is supported as a normal trade group is supported; correct.

Mrs. GRIFFITHS. Do you have a good-size research staff?

Mr. STEWART. We do. The institute has always been interested in business and economic research, whether it affects Government relations or not, as distinguished from the normal trade association activities of those organizations which concentrate on standards, the collection of routine statistics, and that sort of thing.

Mrs. GRIFFITHS. Thank you. Thank you very much, Mr. Chairman.

Mr. HERLONG. Any questions? If there are no further questions we thank you very much, Mr. Stewart, for your presentation to the committee.

Mr. STEWART. It has been a privilege to be before the committee. Thank you.

Mr. HERLONG. The next witness is Mr. John W. Hight.

Mr. Hight, if you will identify yourself for the purpose of the record and proceed, we will be glad to hear you.

STATEMENT OF JOHN W. HIGHT, EXECUTIVE DIRECTOR, COMMITTEE FOR A NATIONAL TRADE POLICY, INC.

Mr. HIGHT. Yes, sir. Mr. Chairman. I am John W. Hight, executive director of the Committee for a National Policy, Inc.

Before I begin my statement, and it will be very short, I must say that I was very much impressed with the previous witness' statement. I don't think this will take much more than a few minutes.

Although our committee, in its more than 14 years on the Washington scene, has traditionally concerned itself only with strictly trade policy issues—always on the side of sustained freer trade—we have asked to appear in these hearings on the travel proposals of the administration's balance-of-payments program. We shall not present testimony on the subjects which the chairman has explicitly excluded from these hearings. Nor will our testimony deal with other trade policy issues the Congress may be considering later this year.

We appear in these hearings to express our distaste for the travel proposals now before you, and to any modified restrictions on U.S. travel abroad that may be advocated at this time.

We have no doubt that something special had to be done on the balance-of-payments question at the turn of the year in response to the enlarged payments deficit announced for the fourth quarter and for total 1967. We feel, however, that this situation should have been anticipated and that a statement of policy such as that which follows at the end of this paper should have been made which would have endorsed our confidence in the dollar and perhaps have precluded the objectionable short-term gimmicks which the New Year's message included. Situations might arise where such drastic devices may have to be employed as last-resort emergency measures. Such a need, in our opinion, has not arisen.

In saying this, we speak for no individual supporter or group of supporters of our committee, or for any special interest, nor at the request of any private interest with a stake in the question before you. Our sole standard is the overall national interest. We requested an opportunity to testify, because we find objectionable an approach to our balance-of-payments difficulties that takes the form of restrictionist, indeed protectionist, measures to reduce the deficit in selected sectors of our international accounts as a means of reducing the overall payments deficit and supposedly of increasing world confidence in the dollar.

When our committee opposes restrictionism as a response to rising import competition, we do not take a dogmatic position that rejects import restriction under absolutely all circumstances. Situations could arise where import restrictions—or negotiated export controls by foreign governments—of a very temporary character, may be necessary as an emergency device of last resort to buy time for other, constructive parts of an adjustment program to take effect, and if consistent with the national interest. These trade restrictions must not be of a kind that leads to weakening of our foreign earnings position, thus turning this policy instrument into a boomerang. Under no circumstances should resort be made to trade restriction except as the emergency component of a comprehensive adjustment effort that places primary emphasis on the other policy components.

It is because the administration's proposals on foreign travel do not appear to reflect such a pattern of policy strategy, and could end up, in fact, aggravating the very problem they are supposed to remedy, that we testify in these hearings in opposition to legislation that would restrict or discourage foreign trips by Americans, even when the

measures proposed would apply only to trips outside the Western Hemisphere.

The manner in which the administration approached the balance-of-payments issue at the turn of the year took near-panic proportions which the response from many congressional quarters has been matched in kind. The kind of deals that may be negotiated between the two ends of Pennsylvania Avenue as a mean of sweetening objectionable travel-control pills or defusing the import quota bills would aggravate, not remedy, the balance-of-payments problem. The core issue in the balance-of-payments problem is a world confidence in the dollar. The proposals before you—in fact, any kind of restrictionism or protectionism—tend to increase world uncertainty about American policy, American credibility, and, inevitably, American currency.

What should have come out of the administration was a strong statement highlighting the following points:

(a) explaining the reasons for the enlarged payments deficit recorded in 1967, and particularly in the fourth quarter, or at least the broad outlines of the reasons—they are not signs of weakness;

(b) showing the strong position of the U.S. dollar compared with other major currencies;

(c) emphasizing the constructive steps to be taken in domestic and foreign policy to keep the dollar strong and make it stronger; for example, determination and ability to control inflationary pressures, and intention to reduce the dollar outflow attributable to U.S. military commitments abroad by a more efficient execution of those commitments, less expensive in balance-of-payments terms;

(d) explaining the harmful implications for all countries of restrictionist measures we could take in our foreign economic policy but are determined to avoid unless absolutely necessary;

(e) calling upon the creditor countries of Western Europe to carry out the responsibilities that devolve on countries enjoying that kind of balance-of-payments position; and

(f) declaring the Government's intention (i) to free all our gold reserves for the settling of dollar conversions by foreign governments and central banks that might prefer sterile gold to the world's strongest major currency, and (ii) to stop guaranteeing the world's gold speculators a floor under their monetary machinations.

In short, what was and is needed is a balance-of-payments strategy that takes accurate account of the dollar's strength in the world economy and the far-reaching international implications of the decisions we make in foreign economic policy. The proposals before you—aimed at legislatively turning down the tap of dollar outflow on travel account but without evidence of the most meticulous grasp of the facts and of the complex issues—seem more in the realm of plumbing than of policy.

MR. HERLONG. Thank you, Mr. Hight, for your statement.

Are there questions?

If there are no questions, thank you again for your contribution to the committee.

MR. HIGHT. I am grateful for the opportunity of appearing.

Mr. HERLONG. The next witness is Capt. Curtis M. Olsen, in behalf of the Air Line Pilots Association, and I believe that Mr. Nevins is to deliver the statement. Is that correct?

STATEMENT OF JOHN NEVINS, CHAIRMAN OF THE MASTER EXECUTIVE COUNCIL, TRANS WORLD CHAPTER, AIR LINE PILOTS ASSOCIATION; ACCOMPANIED BY PAUL METCALF, CHAIRMAN OF THE MASTER EXECUTIVE COUNCIL, PAN AMERICAN CHAPTER; AND CURTIS OLSEN, LEGISLATIVE COMMITTEE

Mr. NEVINS. Yes, sir; that is correct.

Mr. HERLONG. Will you identify yourself for the record and those who accompany you, please.

Mr. NEVINS. Yes, sir. My name is John Nevins. I am chairman of the Master Executive Council of the Trans World Airline Pilots and have been assigned as spokesman for the Air Line Pilots Association.

On my left is Capt. Paul Metcalf, who is chairman of the Master Executive Council of the Pan American Pilots, on my right is Curtis Olsen, a member of the Air Line Pilots Association Legislative Committee.

Mr. HERLONG. Thank you.

Mr. NEVINS. With your concurrence, sir, we have a very short statement so I thought I would go ahead and read it. We should be through it well within our time allotted.

Mr. HERLONG. That will be fine.

Mr. NEVINS. Our appearance here today is to comment on and make suggestions regarding proposals put forward by the Honorable Henry Fowler and U.S. Treasury officials, February 5 and 6, 1968. We oppose the administration's proposal to impose a graduated tax on expenditures by travelers outside the Western Hemisphere and the associated penalties for noncompliance and/or understatement of expenditures on the declaration.

We do not quarrel with the urgent need to strengthen the dollar. As flag airline pilots we are, more than most, aware of our worldwide problems. We are exposed to more foreigners, see more foreign cities, observe more foreign lands, and possibly acquire a better understanding of foreign ways than any but the most seasoned travelers or career U.S. overseas employees. As such we believe some expertise lies within our group to offer comments to you.

The administration proposals single out the tourist as the culprit in the balance-of-payments problem and attack the result, not the cause. This will not correct the problem; only penalize innocent people. Thus we quarrel with the emphasis placed by the administration on expenditures by tourists from this country.

Our prime objection to the expenditures tax is that it is intended to reduce, sharply, the amount of travel by U.S. residents outside the Western Hemisphere. In reducing this travel the proposal will reduce the amount of flying by U.S.-flag airlines, with consequent deleterious effect on our careers. This reduction in flying will reduce captains to copilot status, reduce first copilots to lower paying copilot status and produce furlough of the excess pilots. The very pilots this

country looks to to provide the essential skills for CRAF—I might explain CRAF is the Civil Reserve Air Fleet—operations will be the ones injured by the Treasury proposals. Obviously, these proposals were not intended to produce unemployment or loss of income, but that is the effect they would have. The burden would fall on three U.S.-flag airlines, Northwest, Pan Am, and TWA. These are this country's largest flag airlines and carry most of the traffic accruing to U.S.-flag airlines in the Western Hemisphere. They are heavily committed to the CRAF and have large parts of their fleets operating under Department of Defense-MAC airlift to and from Vietnam. Treasury proposals were not intended to be discriminatory, but that is the precise effect they would have—if legislatively imposed.

We would like to point to a fallacy in the Treasury analysis of this great problem, one that previous witnesses will have documented better. The imbalance in tourist carriage has produced a "deficit" in dollar payments in international travel. The treasury first identifies the cause, then ignores it. The cause for this tourist "deficit" lies in the continued disproportionate carriage of U.S. residents by certain foreign-flag airlines between the United States and other countries, despite a preponderance of U.S. residents among these passengers. This imbalance in traffic distribution between these foreign-flag airlines and their U.S.-flag competitors has produced a double jeopardy for this country. It has enabled certain foreign airlines to generate enormous dollar revenues while precluding normal development of the particular routes by their U.S.-flag competitors.

The causes of the startling disproportion in traffic carriage are many, but they contravene the spirit and meaning of the Bermuda capacity clauses of the respective bilateral air transport agreements between these countries and the United States. Neither this administration, nor any of its post-World War II predecessors, has seen fit to seek correction of the inequities in traffic carriage over these particular routes. The consequence is the stultified development of U.S.-flag airline service over these routes and a growing, continued deficit in dollar payments.

Selection of the U.S. tourist as the culprit gives the offending foreign-flag airline continued carte blanche to disregard the Bermuda principles and tacitly acknowledges this Government's unwillingness or inability to resolve the inequities. Now the administration seeks to correct its shortcomings by penalizing the U.S.-flag airlines and their employees who have borne the brunt of the administration's failure to correct the inequities.

Rather than take the negative approach, this administration has the responsibility to correct the situation vis-a-vis certain foreign airlines. Correction would produce a reversal of dollar flow, possibly as much as \$100 million annually.

Although the Treasury analysis may be financially correct, we feel its logic is invalid. The Japanese Government has already embarked on a "Fly Japan Air Lines" campaign. Who else will follow? The Treasury does not control the actions of other governments. Does it really believe this Government can sharply reduce the flow of U.S. tourists abroad and still increase travel by foreigners to this country? Does the Treasury analysis not consider the probability of retaliative action abroad? The U.S.-flag airlines' market for foreign tourists is a

thin one and foreign-flag airlines depend for a great part of their revenues on U.S.-resident travel. Can the Treasury proposals cope with the additional problems U.S.-flag airlines will encounter?

The Treasury analysis that U.S. persons would willingly comply with another onerous and burdensome tax seems naive. Americans have demonstrated in the past—that is, the Volstead Act—that they have little respect for unpopular laws. A requirement for declaring both money on person and estimated expenses will lend itself to dishonest practices, particularly at a time when that person is under stress and excitement: the hour of departure. Are we to subject our citizenry to an outbound as well as an inbound search? Will this not lead to a ruse of "Europe on \$7 a day—regardless"? Will it not become another popular game for the returning traveler to boast of his successful defeat of the tax?

We question the ease of collection and administration of the declarations. The Immigration and Naturalization Service has just eliminated the I-94 form for U.S. citizens. The result requirement for completion was that the flood of paperwork and administrative problems had outgrown the ability of the Service to cope with them.

The Treasury proposals seem to ignore the nature and history of "temporary taxes." How will this tax expire when once a tax-weary people become accustomed to payment? Won't this become another source of revenue for the Government and continue as necessary "temporary" taxes year after year? This committee's recent experience with the World War II "temporary" telephone and automobile excise taxes should indicate how "temporary" this graduated expenditure tax might be.

We question the wisdom of Treasury proposals in light of the report to the President by the Special Task Force on Travel. The travel deficit has existed for many years and the task force must have given the White House some inkling of its recommendations. Now that they are published it seems logical to allow this Nation's businesses the necessary scope to accomplish the President's goals of expanded trade. The imposition of a tax on travelers will negate their proposals.

The primary objective of our country is the fostering of peace between all the nations. Lasting peace can only be accomplished by the people of the many nations knowing and understanding one another. This understanding can only be reached by social contact between people. The Treasury proposals will put a damper on travel outside the Western hemisphere and delay this most important phase of our world peace efforts, which we can ill afford.

We submit the following recommendations. We propose them with belief that they demonstrate both reasonability, and, more important, ways wherein approximately \$100 million now flowing out of the United States can be made to reverse and flow back in. Our proposals will produce an improvement in the balance-of-payments deficit, without interfering with commerce or the rights of our taxpaying countrymen.

We attach our direct recommendations, with appendixes to support them. We possess neither the resources nor the information to develop a more comprehensive program. But as we are those who will directly suffer under any reduction in the movement of tourists from this country abroad we ask this committee to reject administration pro-

posals to limit the right of free and unencumbered travel by Americans for the first time in the peacetime history of this country.

We thank the chairman and members of the committee for the opportunity to present our argument this morning. We hope our testimony will be of value in the difficult decision you will have to make.

(The recommendations and appendixes referred to follow:)

RECOMMENDATION OF THE AIR LINE PILOTS ASSOCIATION

1. We recommend fullest implementation of the Special Task Force on Travel program to develop foreign travel to the U.S. and simultaneously propose this Government encourage U.S. residents to fly American-flag airlines and to voluntarily restrict purchases abroad to help strengthen the dollar.

2. We recommend this Government serve notice on those countries where a disproportionate imbalance in passenger traffic carriage exists¹ that the respective bilateral Air Transport Agreements with the U.S. are to be renegotiated *immediately* to achieve reasonable ratios of traffic distribution U.S. flags vis-a-vis the respective foreign flag airlines. This would produce a reversal of almost \$100 million in dollar flow. Simultaneously we recommend this Government demand immediate negotiations to secure landing rights for U.S. carriers equal to those foreign airlines enjoy² and to achieve removal or recession of traffic carriage restrictions or other impediments to proper development of U.S. flag air line services abroad. We support re-introduction of last Session's H.R. 16508 to arm the Civil Aeronautics Board preparatory to action against the Foreign Air Carrier permits of Recalcitrant Foreign Flag Airlines (Removal of present traffic restrictions and a quid pro quo of landing rights would produce additional revenues for U.S.-flag airlines and improve the U.S. balance of payments problem.)

APPENDIX A

1966 AIR PASSENGERS BETWEEN THE UNITED STATES AND OTHER COUNTRIES

[Total passengers and percentages]

United States to—	By U.S. flag	Percentage	Other nation's flag	Percentage
The Netherlands.....	22,709	9.0	229,480	91.0
Ireland.....	50,638	24.7	154,401	75.3
Scandinavia, total.....	19,289	8.6	203,809	91.4
Norway.....	7,408	28.6	18,455	71.4
Denmark.....	7,736	4.5	164,808	95.5
Sweden.....	4,145	16.7	20,544	83.3
Belgium.....	22,739	21.8	81,430	78.2
Switzerland.....	17,188	11.4	130,986	88.6
Iceland.....	5,548	3.8	141,859	96.2
Israel.....	8,586	12.4	60,477	87.6
Total.....	146,679	12.7	1,002,440	87.3

Note: A shift in passenger distribution to a 50-50 basis would produce an additional 213,000 passengers for U.S. airlines annually at an average \$450 round-trip fare; this total approximates 100,000,000 annually.

Source: Data taken from Aviation Week, Dec. 11, 1967, pp. 56 and 57.

APPENDIX B

[From the New York Times, Mar. 4, 1967]

IRISH REBUFF U.S. ON DUBLIN FLIGHTS; REFUSE LANDING RIGHTS FOR AMERICAN-FLAG LINE

DUBLIN, March 3.—The United States failed again today to gain permission for an American airline to land at Dublin Airport.

The talks, which began Tuesday, ended unexpectedly today when the Irish Government team insisted on maintaining Shannon Airport as the sole trans-Atlantic airport for all foreign carriers.

¹ See Appendix A.

² See Appendix B.

A statement issued after the talks said:

"The policy of the Government continues to give priority to the development of the western tourist areas served by Shannon Airport and to the maintenance of that airport as Ireland's only trans-Atlantic gateway." It added that "entry of a United States airline to Dublin could not be authorized."

This was the fourth time in 17 years that Ireland has refused American requests for landing rights in Dublin.

The seven-member American team of negotiators, led by Edward A. Bolster, director of the State Department's office of aviation, expressed disappointment at the attitude of the Irish officials.

"We came to Dublin," Mr. Bolster said, "fully prepared to negotiate with the Irish delegation—but it appeared to be so inhibited by instructions from the top that it was without authority to discuss entry to Dublin on any basis."

Mr. Bolster said he did not know what the next move by the United States would be and refused to comment when an Irish reporter asked if the United States would consider revoking the present bilateral air agreement with Ireland.

Pan American World Airways was designated earlier this year by Washington as the United States carrier into Dublin should agreement be reached. This would have enabled the airline to take on passengers at Dublin for London and other points to the east.

The American team claimed the right to send an American-flag carrier into Dublin under accepted practice in international air agreements.

Faced by determined opposition, the American negotiators were prepared to compromise and make Dublin a terminal airport for Pan American, but the attitude of the Irish made discussion along this line impossible, according to members of the American team.

The main reason Ireland will not allow foreign carriers into Dublin is the fear that it would have such a detrimental effect on traffic at Shannon Airport that it might eventually have to close down.

Mr. HERLONG. Thank you, sir, for your testimony. I understand that you want your recommendations included in the record following your statement.

Mr. NEVINS. Yes, sir.

Mr. HERLONG. Without objection it will be done. I did want to ask you, in connection with your recommendations, as to what can be done to bring \$100 million flowing back this way by encouraging Americans to travel American-flag ships?

You will recall the other day, when the Government witnesses were here, a paper was presented to the Committee as having come from the Office of the Chairman of the CAB in which they gave three reasons why they should not engage in a "Fly American Flagship" program.

The first reason was fear of reprisals from other countries if we did that. Will you comment on that?

Mr. NEVINS. Yes, sir; I can. I would like to ask Captain Olsen to comment on this. Before he does, though, I would like to point out again that we have not maintained equity in the application of the Bermuda principles.

Mr. OLSEN. The comment that we would make to that is that we quarrel with the CAB's reasoning.

Mr. HERLONG. I want you to understand this was not a CAB paper. It was disclosed that was a paper gotten out by the staff.

Mr. OLSEN. It was a staff study, sir?

Mr. HERLONG. That is right.

Mr. OLSEN. The staff proposes that we would face retaliation. There are certain countries in Europe where American-flag carriers generate so little traveling that the crew outnumbers the passengers on most westbound flights, so the amount of traffic that we generate from those

countries will be faced with overt restrictions in the form of oblique passport difficulties and many of these sorts of things.

We don't have access to the public in those countries as pilots, but among the friends we do have in those countries we know that people who fly on American-flag carriers from certain European countries face considerable difficulty in getting passports, money, and export visas where necessary.

These will continue regardless. Our feeling has been for 20 years that both State and CAB singularly failed to insist on quid pro quo in traffic charge, despite the fact that out of the examples that we cite on appendix A, all but Iceland and Ireland, with which we have the so-called Chicago standard forms of agreement which do not incorporate the Bermuda capacity clauses, the others have solemnly sworn to them and they have turned around and absolutely rejected that the principle of equalization of capacity be offered and by overscheduling they preclude the American carrier going in there with an equal number of schedules to offer comparable service.

Mr. HERLONG. Is it a fair statement to say that we need not fear reprisal because they couldn't do any worse than they are doing to us at this time?

Mr. OLSEN. Yes, sir; that is what I would say.

Mr. HERLONG. A second reason they give is the loss of the sale of planes by U.S. manufacturers to these foreign flagships. I would like your comment on that.

Mr. NEVINS. Sir, if they don't carry them we will. Therefore we would buy the aircraft.

Mr. HERLONG. The third reason that they give is the American flagships do not have the capacity to carry on these planes any more than they are carrying at this time.

Mr. OLSEN. Mr. Chairman, there are certain peak periods in any year when no carrier can accommodate all of the demand. However, the American-flag carriers, TWA, Pan American, operated across the Atlantic in 1966 at an average load factor of 62½ percent in the summer and going down to an annual average of something in the 50's.

The capacity is there, but in commenting on the second point I was particularly taken, and it is unfortunate that George Gay, the chairman of the TWA Route Structure Committee, can't be here today, because he and I publicized this before the House Education and Labor Subcommittee several years ago when they, under Chairman Dent, held a hearing on the effect of exports and imports on American labor.

We publicized the fact to that committee that Irish Airlines, which was buying three 320C's, was borrowing \$13½ million from the American Export-Import Bank at an average interest of 3,875 percent, while TWA was in the marketplace at 6 percent for their planes.

Mr. HERLONG. Thank you. Are there any further questions? Mrs. Griffiths.

Mrs. GRIFFITHS. I would like to say that I think you have an enemy working within your own organization. In those areas abroad where you have ticket offices why don't you have those ticket offices staffed with Americans? You have no idea of the kind of treatment that a customer can get from those people.

Mr. NEVINS. You pose a very difficult question to us, Madam, I'm sorry, but I would have to respond to it this way. I don't know posi-

tively, but I have a reasonable knowledge that the State Department has a great deal to do with whom we can hire over there.

Mrs. GRIFFITHS. If they do, then this is one of your big problems. We stopped at one point just in Barbados and there was only one American. We had been in Trinidad and were coming back through the islands and we had our tickets checked over and over. We had been told every time they were absolutely in order.

Finally, when we came up to that one poor American in Barbados, he said, "Well, there is one little problem here. The plane that you are going to take isn't going. You have to wait 8 hours. There won't be a plane," until the next day from one island to the next and we had no reservations and it was Christmastime.

Those tickets had been checked repeatedly and they were four first-class tickets. I was real mad.

Mr. OLSEN. Mrs. Griffiths, if I may make a small comment to your question, many of the countries served by TWA, Pan American, and other U.S.-flag airlines have local labor laws which require a certain percentage of their nationals to be on the payroll—another one, of course, of the difficulties of being Americans when you go to some of the places we serve.

Mrs. GRIFFITHS. I would assume that would be true, that you have some problems, but I think this is part of your problem.

Mr. HERLONG. Mr. Byrnes.

Mr. BYRNES. I think you have presented a very important area of inquiry. While the disparity between the amount of traffic carried by foreign lines vis-a-vis American-flag carriers may not be a subject within the jurisdiction of this committee, it certainly goes to the overall problem of balance of payments.

I just can't understand this situation. As I understand what you are saying, there is a mechanism that can be called into play to assure certain equality in this area. Is that correct?

Mr. OLSEN. Mr. Byrnes, may I answer that?

Mr. BYRNES. The so-called Bermuda capacity clause, or whatever it is.

Mr. OLSEN. May I read into the record just one—

Mr. BYRNES. Yes, but before you do that I am just wondering whether you or somebody couldn't put into the record a more detailed analysis of the availability of existing agreements and mechanisms to remedy what appears to be blatant discrimination against American-flag carriers.

Frankly, this is all new to me. It is an area that I am not acquainted with at all and I think anybody reading this record should have, and the committee itself should have, as we go into this, a more detailed analysis of the problem and who is remiss in not insisting that the disparity be corrected.

We had some figures, Mr. Chairman—I think it was yesterday or the day before—as to either the percentage of the dollar volume of transportation revenue distributed between American and foreign carriers. If there is a mechanism for correcting the disparity then somebody is remiss in not using it and I think we ought to have here the full details in this record.

Even though the committee may not have jurisdiction, we at least ought to have this record show completely just what is going on in this

area. Are you people in a position to do that, or should we call on somebody else?

Mr. NEVINS. Yes, sir; we are, but we will have to enter it as supplementary evidence. (See pp. 670-680.)

Mr. BYRNES. Yes. The record of these hearings will be open for another couple of weeks and you could submit that so it could be included. More elaboration is what I am asking for of the basic points you make here with respect to the equalization of traffic.

You had something that you wanted to add at this point, I gather.

Mr. OLSEN. What I would do is furnish for the committee's information an extract of the Bermuda capacity clauses as they apply in all the bilaterals because it is an almost identical phrasing in any and all bilaterals. (See pp. 670-680.)

Mr. BYRNES. What I would like to have is a layman's explanation of what it all means, and what could be done, and who is responsible for enforcing the agreements you mentioned, and seeing that the American-flag lines get an equal break.

I am not suggesting that we should have anything other than our due share. From what you have said it is perfectly clear that somebody is asleep here in not insisting that we at least get our share.

Mr. NEVINS. This is precisely the point, sir. This is why we are here.

Mr. BYRNES. We can get all kinds of trouble because we just don't enforce the rights that we have. Some of these Government agencies come in here with all kinds of recommendations when they get themselves into jams, but nine times out of 10 they are in a jam because they haven't used the legal authority they have already been granted to protect our own people and our own interests.

Mr. NEVINS. That is what we are asking for.

Mr. BYRNES. Let me ask this. You mentioned that there are some things, some indirect harassment, that encourages foreign nationals—and maybe even American nationals—traveling here to take a foreign line. You mentioned this passport problem and clearance problem, and so forth.

Does your experience indicate that there are some countries that you have more trouble with than others in that respect or is it a general pattern?

Mr. NEVINS. I am going to ask Curt to answer this. We do.

Mr. OLSEN. Yes, there are some countries; in Scandinavia particularly; for years the local airlines controlled the location of Pan American's ticket counters and they were fairly difficult to find at some airports.

Mr. BYRNES. These are the Scandinavian countries.

Mr. OLSEN. Yes, sir.

Mr. BATTIN. What Scandinavian countries?

Mr. OLSEN. Particularly Stockholm and Copenhagen. At one point you practically had to climb behind the curtain to find Pan American's ticket desk.

Mr. BATTIN. Will the gentleman yield a second on that?

Mr. BYRNES. Yes.

Mr. BATTIN. In your appendix A you are using percentages of U.S.-flag and other nations' flag, and back that up as to the percentage that we carry versus the percentage their own airline carries.

Mr. OLSEN. Yes, sir. That is percent carried by all U.S. carriers as opposed to the percentage carried by the foreign-flag carrier of that nation and, obviously, it isn't 141,000 people leaving the United States to visit Iceland in 1 year, so that the carriage of many of these flag airlines is not to their country but it is what is termed a "fifth-freedom country." It is to another country other than their homeland.

Mr. BYRNES. You people represent the pilots and you have a definite interest in this area, but it seems to me the officers of the airlines themselves, in the interest of their stockholders, ought to be somewhat concerned about the traffic that they carry.

Maybe we will have to see whether they are appearing. I would assume that some representatives of the owners of the airlines would be appearing and I would hope that they would be prepared to address themselves to the subject of what can be done to get rid of the harassments, discriminations, and inequalities that exist between the respective opportunities which are available to American and foreign carriers to handle passengers.

I would just hope that we could get into this record a good brief of just what the situation is, and who is at fault, and who better get on the ball to make sure that equality prevails in this field.

Mr. HERLONG. Mr. Burke will inquire.

Mr. BURKE. Thank you, Mr. Chairman.

Of course, I am in favor of American-flag ships getting as much trade as possible, but looking over these things on appendix A and with American-flag ships flying into Ireland getting about 25 percent of the business, isn't that a pretty good ratio?

If you get 25 percent in all of the countries you would be doing pretty well.

Mr. NEVINS. We would like to point out that the people that are going into the country, the figures that they are based on, are basically U.S. citizens and residents that are traveling over to Ireland and taking Aer Lingus, the Irish airline.

Mr. BURKE. Irish Airlines is a very small airline when you compare it to some of the giants which operate around the world, and I notice in your appendix B the story that appeared in the New York Times.

The final paragraph says:

The main reason Ireland will not allow foreign carriers into Dublin is the fear that it would have such a detrimental effect on traffic at Shannon Airport that it might eventually have to close it down.

Now, isn't the problem this: That if the Irish Government were to open up the Dublin airport to the American-flag ship they would also have to open it up to all the other nations who would seek to have access to this airport and this would create a condition that they couldn't contend with? It would be impossible for them to handle all that traffic in Dublin, whereas they made a tremendous investment for a small country like Ireland in the Shannon Airport, which will handle all the flights coming in there.

I mean it isn't a question just of keeping Pan American, as the one who has been designated as the American-flag ship, out, but if they opened the door here for the American-flag ship then they have to open the door to Canadian airlines, and South American airlines, and all the rest of them that would have to come into Dublin.

As I understand the little money that Ireland has, I am surprised that Pan American should be picking on this little place for a flight when you look and you see in Iceland, I think the traffic in there is about 3 percent, and what is your traffic into Italy and how about France? You haven't mentioned France here.

Mr. OLSEN. Sir, the reason we did not mention France was that the apportionment of traffic between French carriers and American carriers is generally an equitable one. From this chart, where we based our figures originally, the apportionment of traffic between France and the United States, the U.S. carriers carried 243,298 people to France in 1966. The French carrier carried 316,000, so that this is a 45-55 ratio.

Mr. BURKE. What I am pointing out is that when you pick a little country like Ireland, why, Pan American could buy all of Ireland and put it in its back pocket and here is this little Irish Airlines. Ireland doesn't come over here borrowing hundreds of millions of dollars and get hundreds of millions of dollars every year on foreign aid. They have been rather a frugal and independent little nation and they are trying to carry their own load, and this little break they get in the Import-Export Bank is a drop in the bucket.

You know, let's have a little commonsense here. What do you want to do? Bludgeon the little Irish airline out of business.

Mr. OLSEN. No, sir.

Mr. BURKE. Let them have a few dollars over there. Did you ever go over to Ireland?

Mr. OLSEN. I spent a lot of off days in Ireland.

Mr. BURKE. Compared to the developed countries they don't get the tax breaks that the other countries get.

Mr. OLSEN. Sir, each of these countries in turn comes back to the United States and says, "Well, why pick on us. We are a small country." It is these small countries that kept me a copilot for Pan American for 22½ years.

Mr. BURKE. You are getting 25 percent of the business there and if you were to get 50 percent you would drive the Irish Airlines out of business. You would cause a great economic disruption in this little country.

I think Pan American is big enough to take it. I think they are.

Mr. OLSEN. Sir, this figure 24.7 percent is not Pan American. This is Pan American, TWA, Seaboard's charters, ONA, Capitol, Modern, Saturn, and an entire raft of supplementals behind them.

Mr. BURKE. Let me ask you this. Are you willing to allow the Irish airline to land, say in Chicago and San Francisco?

Mr. OLSEN. Irish Airlines now lands in New York, Boston, and Chicago.

Mr. BURKE. And how about extending farther out to San Francisco?

Mr. OLSEN. They haven't requested it, to my knowledge.

Mr. BURKE. It would receive strong objections. I am merely pointing out that with this little country you are picking on and this little airline, it looks like all the giants are trying to bear down on them, including this appendix here. It doesn't seem to me to be a fair thing to do because while you have your problems in some of these other countries, I don't think they are harassing the American traveler in Ireland.

I think they give them every courtesy and try to expedite the business no matter what line they fly, whether it is an American-flag plane or the Irish Airlines.

Mr. OLSEN. We don't claim a harassment of the American passenger in any one of these countries. He is treated rather well. What they do is obliquely prevent their own nationals from flying on our carriers. We don't have the same chance for development in many of these countries. We are not picking on Ireland.

Ireland was cited because of the imbalance of travel.

Mr. BURKE. You will agree that for them to extend to the American-flag carriers the right to land in Dublin they would have to extend the same right to all the other countries who want to come in there. They would want to land in Dublin and this would create quite a problem for them, and they made their investment.

It might not have been a wise investment. It might not have been a choice that they should have made. Nevertheless, with the little money they had they invested it in Shannon and this is where all their hopes and aspirations lie.

Now we are coming in here, a big country like the United States and the powerful lines we have here, and we are saying we should have a right to land in Dublin. This to me immediately opens a Pandora's box where they will have to give the same right to all the others, and they are unable to comply with that.

Mr. OLSEN. I disagree with that, sir. They would not have to. This is a bilateral air-transport agreement. It does not spill off on anyone else.

Mr. BURKE. Once they open it up to our lines they will have to open it up for the other nations.

Mr. OLSEN. They would not, sir.

Mr. BURKE. For all practical reasons, they would.

Mr. OLSEN. There are many countries that restrict the carriers coming in.

Mr. BURKE. I think the American-flag ships can survive without taking a big fat swing at this little country and this little airline.

Mr. OLSEN. Mr. Burke, may I just make one final comment to that?

In 1946 Ireland granted air carriers of the United States access to Dublin. Twenty-two years later we don't have any. There will start April 1, or sometime around then, according to a press release I have just seen, service from Belfast to the United States, which means that they will serve from three points in Ireland to three points in the United States.

Mr. BURKE. Are you acquainted with the fact that Belfast is not part of Ireland but instead is part of the British Government. You are talking about Belfast and the Ulster part of Ireland governed and under the control of the British Government and there is a different sovereign nation. It is like talking about Holland and France, two different countries.

Mr. OLSEN. But it may engage—

Mr. BURKE. I don't believe they should be separated. I think that they should put them both together. But when you are talking about Belfast you are not talking about the Shannon and the Dublin Airports.

Mr. OLSEN. But there is one thing about Dublin. It requires a Shannon landing. Any carrier departing westbound from Dublin must land in Shannon because the runway at Dublin is inadequate for transatlantic flights so that Shannon would not suffer. They would still get their dollars at tax-free counters over there.

All we are asking for is what Ireland granted to us, the American-flag carriers, regardless of who it is, in 1946.

Mr. BURKE. You are asking them to destroy the Shannon Airport and if you were over there you would see it their way, but sitting where you are sitting you can't see it their way.

I think we should have some understanding of some of the problems these little countries face and I don't think that the powerful airlines of this country should be trying to obliterate these people. I am strongly opposed to it.

Mr. NEVINS. Mr. Burke, if I may, all we are asking, sir, is that we be put in an equally competitive situation, and if we feel we are put in an equally competitive situation then I don't feel that the Irish—with the expressions you have made here I assume that you are at least of Irish descent—are going to be at all coming up short on that end of the situation.

Mr. BURKE. I think that the Irish Government is very sympathetic to your problem but they are being very realistic about it and, as you even point out here, as the New York Times points out in their story, this would mean the destruction of the Shannon Airport.

It would dig deeply into their tourist business. It would act in a very adverse way to their economy there, and I don't think that it is fair for us on this side to ask them to make all the sacrifices that you are pointing out here.

I don't think that you ask this of many other nations, and looking at your chart here, your exhibits here, you are in a far worse off condition in other countries and I don't see any exhibits placed here on record that would point up your problems in those countries.

I am merely pointing out that Ireland has many, many economic problems. They are a small country. I think that they realize maybe \$13 to \$14 million a year to their income as a result of the people that travel over there. This represents about 30 percent of their national income.

What are we trying to do here? That is what is wrong with this whole bill. I am very friendly to Pan American. I am friendly to Trans World and the rest of them, and I would like to help them out, but I think that they have to let a few other people live, too.

You know, don't try to take over everything and just knock everyone out of the box. That is the whole trouble with this Nation today. It is getting so big that the large supermarkets are driving out the little drugstores, the little grocery stores, the little tailor shops. Why, the little fellow today hasn't got a chance, hasn't got a chance with the giants that he has to compete with. I think that in fairness, with Pan American and the rest of them getting 25 percent of the business in one country, if they get 25 percent of the business all over they would be doing very well, and I think it is a little bit unfair to put this stress in here with the press release by the New York Times and your statement about Aer Lingus buying some planes.

They bought all their planes over here and they have done pretty well by us. We do pretty well by them. But I just think that a little sense of fairness should prevail here and the big giants of this country shouldn't be pressing down too hard on these countries that don't ask too much from us.

They don't ask too much from us, and that is all I am pointing out here.

MR. HERLONG. I just want to thank our colleague from Massachusetts for his completely objective representation of the facts about Ireland.

MR. BURKE. You have to be objective. I have used the same arguments on behalf of Israel, and Italy, and other nations. I think these countries that are friendly to us we shouldn't be trying to injure. We need friends today. We need it more than we ever did.

God knows, we haven't very many friends in foreign countries and I don't think that we should be too hard on some of these countries that are friendly to us, like Israel and Ireland, Greece, and others. I think this bill is nitpicking, anyway. I opposed the reduction of the \$500 to \$100 duty-free goods and expect to oppose a lot of the things in this bill here, but I don't like your presentation here this morning.

I think that you have picked out a little country, and I am not a descendant from that country, but I know many of its problems. I don't think that the big giants of this country have to engage in that type of talk.

MR. HERLONG. Mr. Curtis.

MR. CURTIS. For the record, do you have any Irish-Americans in your association?

MR. NEVINS. Yes, sir. I am.

MR. CURTIS. I did want to get a little further explanation of appendix A. You have in your chart, for example, the United States to the Netherlands, and so forth, then the percentage by U.S. flag. But there is no breakdown for the other nations. What would be the figure of the amount carried from the United States to the Netherlands by the Netherlands airlines? Could you break that down for the record?

In other words, of the 154,000 people who flew from the United States to Ireland by other nations' airlines, would that involve all the Irish airlines?

MR. NEVINS. Yes, sir; in this case what we meant was the flag airline of that particular country.

MR. CURTIS. You did.

MR. NEVINS. That was KLM.

MR. CURTIS. Oh, in each one of these instances. Then that clarifies it.

MR. NEVINS. That was the Irish and Dutch airlines.

MR. CURTIS. What about the other airlines? For instance, do the British fly in from United States to the Netherlands? Does Britain fly any United States to Ireland? We are lacking a column here then.

MR. NEVINS. Yes, sir. According to this table I have here the British flew 297 people to the Netherlands from the United States in 1966.

MR. CURTIS. So your column under the other nation's flag only relates to that nation itself, but I think there ought to be a column to give us the complete picture by nation, other than that nation and the United States. Do you see what I am getting at?

MR. NEVINS. We can. (See pp. 670-680.)

Mr. CURTIS. All right. I am also most anxious to get this data that Mr. Byrnes was inquiring about on the Bermuda agreements. We need to know the nations with whom we have these bilateral agreements. How many are there? You don't need to list them but you can put them in the record.

Are most all of the countries involved here?

Mr. OLSEN. I believe it is something more than 50.

Mr. CURTIS. That can be supplied.

Mr. OLSEN. Yes, sir. (See pp. 670-680.)

Mr. CURTIS. Now, then, do you think that by and large the agreements themselves, the capacity clauses, are fair if lived up to, or is there some inadequacy in the clauses themselves even if they were lived up to?

Mr. OLSEN. No, sir; there would be no difficulty if they would live up to the agreement.

Mr. CURTIS. I thought there possibly could be areas that you suggest they need changing. Mr. Byrnes asked this but maybe you can give us some information now.

Who is responsible for enforcing American interests in this instance? Is it the State Department? CAB? To whom should you register your complaints about a nation not living up to these clauses?

Mr. OLSEN. To both State and CAB, the Assistant Secretary for Economic Affairs within the State Department.

Mr. CURTIS. Yes.

Mr. OLSEN. And the CAB. They negotiate jointly.

Mr. CURTIS. I presume that you have registered formal complaints.

Mr. OLSEN. Yes, sir.

Mr. CURTIS. In getting this data for the record you might show some indication of how you have registered your complaints over a period of years, or whatever it is, on the failure of these nations to live up to their responsibilities.

Mr. OLSEN. I could, sir. (See pp. 670-680.)

Mr. CURTIS. Now, a major area. You were directing most of your testimony, if not all, to the expenditure tax in contrast to the proposed tax on travel. Am I right in that?

Mr. NEVINS. Yes, sir.

Mr. CURTIS. I want to separate those a bit because it is my preliminary judgment that this expenditure tax isn't going to go anywhere, but I think some of us are concerned as to whether or not it wouldn't be feasible to impose a tax on foreign travel comparable to what we have on domestic. I would like to get your views on it.

First, let me review what I thought had been the history. We did have a tax on foreign travel; did we not?

Mr. NEVINS. Yes; that is correct, sir; 10 percent surtax.

Mr. CURTIS. We took it off of foreign travel, as I recall, because we found it was difficult to enforce against the foreign carriers. Am I right in my recollection?

Mr. NEVINS. Yes, sir; essentially, that is all correct.

Mr. CURTIS. I asked the Secretary of the Treasury and Mr. Surrey, the Assistant Secretary, if this was the case and that was their memory. I said, "Well, what makes you think that you could enforce such a tax in an equitable fashion if we put it on again?" And they said, "Well, with the expenditure tax we would be able then to enforce it."

Then I posed to them the question: "Suppose you don't get the expenditure tax"—and I would certainly not be inclined to give it to them—"would you then still want the travel tax?" Their answer was, "Yes," and so I said, "Well, how do you think you would enforce it in an equitable fashion?"

And so the committee—at least I—would like some information on that. It is important to know if we were to impose the tax on foreign travel, would we be creating an inequity to the American carriers similar to what we found had happened when we tried to impose it before?

Would you comment on that? If you have a further explanation or further thoughts on it, would you supply it for the record?

Mr. NEVINS. If we can do this, not make a definitive answer to that, because we think that proposal falls within the Airtransport Association's presentation, but—that is always a "but" to everything, I guess—but if the money is a necessity, then, more or less off the top of our heads, consider something such as an exit tax.

Mr. CURTIS. We are now talking about something entirely different, of course, which relates to revenue. I look to this, too, but I am more interested in the fact that because we have imposed the excise on domestic travel, we have an equitable way of possibly getting further revenue through a comparable kind of a tax. I would be in favor of this if I felt that there was a compliance problem that could be solved. I would hate to see, and I think you would, too, see us run into the same problem as before. In effect, you are taxing the American airlines and the others are escaping it, because although the tax legally is there on the others there are ways of avoiding it for them.

Mr. NEVINS. Yes, sir; this is correct.

Mr. CURTIS. Do you see what I am getting at?

Mr. NEVINS. Yes.

Mr. CURTIS. If you care to supply any further thoughts on those points I would appreciate it. (See pp. 670-680.)

Mr. HERLONG. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Nevins, appendix A limits the number of countries that you analyzed, probably because you want to emphasize the areas where we are at greatest disadvantage.

Could you put in the record all the countries? In other words, the chart on pages 56 and 57 probably lists England, France, Japan, et cetera, and to be perfectly fair and equitable, I think we should have all the countries to which these passengers travel by air.

Mr. NEVINS. Yes, sir.

Mr. SCHNEEBELI. I think that this 12.7 percent would probably be a lot higher.

Mr. NEVINS. Yes, sir. (See pp. 670-680.)

Mr. SCHNEEBELI. Second, since you seem to have a lot of figures at your command there, do you have any idea what percentage of Federal employees or Congressmen traveling on Federal expenses travel by foreign airlines, and what percentage by American lines? To what degree is the United States implementing its own program?

Mr. OLSEN. Sir, I believe Senate Concurrent Resolution 53, which was passed two or three sessions back, dealt with the fact that there was an enormous amount of U.S. federally paid Government employee travel. BOAC was maintaining a daily schedule from London to New York at that point, filling it up almost entirely with American Government employees traveling.

Mr. SCHNEEBELI. I am aware of this.

Mr. OLSEN. And they complained to our Government when the Resolution 53 went through, because it required the American Government employee to certify that such travel was not available on an American carrier. There were four conditions attached wherein with respect to U.S.-paid transportation for a Federal employee the Federal employee could be aboard a foreign carrier:

If it would unduly delay his trip, and one of the heartbreaking things to us, it said when there was an excess of counterpart funds, and it gave the most-favored nations treatment, so that in many cases the bill was circumvented because people would fly around on those funds on a carrier rather than our kind, but I think that is no problem today.

Mr. SCHNEEBELI. This is no problem today.

Mr. OLSEN. I don't think so. I think ATA can probably furnish those figures too.

Mr. SCHNEEBELI. It might be interesting to have them.

Mr. OLSEN. I will try to get them, sir. (See pp. 670-680.)

Mr. SCHNEEBELI. Also to your knowledge do the foreign airlines get any higher commission and is there any more inducement or any greater incentive to our U.S. travel companies to book their business with the foreign airline rather than a domestic airline?

I say this in the light that so many first-time travelers and occasional travelers go to the travel agency and say, "Book me by any airline you want," and I think so seldom does the passenger make up his mind what airline to choose. How is it so many of these people choose the foreign airline? Do these lines have inducements for the travel agent that are better than the U.S. airlines?

Mr. OLSEN. Not legally, sir, that I know of. The standard commission is paid and I think that is all that can be done, but certain travel agents, because they sell more seats on a particular airline, will get these passengers to fly on that airline, have various categories, as I understand it, and they do get advertising allocations which may help and induce them to sell a carrier.

Mr. SCHNEEBELI. I know one of the local travel agents got a free trip to some country from a foreign airline. Was that an inducement that American airlines couldn't offer?

Mr. NEVINS. We do that as well, sir, with the travel agents, that is true.

Mr. HERLONG. At this point, I asked one of these travel agents that question the other day who visited me in my office and he said one reason they did it was they got better service on the foreign airlines.

Mr. SCHNEEBELI. I think it is a pertinent point because the travel agents are so instrumental in choosing the airlines. I don't think it is the passenger at all who makes the decision in most cases. The passenger or the tourist says, "Book me on a good airline," and the travel agent picks it out, and I think much of this decision is on the part of the travel agent.

I was wondering, with this great disparity in U.S. foreign travel between the business of the foreign airlines and our own carriers, whether there was any inducement to bring this about.

Mr. OLSEN. The curious twist to that is that of course at the beginning Pan American and TWA had almost solid American-born, American-educated cabin crews. After awhile they began to employ European nationals, bring them to this country, train them, and employ in the cabin crews.

Air France 2 years ago was advertising in this country for American stewardesses, reverse snobbery.

Mr. SCHNEEBELI. In the light of the attraction of the stylish French manikins I am rather surprised.

Mr. HERLONG. Any further questions?

Mr. SCHNEEBELI. Thank you.

Mr. HERLONG. Thank you gentlemen, for your presentation to the committee. We appreciate it.

Mr. NEVINS. Thank you.

(The following letters were received by the committee:)

AIR LINE PILOTS ASSOCIATION,
Chicago, Ill., March 1, 1968.

HON. WILBUR MILLS,
Chairman, House Ways and Means Committee,
Longworth House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I have been directed to respond to the information requests made by Members of your Committee during presentation of the Air Line Pilots Association Testimony, February 21, 1968. Those requests were as follows:

A. Augmentation of Appendix A of our testimony to include air traffic between the U.S. and all nations. (You will find this under Part I of the enclosed exhibit)¹

B. Capacity provisions of Bermuda type agreements and countries with whom the U.S. has Bermuda type bilateral agreements. (Part II of the exhibit shows those countries with whom the U.S. has bilateral agreements of the Bermuda type and also of the Chicago type. Examples of both the Bermuda and Chicago type are included.)

C. U.S. Government travel on U.S. flag carriers. (Part IX of the exhibit shows some of the effort we have expended on this subject.)

D. The effort our group has made in the past to point out to the appropriate branches of our Government how past and recent Government policies were detrimental to the Balance of Payment problem and our suggestions for correction. (Our entire exhibit is addressed to this point)

E. Our comments on the proposed transportation tax as to how it could or could not be enforced. (Letter attached.)

The material enclosed comprises letters, Statements to the Committees of Congress and articles published in the ALPA magazine "The Air Line Pilot". Wherever direct mention is made of the effect of U.S. governmental policies for flag air carriage upon the balance of dollar payments, a red tag has been attached for quick location. The other colored tabs give a quick reference to positions we have taken aimed at providing an *equitable* competitive position for U.S. flag carriers which would result in an improvement in the U.S. balance of payments deficit.

Throughout this material a common theme runs; that the Administration's failure to correct deficiencies existing in certain flag carriage in certain areas would produce a deteriorating situation for U.S. flag airlines and the dollar.

¹ Part I of the exhibit follows. The balance of the exhibit has been retained in the Committee files—since it was too voluminous to be put in the public hearings record.

The exhibit is divided chronologically and by subject matter; with title pages between each section. It represents only a small part of our overall effort of the past twelve years to awaken this Government to the growing problems in flag air carriage vis-a-vis certain countries abroad.

We offer, under separate cover, other exhibits to detail the encroachment of foreign flag airlines into areas of Fifth Freedom carriage (Swissair/Irish Airlines).

If you or your Committee Members or Staff desire further information or material we would be pleased to offer what we have. We are ready to meet with any of your staff to explain or define further the material submitted.

Once again may we offer our thanks for the privilege of expressing the views of the twenty-four thousand pilots of the Air Line Pilots Association, International, in the Hearings of your Committee on the Treasury travel tax proposals.

Sincerely,

CURTIS M. OLSEN,
(For Legislative Committee, International).

PART I OF EXHIBIT

TABLES: 1966 NORTH ATLANTIC, NORTH AMERICA, SOUTH AMERICA, ASIA, OCEANIA AND AFRICA AIR CARRIAGE

Countries shown invariably support one flag airline (chosen instrument). In some countries; ie: The United Kingdom some non-scheduled air carrier certification has occurred—is: Caledonian Airways, but this excepts to the rule of Chosen instruments.

(It is interesting to note that Swissair's US to Portugal carriage—22,581—exceeds the total US flag airline carriage between the US and Switzerland—17,188)

The reprint of page 14 taken from the Air Transport Association's air transport facts and figure—1967 shows 62.1% US Citizens using air carriage for international travel, but only 51.5% of the total air carriage aboard US flag air carriers.

We will submit further, more comprehensive data if discovered.

In Federally financed travel by US Government employees there is no central repository for such data and we have been unable to discover the amount of US government paid travel by Federal Employees. (For instance: a Peace Corps Volunteer returning to the United States after a foreign tour is advanced the fare but no controls are placed on the selection of airline used. The Peace Corps occasionally charter a flight from a foreign air carrier as well.)

1966 AIR PASSENGERS BETWEEN THE UNITED STATES, OTHER COUNTRIES BY FLAG OF CARRIER

[Canadian travel over land borders excluded]

	U.S. Flag	British	French	Mexican	German	Dutch	Scandinavian	Italian	Japanese	Irish
Europe:										
United Kingdom.....	729,561	430,613	11,620	---	8,097	21,476	13,243	23,718	2,882	12,938
Germany.....	354,731	693	13,477	---	317,314	575	2,382	97	15,169	166
France.....	243,298	879	316,893	---	6,443	760	---	299	507	507
Italy.....	162,081	---	1,078	---	1,751	---	---	181,738	119	284
Netherlands.....	22,709	297	319	---	302	4	707	---	314	---
Ireland.....	50,638	1,684	261	---	334	6,602	254	112	---	---
Denmark.....	7,736	---	90	---	9,297	299	164,803	---	---	---
Spain.....	95,304	41	180	5,629	240	137	2,538	550	12,239	154,401
Portugal.....	17,188	---	2,047	---	577	473	---	514	---	196
Iceland.....	5,548	173	666	---	16	300	---	21,881	---	84
Belgium.....	22,739	373	161	---	210	7	36	---	---	444
Greece.....	30,825	---	471	---	---	136	18,455	570	---	490
Norway.....	7,408	---	---	---	---	138	20,544	---	---	---
Sweden.....	4,145	---	---	---	39	---	---	---	142	---
Other.....	31,922	---	5	---	1,328	47	459	---	---	---
Total.....	1,891,072	434,753	347,268	5,629	345,948	260,605	223,426	229,536	30,865	169,510
North America:										
Mexico.....	693,590	225	48,924	378,082	104	8,825	---	---	---	---
Bahamas.....	691,738	417,703	136	6	---	---	---	---	---	---
Jamaica.....	312,071	138,882	---	4	5,834	6,920	28	---	---	---
Bermuda.....	310,631	71,523	142	---	---	---	---	---	---	---
Dominican Republic.....	147,150	6	---	---	317	227	---	---	---	---
Canal Zone and Panama.....	143,162	---	---	---	---	---	---	---	---	---
Netherlands West Indies.....	57,115	85	2,518	---	---	41,991	---	---	---	---
Antigua.....	53,558	36,421	1,124	---	---	---	4	---	---	---
Guatemala.....	56,533	---	20	---	---	---	---	---	---	---

	Swiss	Icelandic	Spanish	Israeli	Colombian	Belgian	Venezuelan	Other	Non-U.S. total	Grand total
Europe:										
United Kingdom.....	416	427	83	11,860	---	1,214	---	54,667	593,254	1,322,815
Germany.....	7,071	163	---	6	218	49	---	393,037	393,037	713,738
France.....	195	---	---	14,495	433	343	---	7,162	398,438	571,736
Italy.....	826	---	---	4,431	---	---	---	4,624	231,195	366,897
Netherlands.....	200	82	---	2,384	---	---	---	25	157,209	216,885
Ireland.....	647	---	---	118	---	382	---	585	185,369	218,897
Denmark.....	67	105	---	---	---	120	---	193	199,161	199,161
Spain.....	---	---	85,264	---	6,917	---	---	157	141,401	184,465
Switzerland.....	130,986	---	4,195	4,108	---	---	---	157	141,401	158,588
Portugal.....	22,581	---	---	---	35	---	---	57	49,815	155,064
Iceland.....	---	141,859	---	---	---	81,430	---	519	143,002	138,550
Belgium.....	123	---	3	1	---	---	---	---	87,998	167,737
Greece.....	45	---	---	5,440	---	---	---	25,242	37,804	67,729
Norway.....	---	---	---	---	---	---	---	---	18,593	26,011
Sweden.....	141	1,111	---	---	---	---	---	---	20,866	26,011
Other.....	---	---	---	---	---	---	---	2,338	5,288	37,210
Total.....	162,641	144,394	89,545	42,783	7,603	83,980	---	96,801	2,675,287	4,566,359
North America:										
Mexico.....	---	---	6,162	---	136	---	41	11,425	453,883	1,147,473
Bahamas.....	---	---	---	---	---	---	---	1,224	419,110	1,110,868
Jamaica.....	54	---	---	---	104	---	13	48,864	200,675	512,746
Bermuda.....	---	---	---	---	---	---	---	124	71,817	382,448
Dominican Republic.....	---	---	---	---	3	---	11,855	56,022	68,430	215,580
Canal Zone and Panama.....	---	---	---	---	48	---	---	14,185	14,286	157,418
Netherlands West Indies.....	---	---	---	---	3	---	2,912	278	47,785	104,900
Antigua.....	---	---	---	---	---	---	---	3,449	40,988	94,556
Guatemala.....	---	---	---	---	---	---	---	31,293	40,988	87,851
Barbados.....	---	---	---	---	---	---	---	3,889	25,642	51,796

Trinidad and Tobago.....	64	84	6	294	254	14,878	283,940	1,610,465	26,287	51,489
Other.....	64	84	6	294	254	38	106,036	210,264	383,405	383,405
Total.....	118	84	6,162	6	294	254	283,940	1,610,465	4,300,530	4,300,530
Asia:										
Japan and Korea.....						100	117	257,965	600,876	600,876
Philippines.....							26,651	60,470	81,702	81,702
Israel.....						60,447	23	4,191	60,056	60,056
Hong Kong.....							2		27,507	27,507
Ryukyu Islands.....									50,048	50,048
Other.....							4,050	4,091	63,582	63,582
Total.....			60,447			100	30,843	353,368	862,771	862,771
South America:										
Venezuela.....			17,772		1,891		4,187	96,403	172,242	172,242
Columbia.....					80,091		14,556	35,406	121,506	121,506
Brazil.....				4			32,976	52,091	94,295	94,295
Peru.....					620		37,639	59,773	85,702	85,702
Argentina.....				3			27,819	24,887	60,982	60,982
Ecuador.....					426		22,007	14,587	32,173	32,173
Chile.....					83		13,790	19,084	27,017	27,017
Other.....					3		3,131	3,595	16,524	16,524
Total.....			17,772	7	83,119		178,105	366,655	610,151	610,151
Oceania:										
U.S. administered Islands.....							36	40	59,305	59,305
Fiji.....							42,38	42,538	48,286	48,286
Australia.....							23,500	23,537	43,110	43,110
Other.....							12,731	36,526	63,388	63,388
Total.....							78,805	102,641	212,089	212,089
Africa.....							303	465	37,168	37,168
Grand total.....	162,759	144,478	113,479	103,243	91,016	84,334	668,797	5,100,381	10,589,068	10,589,068

REVENUE PASSENGERS CARRIED—U.S. SCHEDULED AIRLINE INDUSTRY

[For selected years, in thousands of passengers]

	1956	1961	1962	1963	1964	1965	1966
Domestic trunk airlines.....	37,596	44,669	46,759	53,380	60,532	69,883	79,372
Local service airlines.....	3,457	6,470	7,651	8,865	10,481	12,316	15,547
Helicopter airlines.....	64	431	359	458	608	718	1,067
Intra-Hawaiian airlines.....	625	837	877	973	1,119	1,286	1,487
Intra-Alaskan airlines.....	195	217	240	225	247	264	270
International and territorial airlines.....	4,068	5,699	6,598	7,513	8,775	10,195	11,644
Total scheduled airline industry.....	46,005	58,403	62,549	71,438	81,762	94,662	109,387

AVERAGE LENGTH HAUL

[In miles]

	1956	1961	1962	1963	1964	1965	1966
Domestic trunk airlines.....	576	661	681	682	688	701	716
Local service airlines.....	183	208	210	211	214	213	223
International and territorial airlines.....	1,285	1,539	1,536	1,585	1,636	1,647	1,657

* Includes Avalon Air Transport.

PASSENGER TRAVEL BETWEEN THE UNITED STATES AND FOREIGN COUNTRIES *

[Thousands of Passengers]

	1956	1961	1962	1963	1964	1965	1966
Passengers via air.....	2,643	4,954	5,364	5,997	6,905	8,227	9,780
Passengers via sea.....	1,242	1,469	1,568	1,639	1,710	1,652	1,549
Total via air and sea.....	3,885	6,423	6,932	7,636	8,615	9,879	11,329
Air share (percent).....	68.0	77.1	77.4	78.5	80.2	83.3	86.3
U.S. citizens via air (percent).....	68.6	61.2	61.4	61.8	61.8	60.9	62.1
Passengers via foreign-flag airlines.....	879	2,496	2,684	2,977	3,465	4,195	4,744
Passengers via U.S.-flag airlines.....	1,763	2,458	2,680	3,020	3,440	4,032	5,036
U.S.-flag airlines' share (percent).....	66.7	49.6	50.0	50.4	49.8	49.0	51.5

* Figures are for fiscal years and are exclusive of travel over land borders (except Mexican air travel), crewmen, military personnel, and travelers between continental United States and its possessions.

Source: U.S. Department of Justice, Immigration and Naturalization Service, "Report of Passenger Travel Between the United States and Foreign Countries."

INTERCITY PASSENGER TRAVEL IN THE UNITED STATES

[Passenger-miles in millions]

	1956	1961	1962	1963	1964	1965	1966
Common carriers:							
Airlines.....	22,399	31,062	33,623	38,457	44,141	51,888	60,591
Railroads.....	23,348	16,154	15,859	14,396	14,048	13,260	12,903
Motor bus ¹	21,700	19,700	21,300	21,900	22,700	23,300	24,800
Total.....	67,447	66,916	70,782	74,753	80,889	88,448	98,294
Air share (percent).....	(33.2)	(46.4)	(47.5)	(51.4)	(54.6)	(58.7)	(61.6)
Private automobile.....	670,000	714,000	736,000	766,000	802,000	838,000	880,000
Total common carrier and auto.....	737,447	780,916	806,782	840,753	882,889	926,448	978,294
Common carrier share (percent).....	(9.1)	(8.6)	(8.8)	(8.9)	(9.2)	(9.5)	(10.0)
Air share (percent).....	(3.0)	(4.0)	(4.2)	(4.6)	(5.0)	(5.6)	(6.2)

¹ Includes charter.² Estimated.

GROWTH IN U.S. AIR PASSENGERS
[Canadian travel over land borders excluded]

	Total—Both directions		1966			Increase—1966 over—		
	1964	1965	Arrivals	Departures	Total	1965	1964	
							Amount	Percent
Europe:								
United Kingdom.....	988,456	1,167,678	662,161	660,654	1,322,815	155,137	334,359	33.8
Germany.....	532,302	590,162	382,381	331,377	713,758	123,596	181,456	34.1
France.....	485,260	521,741	330,781	260,955	591,736	69,995	106,476	21.9
Italy.....	284,762	303,430	184,028	172,819	356,847	53,417	72,085	25.3
Netherlands.....	199,814	229,413	128,578	128,308	256,886	27,473	57,072	28.6
Ireland.....	159,805	188,389	111,398	104,449	215,847	27,458	56,042	35.1
Denmark.....	172,568	185,851	98,735	96,390	195,125	9,274	22,557	13.1
Spain.....	144,725	175,142	114,930	79,535	194,465	19,323	49,740	34.4
Switzerland.....	125,038	136,771	81,851	76,737	158,588	21,817	33,550	26.8
Portugal.....	101,361	125,197	88,210	66,844	155,054	29,857	53,693	53.0
Iceland.....	96,601	130,092	75,751	72,799	148,550	18,458	51,949	53.8
Belgium.....	90,219	101,442	56,031	49,706	105,737	4,295	15,518	17.2
Greece.....	38,353	54,928	33,978	28,751	62,729	7,801	24,376	63.6
Norway.....	14,270	16,223	10,608	15,393	26,001	9,778	11,731	82.2
Sweden.....	23,829	22,569	11,884	13,127	25,011	2,442	1,182	5.0
Other.....	33,173	35,545	18,528	18,682	37,210	1,665	4,037	12.2
Total.....	3,490,536	3,984,573	2,389,833	2,176,526	4,566,359	581,786	1,075,823	30.8
North America:								
Mexico.....	792,707	933,181	588,643	558,830	1,147,473	214,292	354,766	44.8
Bahamas.....	717,464	893,557	567,360	543,508	1,110,868	217,311	393,404	54.8
Jamaica.....	312,737	425,820	272,839	239,907	512,746	86,926	200,009	64.0
Bermuda.....	280,267	348,376	194,270	188,178	382,448	34,072	102,181	36.5
Dominican Republic.....	202,779	178,609	114,025	101,555	215,580	36,971	12,801	6.3
Canal Zone & Panama.....	85,981	149,093	66,280	91,138	157,418	8,325	71,437	83.1
Netherlands West Indies.....	75,808	95,612	54,500	50,400	104,900	9,288	29,092	38.4
Antigua.....	68,791	80,824	48,212	46,344	94,556	13,732	25,765	37.5
Guatemala.....	75,110	77,839	50,154	37,697	87,851	10,012	12,741	17.0
Barbados.....	27,301	39,862	30,224	21,572	51,796	11,934	24,495	89.7
Trinidad & Tobago.....	35,256	46,271	29,635	21,854	51,489	5,218	16,233	46.0
Other.....	196,309	265,615	221,645	161,760	383,405	117,790	187,096	95.3
Total.....	2,870,510	3,534,659	2,237,787	2,062,743	4,300,530	765,871	1,430,020	49.8
Asia:								
Japan & Korea.....	423,517	498,948	291,371	309,505	600,876	101,928	177,359	41.9
Philippines.....	67,500	79,001	43,551	38,151	81,702	2,701	14,202	21.0
Israel.....	45,353	56,921	26,476	42,580	69,056	12,135	23,703	52.3
Hong Kong.....	22,505	21,503	18,968	8,539	27,507	6,004	5,002	22.2
Ryukyu Islands.....	13,137	21,297	12,712	7,336	20,048	(1,249)	6,911	52.6
Other.....	36,825	45,161	27,059	36,523	63,582	18,421	26,757	72.7
Total.....	608,837	722,831	420,137	442,634	862,771	139,940	253,934	41.7
South America:								
Venezuela.....	126,494	149,823	88,600	83,642	172,242	22,419	45,748	36.2
Columbia.....	118,415	112,659	65,291	56,615	121,906	9,247	3,491	2.9
Brazil.....	68,939	87,871	48,982	45,313	94,295	6,424	25,356	36.8
Peru.....	65,625	61,145	47,104	37,908	85,012	23,867	19,387	29.5
Argentina.....	53,241	59,970	32,213	28,769	60,982	1,012	7,741	14.5
Ecuador.....	27,340	28,141	19,942	12,231	32,173	4,032	4,833	17.7
Chile.....	22,580	22,538	17,299	9,718	27,017	4,479	4,437	19.7
Other.....	13,918	16,208	8,221	8,303	17,524	316	2,606	18.7
Total.....	496,552	538,355	327,652	282,499	610,151	71,796	113,599	22.9
Oceania:								
U.S. administered islands.....	55,825	51,531	28,910	30,395	59,305	7,774	3,480	6.2
Fiji.....	41,903	49,012	11,021	35,265	46,286	(2,726)	4,383	10.5
Australia.....	33,879	41,555	31,375	11,735	43,110	1,555	9,231	27.2
Other.....	30,710	39,375	31,973	31,415	63,388	24,013	32,678	106.4
Total.....	162,317	181,473	103,279	108,810	212,089	30,616	49,772	30.7
Africa.....	28,331	34,115	17,394	19,774	37,168	3,053	8,837	31.2
Grand total.....	7,657,083	8,996,006	5,496,082	5,092,986	10,589,068	1,593,062	2,931,985	38.3

AIR LINE PILOTS ASSOCIATION,
Chicago, Ill., March 1, 1968.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
Longworth House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: During Testimony of the Air Line Pilots Association before your Committee, February 21, 1968, we were asked to submit the views of the ALPA re: the proposed tax on international air fares, and whether we felt it could be enforced with any degree of success.

We stated that our resources were insufficient to develop a comprehensive and meaningful Statement on this matter. We do believe that the records of your Committee's predecessors must demonstrate reasons why the Congress treated domestic and international fares differently when they set up a different structure. The tax on domestic fares does serve the purpose of a "user charge"; but internationally little use is made of the US Air Traffic system to justify the charge.

The tax has been proposed to reduce U.S. resident travel outside of the U.S. which is supposed to reduce dollar expenditures in foreign countries. At the same time, without any significant increase in Government expenditures for travel information or advertising, it is expected that alien tourists will somehow flock to the U.S., increasing the dollar import. We believe this to be wishful thinking. The tax *will* provide the Treasury with a source of revenue (which is not the purported reason for the impost), it *will* adversely affect the U.S. flag carriers, it *will not* have any significant effect on the balance of payments deficit.

The transportation tax cannot be administered in a fair and equitable manner. Some of the frequent business travelers, the affluent travelers and the knowledgeable tourists will all discover ways of circumventing the tax as they did when it was previously imposed. Some of the means we have heard of are as follows: Persons who travel frequently can purchase tickets for their next flight while out of the country; some will make short pleasure or business trips to nearby Canada, Mexico, Bermuda, The Bahamas or the Caribbean area and purchase tickets while there; residents can have traveling business acquaintances and friends purchase tickets for them while they are out of the country; residents can have their friends and business associates located in foreign countries purchase and forward tickets by mail; some may purchase tickets by mail direct from travel agents or airline offices in foreign countries. We are certain there are other ways that would be devised. It is obvious that a large part of the tickets obtained under the above means would be written for travel on foreign flag carriers, thus circumventing the tax, injuring U.S. flag carriers and to some extent, increasing the dollar deficit. Of course most of the average tourists, teachers and students, will pay the levy even though they are the ones least able to pay.

Is the Treasury not looking for another source of revenue and finds this an easy way to extract it? If it becomes law it will be another dead hand on travel. This is in curious contrast to the President's expansionist statements about trade, even though an airplane seat for overseas travel must be considered an item of foreign trade.

We believe this to be a bad tax as it will be possible to circumvent and thus impossible to administer in an uniform manner making for an unjust levy. The ALPA position is then in opposition to the tax unless it is clearly needed as a "user charge" (which has not been claimed) and not a measure to help balance the dollar deficit. In lieu of the travel and expenditure tax proposals we support positive programs that will eventually reduce or eliminate the dollar deficits created by foreign travel such as: encouraging foreign tourists to visit the U.S. by offering reduced individual and group fares for such travel to and from the U.S.; enforcement of our present bilateral agreements and negotiate provisions in future and renewed bilateral agreements to assure U.S. flag carriers an equitable competitive position with foreign flag carriers, a policy which is consistent with our United States free enterprise traditions.

Sincerely,

PAUL R. METCALF,
Chairman, Pan American Master Executive Council.

AIR LINE PILOTS ASSOCIATION,
Chicago, Ill., March 2, 1968.

HON. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: In our Testimony we cited the enormous Fifth Freedom carriage across the North Atlantic as a cause of the deficit in dollar payments (because of the preponderance of U.S. residents in the passenger totals).

The enclosed publicity release by Irish Airlines and newspaper ad by Swissair shows neither intends its relentless pursuit of the buck. That their bold announcements, of their continued intention to violate the principles of equity in air carriage, occur during your Committee's deliberation emphasizes the need for Administration action to correct the deficiencies in these Bilateral Air Transport Agreements.

Irish Airlines serves three U.S. cities to twenty-nine European cities in pure Fifth Freedom traffic, according to their announcement. Swissair intends preempting both U.S. flag airlines' and Lufthansa's proper traffic between New York and Frankfurt.

The Administration has an obligation to protect U.S. industry as well as the dollar's stability. Correction of the abuse of the bilateral agreements would help both.

With hope that this material will be helpful in your deliberations, we remain,
Sincerely yours,

CURTIS M. OLSEN,
ALPA Legislative Committee.

IRISH TO OPEN NEW YORK-BELFAST JET LINK

(Irish International Airlines News Bureau, New York, N.Y.)

In recent years a policy of "hands across the Border" by the governments of the Irish Republic and Northern Ireland has led to a breaking down of travel barriers between the two areas.

Now Irish International Airlines announces that starting in June it will operate the first scheduled jet service between Belfast and New York. The Irish line will provide four services a week each way through Shannon Airport so as to give connections to Canada as well as to the United States. On days when the jet service is not available, there will be Viscount services between Aldergrove Airport, Belfast and Shannon, ensuring trans-Atlantic connections.

Mr. Michael J. Dargan, the airline's President, expressed confidence in the success of the new service and added that his company would increase the number of flights as the traffic expanded.

Detailing the carrier's plans for this year, Mr. Dargan said that services on the Chicago/Montreal/Ireland route would be increased from three to four a week, making a total of eight flights a week from Montreal in conjunction with Irish International's pool partner, Air Canada.

He added that during the peak season this year, "Irish" would operate a total of 35 flights a week between North America and Ireland.

At present Irish International jets fly out of New York, Boston, Chicago and Montreal, serving a total of 31 major cities in Ireland, Britain and Continental Europe.

[From the New York Times, Tuesday, Feb. 27, 1968]

STARTING APRIL 2, SWISSAIR FLIES NONSTOP FROM NEW YORK TO FRANKFURT

So why should you care?

Because Swissair will be the first plane into Frankfurt. (Attention all businessmen: Swissair puts you in Frankfurt a shave and a shower ahead of the competition.)

Here's how it works: we take off from New York every Tuesday, Wednesday and Friday evening and land you in Frankfurt at 7:35 A.M. the next morning. (Any day of the week we can also get you into Frankfurt via Zurich before 9:00 A.M.)

We have another kind of first plane service, too. It takes you non-stop to Zurich quick enough to make the earliest morning connections to Stuttgart, Düsseldorf, Munich, Vienna, Even Prague. (Going to Berlin? Only Swissair can get you on the earliest possible connections out of Frankfurt.)

Our service? The same hospitable kind the Swiss are known for in hotels all over the world. (We call it Swiss-Care.)

For more information see your travel agent or Swissair. We're at 608 Fifth Avenue, The Swiss Center, or 26 Broadway, New York. Phone us at 995-8400.

And the next time you're going on a trip to Germany, don't forget Swissair lands in Frankfurt, First.

SWISSAIR,

(Swiss Care Worldwide on the Privately Owned Airline of Switzerland).

Mr. HERLONG. The next witness is Mr. Robert J. Casey and Mr. William Fugazy. Do you have a copy of your statement, Mr. Fugazy?

STATEMENT OF WILLIAM FUGAZY, PRESIDENT, DINERS-FUGAZY TRAVEL, INC., ACCOMPANIED BY ROBERT J. CASEY, COUNSEL

Mr. CASEY. Yes, Mr. Fugazy's statement is already available to the committee.

Mr. HERLONG. Mr. Fugazy, you are going to make the statement as I understand it.

Mr. FUGAZY. Yes, sir.

Mr. HERLONG. Will you please identify yourself for the record and the gentleman with you and proceed in your own way.

Mr. FUGAZY. Yes, sir. My name is William Fugazy, president of the Diners-Fugazy Travel, a subsidiary of the Diners Club, and Mr. Casey is our counsel.

We have already, Mr. Chairman, distributed the statement of Mr. Bloomingdale, who is our chairman, and for the sake of brevity I am not going to read that statement. I am hopeful that the members of the committee will read it.

Mr. HERLONG. Without objection it will appear in the record at this point.

(Mr. Bloomingdale's prepared statement follows:)

STATEMENT OF ALFRED BLOOMINGDALE, CHAIRMAN OF THE BOARD, DINERS CLUB, INC. AND DINERS/FUGAZY TRAVEL, INC.

Mr. Chairman, honorable members of the Committee, any American businessman would agree, President Johnson's concern with the preservation of our dollar through a more equitable balance of payments is admirable and most important. Diners Club, our travel division, Diners/Fugazy Travel and our international division, Diners International, Inc., are all concerned not only with the preservation of the value of the U.S. dollar, but we believe we are in a position to assist our government toward this end.

It is not enough for Americans to merely stand up and oppose legislation which is not favorable to their business position. It is not enough for Americans to say no when they see the President trying to seek solutions to problems that involve us all. If we, as Americans, say no to suggested legislation, we must also be in a position to say why we disagree and to suggest logical alternatives. Mr. Chairman, gentlemen, the Diners Club is opposed to the proposed legislation or any legislation that sets restrictive taxes on travel outside of the Western Hemisphere. This proposed legislation is impractical, unworkable and impeding and, in our opinion, will not help substantially the balance of the payment problem.

We believe that the proposed legislation would open up for questioning the entire area of American freedom. It would again bring into being another burgeoning bureau which would be responsible for checking our wallets for cash, credit cards or travelers checks. Among the duties of this new bureau would have

to be the right to search our citizens, for the only way to insure fairness and equality under this proposed law would be to subject some American travelers to search at the point of departure and on his return. For how else could this law insure that a man was telling the truth. This legislation would further open up the door for foreign merchants, hotel owners and businessmen to join in a conspiracy with American citizens in assisting them to lie about the amount of money spent. (Some merchants do it now.) I can assure you that hotel clerks throughout the world would be happy to write a \$3 or \$4 receipt in cases where \$15 or \$20 might have been spent for a room—and how does the United States government intend to protect the law-abiding against this?

Next, let us consider the problems of physical facilities at points of arrival and departure, such as airports, which are already overcrowded. Now add the extra burden of declarations and forms, and examinations and questions, and see what the average American traveler will say about these new government inconveniences. The American should have a sense of pride about the workings of his government and an appreciation for the freedoms afforded by our Constitution and Bill of Rights. We believe that the more we restrict Americans unnecessarily, the less respect he will have for his government . . . and this proposed tax is an unnecessary restriction.

We believe it impossible to travel anywhere for \$7 per day. Isn't the proposed tax discriminatory for businessmen who must travel in an attempt to sell American goods overseas? They are the ones who will improve our dollar position? Isn't this proposal discriminatory to people of modest income who save a lifetime for a dream trip to Europe, perhaps to see a relative or to visit their place of birth before they die? Isn't this tax discriminatory for students and teachers, our future statesmen, who must have first hand knowledge of the world to prepare themselves for a career? Of course, the answer is yes. This proposed legislation discriminates against the very person who should be encouraged to travel, and, therefore, it makes no sense at all.

Let us say the Administration is successful and that you gentlemen agree with the President that this travel tax is necessary and that the Two Million Americans now traveling in Europe and Asia decide to spend their vacation in other parts of the world. Where are they going to go? There are no hotels to take care of the influx of Americans eager to see the Western Hemisphere. Gentlemen, we are in the travel business. We know the tremendous shortage of tourist and vacation facilities. If we congeal the entire pool of Two Million Americans and tell these Two Million travelers that they must go to Mexico City, Lima, Peru or even Honolulu, what you are telling them to do is to stay home, for nowhere are there facilities large enough to handle them.

Let us consider some positive action to assist the President in improving our balance of payment. First of all, what are we doing to encourage foreign tourists to spend their money in the U.S.? Most foreign countries spend more money in promotion in the U.S. than we spend outside of the United States and they are beating us at our own game. Americans are the greatest salesmen in the world, yet for some unknown reason we do not seem to want to sell the U.S. outside of our country. Why can't the travel industry, supported by the government, formulate a sales program aimed at selling the United States overseas? Why should the Swedish, the Germans or British subjects choose the French Riviera as a place to go. Of course, Miami, Las Vegas and Hollywood are a bit further, but the enticements are every bit as glamorous and with the help of government and travel industry, tours could be packaged to make it economically feasible. We at Diners Club and Diners/Fugazy are doing it now. For the first time, in many countries, we are arranging for foreign nationals to travel in the United States on fly now, pay later tours and we are using our offices overseas as individual promotional bureaus selling the United States and the advantages of traveling here. But, already we are running into retaliation based on the news of this proposal. Our Italian office has reported that they are meeting sales resistance in selling the S.S. Constitution and the S.S. Independence (for whom we are general agents) to Italian citizens.

If this Bill passes, we will be incurring the wrath and retaliation of other foreigners who would come to the U.S. to spend their yens, marks, pounds, francs. Our company is in the process now of opening 40 new offices in order to assist in this program and we are certain that others in the travel industry will join us in this program of selling the United States to the world.

Gentlemen, it certainly makes more sense to be a positive selling force than to sit here and think of ways to impede, tax and harass Americans and American

progress. Most every sophisticated international traveler can tell you how to get around this type of legislation in any number of devious ways. Let's not encourage a generation of cheaters.

I personally travel around the world several times a year and I know that the personal contact that we Americans make in foreign lands does us more good than many of our so-called aid programs and travelling Americans, both businessmen and vacationers, as well as students and teachers, have become a welcome sight throughout the world.

After all, we have been praised for our efforts with such programs as the Peace Corps. Is it not important to encourage a sort of businessman's Peace Corps outside of governmental spheres. We should welcome the interchange and the free travel between all nations because people seldom hate people even though governments often cause hate of other governments. Gentlemen, let us make another look at this proposition to restrict the free interchange of people. Let our travelers do their business or have their fun and let foreign travelers do their business and have their fun on our shores. In this way, an intelligent balance of spending can be brought about.

If we are going to find it necessary to pass emergency legislation aimed at a better balance of payment, would it not be more intelligent to follow the lead of most foreign nations and increase certain traffis? For example, look at foreign automobiles. Just \$500 applied to imported automobiles would produce almost enough balances to come to the sum that the President asked you to save with the travel tax. There can be little or no retaliation as in most of the countries we travel in, the tax on American automobiles is already at a ridiculous high rate. There are other American products that are also taxed abroad beyond any reason. As another suggestion, we would sell American Savings Bonds abroad to Americans living abroad and to foreign nationals. Despite the low interest rate on American Bonds, the stability of the dollar is more valuable than their own country's securities. American banks abroad could handle these transactions.

Let's look further for other ways to take care of this dollar problem. Gentlemen, the travel industry will be heard from throughout these hearings and we are certain you will hear from them, as you have heard from us, many positive suggestions which could offer alternatives to this unworkable legislation.

Thank you for your consideration of our proposal.

Mr. FUGAZY. Thank you. I just want to highlight some of the statement and add a few points that I think are relevant to these hearings.

The Diners Club and Diners-Fugazy is opposed to the proposed legislation or any legislation that sets restrictive taxes on travel outside of the Western Hemisphere. We think that this proposed legislation is impractical. We think it is unworkable and impeding.

We don't think it will help substantially in the balance-of-payments problem. We further feel that the proposed legislation would open up for questioning the entire area of American freedom.

We feel that the implementation of this program is impractical, that the problems that already exist at airports and steamship piers throughout the United States would make it impractical to govern this program. We think that this proposal is discriminatory to people of modest income who save an entire lifetime with the dream of going abroad, as well as to students and teachers who must travel abroad to develop their careers.

One of the major problems is that since the President requested that travel abroad be limited, we, as large group incentive operators, have found it impossible to find space for the people who have canceled from Europe and it is impractical to find space in the Western Hemisphere, and the Caribbean, or where have you for these groups and as a result dollars that would have been spent in foreign travel are not being spent on travel and in the case of incentive travel perhaps the incentive for increasing sales and business no longer exists and will be lost to the Government as income.

The Diners Club which, outside of the United States, is the largest credit card in the world, has close to 600,000 members, and I wanted to point out to Mr. Burke that several thousand of these live in Ireland. They are members of the Diners Club and I am sure they benefit from the programs that we are developing over there to bring foreign residents to the United States.

We are offering fly-now-and-pay-later plans that are practical, that heretofore were unheard of. We think that this is the approach to help the balance-of-payments program, to bring in an expenditure of dollars, to help the expenditure of dollars by bringing foreign residents over here.

This is the way we feel that we can best solve this problem.

I would also like to point out that in addition to being the president of the Diners-Fugazy Travel I am also president of Diners-Fugazy Sales Corp. which is handling the operations of an American subsidized steamship line, the American Export-Isbrandtsen Line, and I would like to say that this company would, I think, be hurt very badly by having a tax charged to the passengers that use our ships and that it is not practical in the sense that the President tells people not to go to Europe and at the same time tells our steamship company that if they don't go to Europe we can't get a subsidy.

There is a conflict here. It seems to me that there should be some relief from that. We furthermore think that we have a form of assistance to this program and we have under serious consideration the possibility that we will take one of our ships and make it the first U.S. trade ship and send it to 43 world trade markets.

We think that the significant of this is so great that perhaps the imbalance-of-payments problem could be equalized by the tremendous amount of exports that could go from this country to these 43 markets.

Basically that is what I would like to bring to the attention of the committee here. We feel that there are many means available other than this program, other than this proposed tax, to solve the imbalance-of-payments problem.

Mr. HERLONG. Thank you very much, Mr. Fugazy. Are there questions?

Mr. CURTIS. Yes.

Mr. HERLONG. Mr. Curtis.

Mr. CURTIS. I appreciate your testimony but I want to interrogate a bit. You say on page 3:

Americans are the greatest salesmen in the world, yet for some unknown reason we do not seem to want to sell U.S. outside of our country. Why can't the travel industry—

And I hate to see this—

supported by the government, formulate a sales program aimed at selling United States overseas?

I think that is what has been going on.

Mr. FUGAZY. It has been a very weak attempt to date.

Mr. CURTIS. Has it indeed? The United States according to statistics is the greatest guest Nation in the world. Are you familiar with these statistics?

Mr. FUGAZY. Yes.

Mr. CURTIS. Well, we had some statistics from one of the witnesses and the increase has been 178 percent just 1967 over 1966. Is that a pretty rapid growth?

Mr. FUGAZY. I think the growth has been good, but I don't think it is as good as it can be and I think the news yesterday that the domestic airlines are cutting their fares and that international airlines are considering it as well as hotels is going to help considerably and I think you will see a much greater growth, but I don't think the growth has been that great to date.

Mr. CURTIS. You see, the criticism I am directing against your statement is what you are saying now isn't what you have said in your statement. You have made it look in your statement almost as if nothing had been done.

"* * * yet for some unknown reason we do not seem to want to sell the United States outside of our country."

If your statement had started out with what you have just responded, that the United States is the largest host Nation in the world and there have been great increases, but we feel that they have not been enough and we can do a great deal more, then we have it in context. Regrettably the testimony from various groups has not been in context and the people of this country and the Congress don't know that this is so, so we are directing attention to a different kind of problem.

If nothing were going on in this area, sure, that calls for one course of action. If we are talking about a rapid growth and the feeling—and I happen to share this feeling—that that growth could be more rapid and still be healthy, that is a different problem.

Now, let me go on because after posing that problem, your statement is a fine statement because you then go on to support just the point that I am making.

"Our company is in the process now of opening 40 new offices in order to assist in this program."

You are doing this? I assume those are going to be abroad, are they not?

Mr. FUGAZY. Yes, sir.

Mr. CURTIS. What is the impact of the restriction on investment abroad going to do to this growth program of yours?

Mr. FUGAZY. Well, our company is a little different in that all of our foreign operations are owned by foreign nationals to a greater degree. Diners Club, for instance, owns I think 51 percent of the British company, but the other companies throughout the world are owned locally by foreign investors.

Mr. CURTIS. You don't have any of your own equity in that then?

Mr. FUGAZY. We have some, but in most instances we do not control it.

Mr. CURTIS. At any rate, you figure that the investment restrictions will not impede your growth.

Mr. FUGAZY. No, sir, we do not.

Mr. CURTIS. What do you think it is going to do to the growth of our airlines and others when you say we ought to get busy in promoting the sales program, because this expansion must come from abroad.

Mr. FUGAZY. Yes, sir. I think it is going to hurt.

Mr. CURTIS. I do too. I am surprised that there haven't been comments on this and the inconsistency of the administration's program in urging that we increase the amount of efforts that we are making to encourage tourists to come to this country and relate that to the proposed cutback in investments abroad.

The thing to me that is so tragic is that others who are concerned as you are, talk about the help of Government. My goodness sakes, this is such a healthy business. You really can make a buck here, and I am glad you can. Why do you have to come to the Government?

Our problem, believe me, of inflation is overspending by the Government. If we are going to really do the job we have to get our Federal spending down within our means, and here is an area where clearly the private sector in my judgment could be expanding, and you are doing it. Yet the administration comes here and says it wants to expand Government spending abroad for this very same purpose and yet wants to restrict private.

It is so inconsistent that I wanted to make these comments.

Well, it would be helpful if somebody in your general industry would come in and give us further data on the growth and planned expansion that has been going on in tourism in the United States. You have given it for your industry and I was very glad to get this. But let's get an understanding of what is the total expansion.

What does the USTS spend? About \$2 million?

Mr. FUGAZY. I believe it was under that.

Mr. CURTIS. I do too. What do you suppose is actually spent in the private sector? I would be guessing that it would be \$50 million at least, with all the airlines, what you spend, and everyone else. Would you hazard a guess?

Mr. FUGAZY. I understand that the figure you just asked me for is \$1.4 million. It is under \$2 million. I wouldn't be able to guess as to what the airlines, Pan American and TWA, and the various members of the Discover America program, have spent. I don't think it is that considerable.

Mr. CURTIS. I think one of them spent more than \$1.4 million. I think we have had testimony to that.

Mr. FUGAZY. Yes, sir.

Mr. CURTIS. Just one airline alone. So the question is what is the total spending in the private sector in this area. I don't know what you spend. It doesn't matter whether foreigners are spending it in your setup or you yourselves. How much money is being spent in the private sector on encouraging tourism in the United States? I think when you begin to look at it you look pretty silly in asking the Federal Government to even be spending \$1.4 million.

It is inconsequential. Then when you take a look at what the Government is doing I would think that you would want us to save the money. They are not very efficient at spending money effectively for this kind of purpose, I would argue.

Mr. HERLONG. Mr. Battin.

Mr. BATTIN. Mr. Fugazy, how effective do you really think this proposed tax would be as a deterrent to travel based on your experience?

Mr. FUGAZY. I don't think it is going to be that effective because I believe there is a report of "Working Party One" where it said that out of the \$198 million travel deficit, only approximately 46 percent

of it was due to nonessential or pleasure travel and certainly if you are going to tax business travel this is tax deductible and I don't think it is going to discourage that.

I just feel that it is discriminatory against the lower income group and the nonbusiness travel or student. I don't think it will be effective.

Mr. BATTIN. Do you see any impact on our economy other than the reduction in nonessential travel?

Mr. FUGAZY. I think it is going to hurt terribly, as has been brought out here already, in foreign airlines buying equipment and I believe they bought some \$921 million worth of equipment and, as I see when I go abroad to our board meetings and so forth, the attitude is going to change terribly toward the Americans and hurt.

I think it is going to have terrible effects both on hotel bills as well as airlines and general tourist bills.

Mr. BATTIN. How would you put this legislation as it affects an American carrier? What is going to be their interpretation?

Mr. FUGAZY. I think it is going to hurt and, as I say, as the general agent of an American steamship company, with the complete inconsistency of telling them not to go abroad and if they don't go abroad we get no subsidy, I don't see the purpose in taxing the American carrier, whether it be an airline or steamship line, if the dollars are staying here.

It doesn't make sense.

On the other hand, I know it is difficult and the CAB and the Maritime Commission would have trouble having our fares not competitive with the foreign airlines because they had a tax on theirs where we didn't.

I recognize the problem. I don't think it is fair to the American carrier.

Mr. BATTIN. In general I don't know how many people might be employed, but is this in any way in your opinion going to affect the employment not only here, but certainly in European countries?

Mr. FUGAZY. I think it is going to affect the employment here terrifically. I know companies like ours are going to be affected by this legislation if it goes through. I think airlines and hotels that employ Americans here and abroad are going to be affected. I think there is going to be a lot of unemployment if this legislation goes through.

I feel quite strongly about that. I believe the Boeing Co. estimated that thousands upon thousands of jobs would be lost and \$596 million in sales, which certainly is significant and would be felt in our economy.

Mr. BATTIN. I was intrigued by this world trade ship that you were talking about. Just for my own edification, and that of the committee, would you describe in detail what you contemplate.

Mr. FUGAZY. Yes, sir; the only real trade ship which has ever really been successful has been the Japanese. They had a trade ship that they claim has brought in \$18 billion in sales in 7 years. The United States has never had a trade ship.

The trade ship that we are proposing would be the SS *Atlantic*, which American Export is not operating at this time. We think that the first year with 400 companies abroad as exhibitors that we could bring close to \$200 million in sales throughout the world of American products. We are hoping that the administration will get behind this

because we think that just this trade ship alone could possibly help the deficit and payments by selling our products abroad.

Mr. CURTIS. Would the gentleman yield? Why don't you do it yourself? If it is going to accomplish what you say why do you come to Government?

Mr. FUGAZY. We are not coming to Government.

Mr. CURTIS. You say you want the administration to get behind this. I don't understand that.

Mr. FUGAZY. We want the endorsement so that American companies will go forth.

Mr. CURTIS. Oh, you have that.

Mr. BATTIN. I am thinking in terms of what your leasing space on ship would do for the exhibitors. What would your ports of call generally be?

Mr. FUGAZY. Well, we would cover 42 ports throughout the world and we would be, for the first time, making it possible for small manufacturers who heretofore couldn't afford to get sales offices or distribution centers throughout the world.

It would cost the company something like \$500 a port, and most companies couldn't even send one man abroad for that amount. We are talking about covering practically the whole world in 43 markets and, as we say, companies that might sell a zipper or a tractor or an airplane would be able to have their product shown abroad where heretofore they never were able to do so.

Mr. BATTIN. Do you have a brochure there in front of you?

Mr. FUGAZY. Yes, sir; we have a proposed one and, as I say, this is not definite. This is only being contemplated. We have to get approval from Maritime and so forth, but it is under serious consideration and if the figures stand up, as it would appear they will, we think this could be a very important contribution toward relieving the deficit payment.

Mr. BATTIN. Is there something there that you would like to have included in the record as a proposal?

Mr. FUGAZY. Just a general one. I would send it under separate cover if I may. I wasn't prepared to talk too much about the trade ship other than to highlight the possibility that we might be bringing it in.

(The following information was received by the committee:)

AMERICAN WORLD TRADE SHIP

The ship to be used is the United States flag passenger liner the *Atlantic*. The *Atlantic* (564 feet long, 76 feet wide and 18,000 tons in size) is large enough to accommodate 350 exhibit booths or display units and accompanying exhibit personnel in comfort and still be able to be berthed overseas at terminals with convenient access for the visitor, who will be of special interest to the exhibitor.

The *Atlantic* is entirely air-conditioned and display areas and stateroom accommodations are air-conditioned or heated as circumstances require. Each stateroom has its own private bathroom equipped with shower and toilet.

The exhibit areas will contain all booths or island displays normally made available to the requirements of exhibitors at large trade exhibitions. The size of the areas desired by each exhibitor can be adjusted to his specific requirements, ranging from 16 to 2,500 square feet, with provision for the larger areas to be treated as a single display area when required. The design and construction of the individual booths or island display units will conform to proven design arrangements requiring exhibitor's materials to be installed in the booths of display units in harmony with an attractive and clean-cut overall display.

This organized method of display will convey to overseas nationals a fine image of American products.

Within limits, exhibit areas will be color-coded to minimize problems normally encountered with language difficulties. There will be an adequate number of guides and guards available to direct visitors. There will be directories, traffic control indicators and informative graphic panels to ensure that the visitors will be received graciously and guided through the exhibit areas smoothly.

There will be rooms available for conference purposes and areas for individual entertainment in staterooms, hospitality areas and bars, and a dining room accommodating more than 400 persons at one seating and usable for various other purposes. The auditorium, normally used as a movie theatre, will be available throughout the voyage for special projects.

As is customary in trade exhibitions, specific areas on the ship will be designated for various industry groups such as business machines and systems, electronics and automation, food, pharmaceuticals, electric and other appliances. There are adequate areas available to accommodate displays of large equipment such as earth-moving, agricultural and other machinery. Organizations interested in marketing franchise opportunities or establishing business contacts beyond the aforementioned facilities will be provided with specialized areas for their needs.

The design of the booths or island displays will intentionally create an "open" appearance, but will permit and encourage the individual exhibitor to prominent material display.

The stateroom accommodations available to the exhibitor's personnel permits a broad range of selection, in single or double occupancy.

The *Atlantic* has ample power capacity to provide electricity for the needs of each exhibit booth. Additional power can be provided when required for electric motors and electronic devices.

The *Atlantic* conforms to the safety and fire prevention requirements of the United States Coast Guard and is American-owned and of American registry. In keeping with the high standards required of American flag vessels, the exhibition booths will be constructed of fireproof materials and finished with approved fire-retardant paints. The electrical fixtures and components, all motors and electric equipment must conform to Underwriters Laboratories requirements. Each member of the *Atlantic* staff will be a member in good standing of an American union. Union labor will be employed to construct and install the exhibition booths. Non-discriminatory practices will be maintained in accordance with Federal and State government requirements. Hospital facilities are available on the S.S. *Atlantic* and the cooperation of the United States Government agencies and authorities in the United States and at all foreign ports in countries where the *Atlantic* will call are assured.

Mr. BATTIN. It seems to me to be somewhat of a unique idea and also alternative to the tax which has been suggested.

Mr. FUGAZY. Yes, sir.

Mr. BATTIN. Mr. Curtis inquired as to whether or not the Commerce Department regulations went into effect the first of the year they were going to affect you and you said most of the companies overseas were owned by foreign nationals but you had some interest.

As I remember those regulations they even went to the point where if an American company owned 10 percent of a foreign business then they were going to be required to repatriate earnings at a certain set rate, and also would be restricted as far as direct investments.

That still doesn't affect your operation?

Mr. FUGAZY. Oh, I think it will affect us and I am sure that we will think twice before having to expand as rapidly as we would before, but I didn't think it was significant with our company inasmuch as we do own the minority interest in most of our foreign investments.

Mr. BATTIN. Thank you very much.

Mr. HERLONG. Any further questions?

If not we thank you so much for your appearance before the committee.

Mr. FUGAZY. Yes, sir.

Mr. HERLONG. The next witness is Mr. Donald E. Streicher. If you identify yourself for the record and those with whom you are associated you may proceed in your own way.

**STATEMENT OF DONALD E. STREICHER, GATEWAY HOLIDAYS, INC.,
AND GLOBUS TOURS, INC., ACCOMPANIED BY RICHARD BERN-
STEIN, PUBLIC RELATIONS COUNSEL, AND ROGER SCHMID,
GLOBUS TOURS**

Mr. STREICHER. My name is Donald E. Streicher. My associates here, Mr. Richard Bernstein and Mr. Roger Schmid.

We are from Gateway Holidays and Globus Tours.

Mr. Chairman, distinguished members of the Ways and Means Committee, thank you for this opportunity of appearing before you on behalf of Gateway Holidays and Globus Tours, two of the largest wholesale firms in the escorted air and motorcoach business between the United States and Europe.

Never before have so many Americans wanted to go so many places and see so many lands. Travel, once the privilege of the wealthy, has become a reality for everyone. Now our Government would ask the Congress to pass legislation which would move this inalienable right back to the era of the clipper ships.

For the result of such proposals as have been put before, you would surely substitute the present possibility of everyone to travel to the realm of a future dream.

This, gentlemen, is why these hearings have on overriding importance. For, far above the economic plight of a travel industry that could be badly hurt, of greater moment than the many companies that may face economic disaster, is the transcending right and privilege of the people of the United States to move freely throughout the world, as neighbors and friends.

The foundation of my testimony, gentlemen, is that this right should not be taken away by law, edict, or innuendo. The cornerstone of my testimony is the moral correctness of our citizens' freedom of movement, except in time of general war. But, the bricks and mortar on which this testimony is built are facts and figures which show that the Treasury Department has misled the public with a proposal that is inaccurate in concept, punitive in practice, and impossible in enforcement.

On February 5 Mr. Henry Fowler appeared before this committee to tell you about a dream. It was a dream of an American who could travel through Europe on \$7 a day. On this amount he could house and feed himself, and because of his ability to live within this budget Mr. Fowler dreamed that he would allow him to do his European traveling tax free.

Mr. Fowler's dream suddenly turned into a nightmare. For, if this American, to whom he was being so indulgent, did not know how to manage his funds, he would have to pay for his incompetence. The price, the dream continued, should be a series of excessive rates, to teach him a lesson.

Mr. Fowler had a problem. He forgot that the people who were listening to him tell about his dream were wide awake.

Gentlemen, I know of no way in 1968 that an American can travel to Europe in reasonable comfort for \$7 a day. I know of no way in 1968 that an American can have a room with private facilities, three meals a day, ground transportation, and sightseeing for that figure. A realistic amount is \$17.50 and this is for a tourist on a budget who does not want to stand in line at the end of the hall at 7 in the morning.

Now, back to the dream. The next thing Mr. Fowler envisioned was a magic number—33. It came to him that these were the number of days that an average American tourist spends in Europe. Since it arrived in the clear of a dream, certainly the figure was true.

I humbly submit that Mr. Fowler's dream was a prewar one. In a survey of the thousands of people who were on Gateway Holidays and Globus Tours over the last 4 years we found out that 82 percent stayed in Europe from 15 to 21 days. Moreover, the same pattern held true whether those surveyed went on budget or first-class tours.

The reason for the length of stay has little to do with the amount of money a person spends. It is based on two factors: vacation or business time available, and the new low, tour-basing air fares which an individual can only take advantage of in the 2- to 3-week timespan.

Mr. Fowler dreamed other things. He saw before him teachers, students, and businessmen who stayed in Europe for more than 120 days, and so gave them a tax benefit to make up for the hardship. If they didn't remain that long—something their wives and families might have a little to say about—they would just have to be penalized for their shortsightedness.

His waking dream, however, is even more terrifying than his sleeping one. For, in order to make us over into a nation of \$7-a-day Americans, he proposed a giant game of Truth or Consequences with an army of shoe checkers, underwear searchers, and baggage snoopers to keep us honest.

Gentlemen, I am well aware of the balance-of-payments problem. I have had one in my home for years. But to take a series of magic numbers, juggle them together, and expect \$500 million in the balance-of-payments gap to disappear is the worst dream of all. It calls for a rude awakening.

Let me point out that the Treasury Department's figures are as faulty in omission as they are in commission.

They have failed to take into consideration that the dollars after the magic seventh, do not all go to Europe. A very substantial percentage of them remain right here. Let me illustrate.

Using a Globus economy tour with an average length of 20 days as an example, you find that the tour cost to the consumer for the land portion in Europe is \$338. This price may seem unbelievably low, but is achieved as a result of our mass buying capabilities and reflects a considerable saving over what it would cost a consumer if he made his own travel arrangements.

Of this \$338 an average commission is paid to a retail travel agent of 13 percent; office expenses account for 14 percent; printing and mailing of brochures and folders are 2 percent; and another 2 percent is for advertising, public relations, and miscellaneous expenses. This means a total of at least 31 percent stays in the United States.

The European land portion cost of prepaid trips, therefore, does not accurately reflect the amount of dollars going abroad. Yet, all of it, according to the present proposals, would be taxed.

Dreams, you see, are not always as clear as they should be. However, it isn't only Mr. Fowler's penchant for thinking while asleep that perplexes me. It is the fact that he was evidently not awake during the President's state of the Union message.

In it the President expressly excepted teachers, students, and those visiting relatives where the visit is necessary. In spite of this, Secretary of the Treasury Fowler has seen fit to levy taxes on these very groups the President specified would be given special consideration.

For me to say that everything is wrong in the Treasury proposals would be unfair. The reduction in the duty free allowance from \$100 to \$10, and the dropping of the \$10 unsolicited gift rule to \$1, are both logical because they are immediately visible in less dollars spent. The tax of 5 percent on air and sea transportation would be correct because it brings it into line with the tax on domestic air travel; but we recommend that this 5 percent would best be used by the United States Travel Service to encourage Europeans to visit the United States.

This, gentlemen, brings us to the vital part of the matter. It is obvious that if we could bring more European visitors to our shores our balance-of-payments gap would really narrow. The question is how to do this?

It is important that the United States Travel Service not be emasculated continually by Members of the Congress so that it cannot do an effective job. On its part the USTS should use a businesslike approach to travel. And it is of further importance that the Government liberalize visa requirements for Europeans, and recognize that travel just does not happen. It must be sold.

We at Gateway Holidays & Globus Tours do not feel that the Government alone can do—or should do—the job. We feel that it is time for the travel industry to do something besides talk in broad terms and platitudes.

For this reason, we are proposing that the industry impose a tax upon itself, and that the money collected be used to actively promote travel by Europeans to the United States.

We further propose that the Federal Government match the funds raised, on a 10-to-1 basis.

In this way both the industry and the Government will be able to work hand in hand realistically to close the balance-of-payments gap.

We further suggest that a committee should be formed to raise these funds as soon as possible, and the various trade groups in the field should be responsible for its collection. This means that the associations that speak for retail travel agents, wholesalers, carriers, hotels, restaurants—yes, those who will reap the end benefit of visitors' dollars—must be included.

We in the industry have the knowledge and the ability to encourage millions of Europeans to visit our Nation. Let us show that we are ready to put our pocketbooks where our mouths are—if the Government is willing to do the same.

We have more than just beauty to sell. We have a heritage of freedom that can be seen nowhere else. As Americans travel to Europe in

search of the roots of civilization, so Europeans should travel to our land to see the Nation whose concept of government changed the world.

Gentlemen of the Ways and Means Committee, let us then leave Mr. Fowler dream his pleasant dream of a Europe unvisited so that a balance of payments gap can be closed. But, let us do our best to close that gap in a practical manner without penalizing the people who had nothing to do with creating it.

Let us keep travel a two-way street and watch the ocean of differences between nations grow smaller. Then the balance will be a favorable one.

Thank you for your courtesy in listening to this testimony.

Mr. HERLONG. Thank you very much for your presentation to the committee. I just want to say for the record you state that—

* * * Secretary of the Treasury Fowler has seen fit to levy taxes on these very groups—

—speaking of students—

The President specified would be given special consideration.

I believe in his proposal there is an exemption for students, teachers, and businessmen who stay over 120 days, isn't that right?

Mr. STREICHER. Over 120 days.

Mr. HERLONG. Yes.

Mr. STREICHER. Yes, Mr. Chairman, but this is unlikely. It hardly happens.

Mr. HERLONG. I just wanted to indicate there was that exemption. You wanted to question?

Mr. CURTIS. Yes.

Mr. HERLONG. Mr. Curtis.

Mr. CURTIS. What does your association group spend abroad? What did you spend abroad in 1967 in the promotion of travel?

Mr. STREICHER. Mr. Curtis, we have never spent any money abroad to bring people to the United States.

Mr. CURTIS. You just prepare package deals.

Mr. STREICHER. That is correct.

Mr. CURTIS. Previous witnesses said there was nobody preparing package deals. They were suggesting that we ought to get busy in doing this. You have been doing this for how many years?

Mr. STREICHER. We have been doing this since 1957.

Mr. CURTIS. That is what I thought. As a matter of fact, others have been too. You have competitors, haven't you?

Mr. STREICHER. Oh, indeed we have.

Mr. CURTIS. You know, there is a need for a lot of communications in your industry. I don't want to get too personal on this, but I suspect that you are making a pretty good return on your dollar, aren't you?

Mr. STREICHER. Yes, we are.

Mr. CURTIS. And in order to stay in business, so are these others. I should relate this to something else.

Do you have any information as to how much was spent in the private sector in the year 1967 in promoting the tourist business in the United States?

Mr. STREICHER. Promoting tourism in the United States?

Mr. CURTIS. Yes.

Mr. STREICHER. I haven't any idea but we can get this figure and it is quite a lot. I want to be sure I understand your question, Mr. Curtis. Where was this promotional money spent. You mean spent in Europe?

Mr. CURTIS. Well, if it is to be effective that is certainly where it probably is, although undoubtedly some work is done in this country. Maybe printed materials might be done here, but most of it has to be spent abroad if they are going to try to encourage people, I would imagine.

Mr. STREICHER. You are quite right. I can tell you that it has been negligible. Not only has our organization and other organizations like us been guilty, but also the airlines who have run to the eastbound traffic to get the greater share of the market have completely neglected promoting the westbound traffic. That is clear.

Mr. CURTIS. Well, I don't know that it is, although I am interested in your statement because we have had some very rudimentary testimony that one airline alone spent \$1.7 million in Western Europe. Maybe you use the phrase, inconsequential. When I deal with figures, though, I like figures rather than rhetoric. I would like to have the figures, and I hope that some witness or some group will help us in this area to find out what has been spent in 1967, for example, and then to take a few benchmarks what was spent in 1960, and then possibly take 3 years, 1964, 1965, and 1966, just to see the growth.

I now have the basic figures. No. 1, the United States is the largest host Nation in the world. You would never know it—as it was expressed before—in the testimony that has been presented about this anemic development of people traveling here. I think the figure last year was 9 million foreign visitors.

Is this static, or has it been growing? We had some general rudimentary figures, because no one has come in with any studies, and that is what I am really after, that indicated 178 percent increase in the travel from Europe.

Essentially I would argue that the increased travel of people abroad to the United States is correlated to their increased standard of living and the real way that we are going to promote and hopefully increase this travel is if the standards of living abroad do go up. They are going up, so you are in a great industry, I would argue, where you are going to get good return on your dollar.

Why in the name of heaven do you want to come to the Government? This just beats me. I don't understand.

Mr. STREICHER. I have some ideas. I can give you some ideas. Basically you are right and we certainly agree with you, Mr. Curtis. The problem is, Mr. Curtis, that what has happened in our opinion and from our studies—I don't like to hit the USTS too hard, but it is clear to us that their job, their function, in these offices was never clear to them.

Mr. CURTIS. Of course. How could it ever be? Why in the name of heaven do you get Government into an area that is a business field? You say that they haven't had a businesslike approach. Well, how could they by the very nature of what they are?

I think there is a place for Government in a lot of areas and I happen to think that Government can be very helpful in clearing redtape, things of that nature, for example.

Mr. STREICHER. Do you feel that Government should work hand in hand with business?

Mr. CURTIS. Well, yes; but Government is the servant of business, not the copartner, and you put it the other way. You say you do not feel that Government alone can do—or should—do the job.

I reverse it. I say I think business probably can do this alone, but the Government has to stop putting impediments in its way. Government can remove a lot of impediments. You mention, and I want to thank you for it, the Government liberalizing visa requirements. Here is one of the impediments that Government has put in the way.

What did this USTS spend; \$1.4 billion? If they just spent their time trying to liberalize the visa program they would have done a lot more for travel in the United States than trying to get into a business area of determining what would be good promotion to get people to come over. That is the point I am making.

I think you ask Government to do something that Government is not really set up to do very well.

Mr. STREICHER. Yes; I have a tendency to agree completely with you 100 percent. However, I would like to ask a question, again about the USTS. It is useful that we open these ground floor offices just as we might open a U.S. pavilion and display and pass out at random a lot of brochures. This is useless. This does nothing.

Mr. CURTIS. That is exactly it. I have no strong views on USTS other than the fact that when it was created I voted against it because no one knew what they were going to do with it. I said this type of thing is what has gotten us into trouble. When you multiply these kinds of useless or inefficient functions of Government a few times over, and this is what we have done, you realize why we are in the trouble we are in. The Government is spending more money than it is taking in and these kinds of things are what contribute to it.

Mr. STREICHER. What we would like to see happen is no restriction whatsoever on travel overseas because it certainly could be misunderstood by European travel companies who have already started programs for 1968. I know of one large one in Germany, Neckermann. They have a series of charters of German tours coming to the States and they are prepared to cancel them if there is a restriction.

Mr. CURTIS. On the main thrust of your testimony you couldn't have any stronger one in your corner than myself. This is to me frightful. On top of this is the fact that the Congress and the public are wasting their time over this area, because even if you did everything the administration asked, it would be just powder in the eyes. We aren't dealing with a \$4 billion deficit, plus the accumulations of the deficits that have occurred before. I think I am about ready to say the administration knows it; they are creating a diversion to keep the people and the Congress' attention away from the real remedy, which is cutting back Government spending abroad. I might also say Government spending domestically at least should be cut back so it is within our means, because I agree with the damage this would cause.

Mr. STREICHER. It has already done so much damage it is unbelievable. The average person thinks that there is a tax.

Mr. CURTIS. I agree with that. You in your testimony and the testimony of the people before couldn't resist the temptation to use this problem to maybe get a little bit of Government money to be spent, when it is money you ought to be spending yourselves. I think you really have said this and I am glad you have, so get off the Government's back.

Mr. STREICHER. Mr. Curtis, you are changing my mind.

Mr. CURTIS. Get off the Government's back and go and spend it, and I will try to keep these restrictions off of private spending abroad so your associates and others are not hampered in doing the job that you can do and are demonstrating that you can do.

Mr. STREICHER. We are prepared to go ahead. As a matter of fact, we have even talked about and are ready to start forming committees to do just this, to raise money in the industry.

Mr. CURTIS. Amen, amen. But don't have Government matching. For heaven's sake leave us alone for a while.

Mr. STREICHER. One other thing. After this USTS will still exist.

Mr. CURTIS. I would just as soon eliminate them and there are plenty of sections in the Commerce Department that are geared to do their function and I should have been doing it. I limit their functions to the kind of things that Government properly should be doing. If you create one little bit of bureaucracy then its main purpose becomes keeping itself in existence, not to accomplish any purpose. This is frankly what was permitted to develop over a period of years so now we have overloaded the boat.

Thank you.

Mr. HERLONG. Thank you very much for your appearance before the committee.

Mr. STREICHER. Thank you.

Mr. HERLONG. This concludes the meeting for this morning and the committee will meet again at 10 o'clock tomorrow morning on Washington's Birthday.

(Whereupon, at 12:37 p.m., the committee adjourned to reconvene at 10 a.m., Thursday, February 22, 1968.)

ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS

THURSDAY, FEBRUARY 22, 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. Phil M. Landrum presiding.

Mr. LANDRUM. The committee will come to order.

We have four witnesses this morning, the first of which is Mr. Robert Scott, vice president of the National Foreign Trade Council. Mr. Scott, will you come forward and identify yourself for the record and to the reporter?

STATEMENT OF ROBERT T. SCOTT, VICE PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. SCOTT. Mr. Chairman, my name is Robert T. Scott. I am vice president of the National Foreign Trade Council. I would like to thank you on behalf of the council for the opportunity to appear before you today. While the body of my statement contains a request for permission to file a supplement memorandum to be attached to this statement for the record, I would like to request such permission at this point.

Mr. LANDRUM. Without objection, it is so ordered.

Mr. SCOTT. I am sure most of the members of your committee know that the membership of the council comprises a broad cross section of U.S. companies engaged in all major fields of international trade and investment, including manufacturers, exporters and importers, companies engaged in rail, sea, and air transportation, bankers and insurance underwriters.

I. PROPOSED TRAVEL TAX PROGRAM

The National Foreign Trade Council as well as the formal declarations of the national foreign trade conventions have long emphasized the constructive force of travel in the expansion of foreign trade, and have supported positive efforts both of Government and of the travel industry in promoting travel to and within the United States. Measures intended to restrict or curtail international travel as a means of narrowing the balance-of-payments gap are opposed as shortsighted since any meaningful curb on tourist expenditures abroad can only constrict exchange receipts and consumer income which earnings are

(697)

relied on in many of our most substantial export markets. The council, is therefore, seriously concerned with the administration's proposed travel tax program.

During his appearance before the Ways and Means Committee on February 5, 1968, Secretary Fowler indicated that the purpose of the travel tax was to reduce the travel deficit in our balance of payments by deferring for the next 2 years all nonessential travel outside the Western Hemisphere. The actual tax proposal, suggested by the Secretary, would apply not only to nonessential travel but, in general, to all travel even though directly incurred in connection with business.

The travel expenditure tax as proposed, would impose additional taxation upon that section of the business community which is contributing to the positive side of the balance-of-payments ledger. The inclusion of business travel in any proposed travel tax program would be clearly self-defeating. It would increase the costs of maintaining market positions already established and of managing foreign investments which are contributing so favorably to the Nation's balance of payments. In addition, it certainly would not induce the development of new export markets.

The proposals are extremely complex and compliance therewith will be burdensome to both Government and business alike. It will be virtually impossible to file an accurate estimate of tax based upon a projection of expenditures before commencement of a business trip, as is presently contemplated. The duration of the trip and the amount of business expense are frequently unpredictable and contingent upon developments occurring during the course of the trip.

Accordingly, the council urges that the proposed travel expenditure tax not apply to those travel expenditures which are deductible or excludable for Federal income tax purposes and which are incurred solely for business connected travel abroad. In lieu of the administration's present proposals, the Council suggests that the business traveler be required to file a simple declaration upon leaving the United States to the effect that he is embarking upon a business trip. A similar certificate declaring that the trip was solely for business purposes and setting forth the nature and extent of his business expenditures could be required upon return to the United States. Of course, those expenditures not related to the business portion of a particular trip could be accounted for and subjected to the restrictions, if any, imposed under the travel program.

II. REGULATION OF FOREIGN DIRECT INVESTMENT

A. General

Pursuant to Executive Order 11387, the Department of Commerce, on January 3, 1968, issued the foreign direct investment regulations, hereinafter sometimes referred to as "FDIR." On January 23, 1968, the Department of Commerce issued a clarifying amendment thereto along with general authorization No. 1. Finally, on February 19, 1968, the Department of Commerce released, for filing on March 22, Form FDI-101, base period report along with six supplements thereto, as well as applicable instructions.

At this point, I make a formal request for permission to file a supplemental statement.

Mr. LANDRUM. Without objection, it is so ordered. (See p. 705.)

Mr. SCOTT. Under the regulations, as amended, transfers of capital to schedule A and B countries for 1968 and future years will be limited to specified percentages, depending upon the schedule of countries involved, of the average of direct investment (consisting of transfers of capital and reinvestment of earnings) during the base period, 1965-66. FDIR section 1000.504 (a) (1) and (2). There is a moratorium on transfers of capital to schedule C countries (Western Europe, South Africa, and the Sino-Soviet countries) and reinvestment is limited to a percentage of the average direct investment during the base period. FDIR section 1000.504 (a) (3).

Under FDIR section 1000.202, each direct investor is required to transfer to the United States in varying amounts depending upon the schedule of countries involved:

* * * not less than once a year, * * * to an account owned by such direct investor denominated in U.S. dollars at a domestic bank, an amount representing earnings from affiliated foreign nationals in such countries * * *

For example, the amount which must be repatriated from schedule C countries is the greater of: (1) the same percentage of total earnings from schedule C affiliates as was repatriated during the base period 1964 through 1966, or (2) any earnings of schedule C affiliates in excess of 35 percent of the average of direct investment in schedule C countries made during 1965 and 1966.

Some of the general problems posed by the regulations were set forth in a letter from the council to Secretary Trowbridge dated January 15, 1968, annexed hereto as attachment A. While the Commerce Department has attempted to deal with some of the problems set forth therein, such as a direct investor's guarantee of its affiliated foreign national's indebtedness, the use of the base periods set forth in FDIR sections 1000.202 and 1000.504 still present serious problems and create inequities for many corporations.

To the extent that a direct investor complied with the "Voluntary Program," for example, where foreign borrowings were utilized to maintain high levels of repatriations, sometimes in excess of a given year's earnings, such investor is being penalized under FDIR section 1000.202 because his required levels of repatriation under the mandatory program have been increased thereby. Such required levels may jeopardize adequate provision for current or normal growth needs.

Similar inequities result under FDIR section 1000.504, where in compliance with the "Voluntary Program," the direct investor curtailed or eliminated his otherwise normal transfers of capital abroad. The contribution made to the balance of payments by direct investors under the "Voluntary Program" should be recognized and not used now as the basis of penalizing them.

(1) *Extraordinary contributions to the balance of payments*

A direct investor, under certain circumstances, may be able to liquidate and repatriate a portion of his foreign investment over and above the mandatory repatriations of earnings required under FDIR section 1000.202. The acceleration of such repatriations should be encouraged. One method could be to amend the foreign direct investment regulations to provide that in any given year an amount repatriated in excess of the requirements of FDIR section 1000.202 would be

permitted to be carried over and applied against future years repatriation requirements.

There are other base period inequities which should be alleviated by the Commerce Department. Assume that the direct investor in the United States obtained necessary capital by borrowing abroad from third parties.

These borrowings must be subtracted from the direct investment base. Reducing the direct investment base limits investment for future years and could very well increase the repatriation base under FDIR section 1000.202.

Certainly, some relief should be given to direct investors in this situation.

(2) *Clarification of "an amount representing earnings"*

In order to facilitate both the mandatory repatriations under the Department of Commerce program as well as voluntary repatriations in excess thereof, there should be a clear statement that the phrase "an amount representing earnings" as used in FDIR section 1000.202 encompasses amounts which are other than dividend distributions.

(3) *Borrowings from unrelated third parties*

Because of foreign law or the action of unrelated foreign shareholders, it may be impossible for an affiliated foreign national to declare a dividend in an amount sufficient to satisfy FDIR section 1000.202.

Accordingly, the U.S. direct investor should be able to satisfy the requirements of FDIR section 1000.202 by borrowing abroad from banks or other unrelated third parties.

III. INCOME TAX CONSIDERATIONS

A. Correlation of Department of Commerce Regulations with Internal Revenue Service

In addition to the foregoing which relate to the amendment of the foreign Commerce Department regulation, I would like to touch on some income tax considerations raised thereby.

The various proposals contained in the President's message to the Nation on the balance of payments were not intended to serve as tax-producing measures. Therefore, attempts to comply with the mandatory Commerce Department regulations should not be thwarted by efforts of the Internal Revenue Service to create and attribute constructive taxable income to the direct investor, thereby increasing the income tax burden as a result of such compliance.

(1) *Borrowings from affiliated foreign nationals*

Consistent with the foregoing, it should be permissible for a direct investor to borrow any or all of the amounts representing earnings within the meaning of FDIR section 1000.202 from an affiliated foreign national without tax implication. Such permissible loans should not be considered subject to any constructive dividend theories of the Internal Revenue Service and should not constitute an increase in U.S. property within the meaning of section 956 of the code.

(2) Borrowings between affiliated foreign nationals

Affiliated foreign nationals should be permitted to loan funds to other affiliated foreign nationals within the permissible limits of FDIR section 1000.505 without tax implication to the direct investor.

(3) Permissive investments

The repatriation requirements imposed upon a direct investor under FDIR section 1000.202 should be satisfied by permitting an affiliated foreign national to invest in U.S. Treasury obligations and long-term certificates of deposit of U.S. banks. This would provide U.S. international corporations with considerable more flexibility in complying with the mandatory rules of the Commerce Department regulations than exists under the present regulations. Further, permitting foreign subsidiaries of such corporations to invest in such property would not require a change in the existing tax laws since this would not be considered an investment in U.S. property under the exception provided for in section 956(b) (2) (A) of the code.

However, in order to facilitate the use of U.S. Treasuries for this purpose, consideration should be given to the elimination of U.S. withholding tax on interest payments applicable thereto. Alternatively, the United States could grant the direct investor either a direct or indirect tax credit for the U.S. withholding tax paid on such interest income.

B. Foreign Tax Credits

As previously stated, the foreign direct investment regulations require mandatory repatriations, within prescribed limits, of amounts representing earnings of affiliated foreign nationals in which the direct investor has a 10-percent interest, whether direct or indirect and irrespective of the number of tiers of ownership. On the other hand, under section 902 of the Code, foreign tax credits are allowable to U.S. corporate taxpayers only with respect to taxes paid by first tier foreign corporations in which the U.S. taxpayer has an interest of at least 10 percent and for taxes paid by second tier foreign corporations in which the ownership by the first tier corporation is at least 50 percent. Thus, under the foreign direct investment regulations repatriation of earnings of foreign affiliates will be required with respect to which foreign tax credits are not allowed under present law.

This result seems clearly inequitable. The U.S. taxpayer should be permitted to receive, in addition to the tax credit provided under present law, the benefit of a credit for any foreign taxes relating to the earnings required to be repatriated under the Department of Commerce regulations or which are voluntarily repatriated in excess of such requirements regardless of the number of tiers of ownership or the degree of ownership between tiers.

Accordingly, any foreign income taxes attributable to the foreign earnings repatriated under the foreign direct investment regulations should qualify for credit under section 902 of the Code.

C. Reduced Rate of Tax

An increase of U.S. exports would ease the balance-of-payments situation. Accordingly, it may now be the time to consider a reduced rate of U.S. tax on income derived from foreign sources.

Income from export sales could be deemed to be from sources without the United States and eligible for a reduced rate of tax. In this regard, consideration might be given to the extension of the Western Hemisphere Trade Corporation provisions of the Code on a worldwide basis.

IV. INDUCEMENT TO FOREIGN INVESTMENT IN THE UNITED STATES

Elimination of withholding

While the council does not have pertinent statistics, it does appear that the U.S. withholding tax currently imposed upon interest paid by the U.S. Government and interest and dividends paid by U.S. corporations to foreign investors deters investment in the United States by such persons.

Under existing law, interest paid by U.S. banks and similar institutions will, until 1972, be considered to be non-U.S. source income under section 861(a)(1)(A) and (c) of the Internal Revenue Code of 1954. Therefore, if paid to foreign investors, such interest is not subject to withholding under section 1441 and 1442 of the code. However, interest paid on U.S. Government obligations as well as dividends and other interest paid by U.S. corporations to foreign investors are generally withheld upon at the rate of 30 percent, unless subject to a reduced rate of or exemption from tax pursuant to an income tax treaty.

While the deterrent effect of U.S. withholding on foreign investment in U.S. securities was commented upon in the "Report of the President's Task Force on the Promotion of Increased Foreign Investment in the United States," chaired by the then Under Secretary of the Treasury, Henry Fowler, that report made no specific recommendation regarding the elimination of such withholding. However, in view of the present balance-of-payments situation, the council recommends that the Treasury restudy the possibility of increasing the flow of foreign investment into U.S. securities by removing the present withholding requirements on income derived from such investments.

That concludes my statement, Mr. Chairman. Thank you.
(Attachment A referred to follows:)

ATTACHMENT A

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N.Y., January 15, 1968.

HON. ALEXANDER B. TROWBRIDGE,
Secretary of Commerce,
Washington, D.C.

MY DEAR MR. SECRETARY: As you know, the membership of the National Foreign Trade Council comprises a broad cross-section of highly diversified interests engaged in international trade and investment including manufacturers, exporters and importers, companies engaged in rail, sea and air transportation, bankers and insurance underwriters.

The Council for some time has been concerned about the restraints on the flow of capital for direct investment abroad, as well as restrictions placed on bank lending abroad. The reasons for this concern were recently reiterated in the Declaration of the Fifty-Fourth National Foreign Trade Convention, which stated that the need fundamentally is for the United States to orient its balance of payments policies to expansion of both world trade and investment, with remedial measures to be derived basically from an overall integration and consistency of monetary, fiscal, taxation, export financing, trade promotion, and investment policies. With respect to United States investment abroad, the Declaration stated:

"When the 'Voluntary Program' was initiated in 1965, the United States Government acknowledged that over the longer term United States investments abroad created substantial net receipts—that inflows from incremental exports, interest and dividends, royalties and fees more than offset the dollar outflow from initial and continuing investments. The Convention holds that these more significant long-term benefits should no longer be penalized and recommends the termination of the 'Voluntary Program' without further restrictive controls."

Recognizing the emergency impact of recent international financial developments which gave rise to the President's balance of payments program announced January 1, 1968, and the immediate need to correct the recurring deficits in the U.S. balance of payments position, it continues to be our firm opinion that the significant long-term benefits of expanding trade and investment should not be penalized by any undue prolongation of temporary programs.

The purpose of this letter is to immediately place before you our concern with certain aspects of the regulations relating to foreign direct investment which were published in the Federal Register on January 3, 1968. We shall continue to study these regulations within the Council and our appropriate Committees.

The points and areas of immediate concern to American business resulting from our initial analysis of the regulations are summarized as follows:

1. REPAYMENT OF OUTSTANDING LOANS AND FUTURE BORROWING ABROAD

Many companies, particularly in their efforts to cooperate under the "Voluntary Program" since 1965, have had their foreign affiliates raise their capital requirements through borrowing abroad. Many of these arrangements have provided that such borrowings would be repaid out of the foreign affiliate's revenues. Many foreign affiliates will be placed in difficult cash positions when they are mandated to repatriate earnings and also obliged to repay borrowings expended for capital requirements.

This pressure on the cash position of foreign affiliates will be intensified in those instances in which repatriation of earnings, as urged under the "Voluntary Program", was at high levels during 1965 and 1966, and will be accentuated where companies in order to comply with the "Voluntary Program" guidelines on repatriation borrowed for that purpose. Under Section 1000.202 a corporation is required to remit at the same percentage as it remitted under the "Voluntary Program" when that percentage is higher than the prescribed percentage under the mandatory program, whereas a company that did not remit under the "Voluntary Program" is limited to the percentage prescribed under the mandatory program.

The effect of these provisions, together with the moratorium on new capital inflow into Schedule C countries, will be to force foreign affiliates into further borrowing. Their capacity to borrow, however, will be seriously impaired by Section 1000.312(e) (1) and (2) of the regulations which provides that any satisfaction of an obligation of a direct investor incurred as a result of a guarantee of an obligation of an affiliated foreign national, or the assumption of a liability of an affiliate for a national, is deemed to constitute a transfer of capital. Such transfers are prohibited to Schedule C countries and are otherwise limited for countries in Schedules A and B. Thus, since a U.S. parent would no longer be able to guarantee the loans of its affiliated foreign nationals in continental Europe, these affiliates will be forced to obtain their short and medium capital requirements in the increasingly expensive long-term money markets. This will diminish future earnings available for repatriation to the United States.

These provisions reduce both the capacity of foreign affiliates to repay loans and to secure further borrowings, thus weakening their competitive position and closing the door for required capital to meet their normal growth needs. Accordingly, consideration should be given to permitting the net long-term portion of borrowings expended in direct investment to be included in calculating the investment base. In addition, an amendment of the regulations is urgently required to permit U.S. parent companies to perform under their guarantees of the loans of foreign affiliates and to offer guarantees of the loans of foreign affiliates that would be acceptable to foreign lenders. We welcome indications that clarification on this point may shortly be expected.

2. PRIOR CONTRACTUAL COMMITMENTS

The regulations present serious problems with respect to work in process and commitments under investment programs which were entered into prior to January 1, 1968. Such commitments, for example, can involve purchase of additional shares of capital, the requirement to supply industrial property, services, equipment, raw materials, parts and components. Basically the question is how such commitments and contractual obligations can be honored, particularly in respect of Schedule C countries in view of the limitations imposed by the moratorium on new investments, the limit of 35% of earnings for reinvestment, the requirements for repatriation of earnings and of short-term assets, and the prohibition against satisfaction of an obligation of a U.S. parent company as a result of a guarantee.

The only relief for the foregoing problems afforded by the regulations is by exemption on a case-by-case basis. Is this administratively feasible? Any delays and uncertainties will unduly penalize and disrupt companies in the conduct of international business. Could not some of these issues better be met on a broad policy basis either by revision of the regulations or by issuance of instructions under which companies would have assurance that, under specified conditions or limits, exemptions would be granted to permit carrying out prior investment commitments?

3. REPARATION OF DIRECT INVESTMENT EARNINGS

In addition to the adverse effects of the repatriation requirements referred to above, U.S. direct investors are confronted with problems under the following situations:

(a) A direct investor is defined under Section 1000.304 as a U.S. person who owns or acquires 10% or more of the voting power or a right to 10% or more of the earnings and profits of any foreign national and is subject to the mandatory requirements of the regulations. It is impossible for a U.S. direct investor, owning as little as 10% of the stock in a foreign corporation where the remaining stockholders are foreign nationals, to repatriate funds against the will of the foreign nationals. In this connection it should be pointed out that the ability to average out repatriations within a particular schedule of countries will prove of little benefit to U.S. corporations with limited operations overseas or within a given schedule of countries.

(b) A U.S. investor having a majority position in a foreign national who is required to and does repatriate the amounts prescribed in Section 1000.202 of the regulations may be liable to a stockholder's suit by an aggrieved minority shareholder. This problem is aggravated where the U.S. investor can not repatriate all or part of the earnings of a wholly-owned foreign subsidiary and, in an attempt to average, repatriates funds from an affiliated company within the same schedule of countries to the detriment of the minority interests.

(c) Many countries prescribe partial or complete restrictions on any remittance from such countries. For example, in Finland dividends may be remitted currently only to the extent of 25% of capital stock with the balance being remitted over a five-year period. In Brazil there is an excess remittance tax ranging upwards to 60% of any remittance exceeding a prescribed limit. Other countries prohibit repatriation of current year's earnings until some time after the close of the year in which earned, while other countries may block the repatriation of funds where capital has been impaired in prior years but where the company does have a profit in the current year.

In these situations, the regulations should also provide relief from the mandatory repatriation formulas. Here, too, it should be pointed out that averaging within a particular schedule of countries will, in many instances, prove of little benefit to U.S. corporations.

4. OPEN ACCOUNT SALES TO AFFILIATED FOREIGN NATIONALS

Expansion of U.S. exports is a fundamental objective of the U.S. program for strengthening the balance of payments. U.S. exports to foreign affiliates constitute a substantial percentage of our total exports and have increased significantly in recent years. However, Section 1000.312(d) provides that a net increase in advance upon open account to an affiliated foreign national constitutes a transfer of capital.

Limitations on net increases in open account as governed by the limitations on transfers of capital under the regulations, will inhibit the growth of U.S. exports

to affiliated foreign nationals. Provision, therefore, should be made for some growth in outstandings on open account, for example, by allowing such outstandings to grow commensurately with the rate of increase in the value of exports.

Clarification is needed also as to whether advances on open account between affiliated foreign nationals are excluded under Section 1000.312(d).

In addition, the regulations present serious matters of concern relating to taxation. These aspects are under study and our views with respect thereto will be communicated as promptly as possible to both the Department of Commerce and Treasury.

We respectfully request that the views presented herein be considered by the Department of Commerce in terms of the regulations, as now issued, or as they may be amended, and also in the development of the reporting forms, CDFDI-101, Base Period Report and CDFDI-102, Quarterly Report, as required under Subpart F thereof.

We would welcome the opportunity to discuss further with you and your staff any of the matters raised in this letter.

Sincerely yours,

ROBERT M. NORRIS,
President.

(The supplemental memorandum referred to, subsequently received by the committee, follows:)

SUPPLEMENTAL MEMORANDUM OF THE NATIONAL FOREIGN TRADE COUNCIL, INC.

This memorandum is being filed by the National Foreign Trade Council pursuant to permission granted during the Council's testimony at Hearings before the House Ways and Means Committee on February 22, 1968 and is addressed solely to certain problems resulting from the operation of the Foreign Direct Investment Regulation where relief is urgently needed.

LONG-TERM EFFECTS OF MANDATORY REPATRIATION REQUIREMENTS

The Council is concerned that the Administration's short term measures embodied in the Foreign Direct Investment Regulations to improve the U.S. balance of payments situation may work great hardship on the ability of many U.S. corporations, especially those who have contributed to the "Voluntary Program", to continue to repatriate funds to the U.S. at historically high levels. This is particularly true of operations carried on in Schedule C countries¹ and can be shown by simple example.

Assume that Corporation A, a wholly owned German subsidiary of a U.S. corporation and its only overseas affiliate, had \$1,000,000 average earnings during the base period. In compliance with the "Voluntary Program", Corporation A declared dividends to the parent at the rate of 50 percent per year during the base period and the parent made no transfers of capital during the base period. The parent's average direct investment during such period was \$500,000, the average amount of reinvested earnings. Assume further that Corporation A earned \$1,000,000 in 1968. Under these facts, the direct investor is required to repatriate \$825,000 or 82½ percent of the current earnings of the German subsidiary.

The inconsistency of penalizing a direct investor for compliance with the "Voluntary Program" is graphically illustrated in the following chart which contrasts the base period experience of two other subsidiaries, B and C, also incorporated in Germany, each of which is wholly owned by and is the sole foreign affiliate of other U.S. corporations. Both B and C earn \$1,000,000 in 1968 and both corporations retain all of their earnings during the base periods. In addition, C's parent transfers capital from the U.S. to subsidiary C in the amount of \$1,000,000 each year.

¹ As set forth in the Council's statement of February 22nd to the House Ways and Means Committee, FDIR section 1000.504(a)(3) provides for a moratorium on transfers of capital to Schedule C countries, and limits reinvestment of earnings to 35 percent of the average direct investment during the base period 1965-1966. Under FDIR section 1000.202(c), the amount which must be repatriated from Schedule C countries is the greater of: (1) the same percentage of total earnings from Schedule C affiliates as was repatriated during the base period 1964 through 1966, or (2) any earnings of Schedule C affiliates in excess of 35 percent of the average of direct investment in Schedule C countries made during 1965 and 1966.

	Corporation		
	A	B	C
Base period averages:			
(a) Earnings.....	\$1,000,000	\$1,000,000	\$1,000,000
(b) Dividends.....	500,000	0	0
(c) Retained earnings.....	500,000	1,000,000	1,000,000
(d) Capital transfers.....	0	0	1,000,000
1968 earnings.....	1,000,000	1,000,000	1,000,000
Direct investment, base (c) plus (d): 35 percent of (c) plus (d).....	-175,000	-350,000	-700,000
Required dividend.....	825,000	650,000	300,000
Mandatory repatriation rate (percent).....	82.5	65	30

In the case of B and C, the required rates of repatriation are reduced to 65 percent and 30 percent, respectively. However, the U.S. parent of A, as a result of its high base period dividend distribution experience and restraint in transferring capital from the U.S. in compliance with the "Voluntary Program", is now required under the mandatory program to repatriate current and future earnings at the rate of 82.5 percent—a rate not conducive to the continued economic health of A.

Compliance with the "Voluntary Program" results in a further hardship under the Commerce Department Regulations where a U.S. corporation borrowed abroad from unrelated third parties and loaned the proceeds of such borrowings to its foreign affiliate to provide capital for normal expansion of plant and equipment.

Assume that German subsidiary D whose base period and 1968 earnings experience is similar in all respects to that of subsidiary C in the above example except that its U.S. parent borrowed \$1,000,000 long term from unrelated third parties abroad in each year of the base period years and loaned such amounts to subsidiary D in order to provide necessary capital for plant expansion. Since long term borrowings abroad by the direct investor from unrelated third parties must be deducted from the direct investment base under FDIR section 1000.504(b), the direct investment base under the second repatriation test remains at \$1,000,000. Unlike subsidiary C, subsidiary D is therefore required to repatriate \$650,000 of its 1968 earnings of \$1,000,000.

Further, the direct investor incurs an additional penalty when these borrowings are repaid in future years. Such debt repayments to unrelated third parties must be replaced with additional repatriations over and above the amounts required under the formulas provided for in the regulations.

The arbitrary repatriation formulas utilized in the Foreign Direct Investment Regulations will severely affect those mature U.S. companies, who under the "Voluntary Program", repatriated earnings to the U.S. at consistently high levels, and who either refrained from transferring capital from the U.S. or obtained necessary foreign capital requirements though overseas borrowings from unrelated parties.

Under the present regulations, foreign subsidiaries of such U.S. corporations will find it increasingly difficult to compete with foreign corporations and maintain existing operations in a healthy economic state. High repatriation requirements, particularly in Western Europe, will make it difficult to maintain existing levels of operations let alone to finance normal growth through internally generated funds. Moreover, attempts to repay existing borrowings as well as to obtain needed capital funds through new borrowings abroad from foreign capital markets will be thwarted by such high mandatory repatriations. Certainly, such a situation is not in the long term interests of either government or industry.

Accordingly, in order to preserve the ability of foreign affiliates of U.S. corporations to continue to make substantial net contributions to the U.S. balance of payments,¹ maximum rates should be established for mandatory repatriations

¹ As set forth by Howard S. Piquet, Senior Specialist in International Economics, Legislative Reference Service of the Library of Congress, the outflow of funds, based upon Department of Commerce statistics, for direct investment between 1954 and 1966 was approximately \$1.9 billion a year. Returns on existing investment, in the form of dividends, branch profits, interest, etc., averaged \$3.2 billion a year. The outflow of funds for new direct investment over the 13-year period, expressed as cumulative totals, amounted to \$24.8 billion, while earnings on outstanding direct foreign investments over the same period amounted to \$41.7 billion. Piquet, *Restricting Private Direct Investment Abroad to Narrow the Balance-of-Payments Deficit*. 114 Cong. Rec. E468 (daily ed. Feb. 5, 1968).

of current year's earnings under the Foreign Direct Investment Regulations. In Schedule C countries, the maximum rate of repatriation of current year's earnings should, in no event, exceed 65 percent of current year's earnings.

EXPANSION OF U.S. EXPORTS

The President's Message to the Nation on the Balance of Payments outlined a permanent plan to increase U.S. exports. Consistent therewith, the Council, in its basic statement of February 22nd to the House Ways and Means Committee, suggested certain income tax measures which would serve to increase U.S. exports, thereby contributing to the U.S. balance of payments position.

Department of Commerce figures indicate that once a manufacturing or distributing affiliate has been established abroad, most of the parent company exports to the country wherein the affiliate is located are directed to or through such affiliate. Moreover, Department of Commerce statistics show that exports to foreign affiliates amounted to $\frac{1}{3}$ of total nonagricultural U.S. exports for 1964. See Pizer and Cutler, *U.S. Exports to Foreign Affiliates of U.S. Firms*, Survey of Current Business, December 1965, 12. However, FDIR section 1000.312(d) provides that a net increase in advances upon open account to affiliated foreign nationals will constitute a transfer of capital. Therefore, since transfers of capital are prohibited in Schedule C countries and otherwise limited in Schedule A and B countries, FDIR section 1000.312(d) effectively inhibits future growth of a substantial segment of the U.S. export market.

A dollar of exports contributes to our balance of payments to the same extent as does a dollar repatriated under the mandatory program and can be obtained without the disruption of existing overseas operations resulting from the mandatory program. It is therefore inconsistent with long range objectives to penalize exports by inhibiting this growth by a regulation which provides that net increase in advances on open account constitute transfers of capital.

The Foreign Direct Investment Regulations should be coordinated with the Administration's long range program to increase U.S. exports. One solution would be to exclude increases in advances on open account under FDIR section 1000.504(a) rising from export sales by the direct investor to affiliated foreign nationals in the ordinary course of business pursuant to normal trade terms where the U.S. exporter is paid within six months.¹ Another solution would be to provide that capital transfers resulting from increases in export sales to affiliated foreign nationals pursuant to normal credit terms will be disregarded to the extent attributable to a normal increase in such sales.

TREATMENT OF BRANCH OPERATIONS

The reporting of branch operations as required under the Foreign Direct Investment Regulations, and as amplified by the instructions accompanying Form FDI-101, released on February 19, 1968, presents many technical problems and requires further study by the Department of Commerce.

Section 1000.504(a) (3) of the Foreign Direct Investment Regulations imposes a moratorium on transfers of capital to Schedule C countries. Under Form FDI-101, retained earnings of branches of both foreign subsidiaries and U.S. corporations are treated as a transfer of capital from the home office to the branch. A serious question therefore arises whether a branch in a Schedule C country may retain any of its earnings within the permissible levels of direct investment, or whether it must remit all of such earnings in view of the proscriptions of FDIR section 1000.504(a) (3). Again the Council reiterates that an operation that cannot retain any of its profits cannot long endure.

In addition, the reporting of branch profits of a foreign corporation is both economically unsound and mechanically incorrect. Under the instructions of Form FDI-101, branch earnings are excluded for purposes of the calculation of both the direct investment bases and the repatriation ratios and are merely reported as an information item. Thus, the results of both calculations are distorted.

Historically, foreign branch earnings of U.S. corporations have always been attributed by the Department of Commerce to the U.S., the place of incorpora-

¹ The instructions accompanying form FDI-101 released on February 19, 1968, state that arm's length open account sales between affiliated foreign nationals in different schedules need not be reported as a transfer of capital by the direct investor if such credit is repaid within 12 months.

tion namely the U.S. If the place of incorporation principle is applied to the earnings of foreign branches of foreign corporations, the direct investment calculations would at least be mechanically correct since branch earnings would be included in the direct investment base. However, that approach would remain economically unsound because repatriation of the branch profit to the direct investor would be deemed to come from the country of incorporation rather than the country where earned.

On the other hand, if the activities of the branch were performed by a subsidiary of the foreign corporation, the repatriation of profits would not only appear in the direct investment calculation but would be deemed to emanate from the country of operation. Thus, a mere change in legal form can change the direct investment calculations and repatriation ratios from country to country and from Schedule to Schedule. The Foreign Direct Investment Regulations are, among other things, a statistical reporting device. Therefore, insofar as balance of payments considerations are concerned, reporting with respect to earnings, repatriations of earnings, and transfers of capital, as they relate to foreign operations should be the same for a branch or foreign subsidiary.

Accordingly, a branch operation (whether a branch of a foreign subsidiary or of a U.S. corporation) should be treated as if it were subsidiary operation solely for purposes of the Foreign Direct Investment Regulations. Branch earnings should be treated as the earnings of a subsidiary, and branch profits should be remitted as if a dividend.

Mr. LANDRUM. Mrs. Griffiths.

Mrs. GRIFFITHS. I have no questions.

Mr. LANDRUM. Mr. Utt.

Mr. UTT. No questions.

Mr. LANDRUM. Do any members desire to ask any questions?

Thank you, Mr. Scott. We appreciate your statement.

Mr. SCOTT. Thank you very much, sir.

Mr. LANDRUM. The next witness is Murray Vidockler, New York City. Is Mr. Vidockler present? Is his representative here?

Then the next witness is Mr. Bernie Brody, World Tobacco Co.

Mr. Brody, if you will identify yourself for the record, you may proceed with your statement.

STATEMENT OF BARNIE BRODY, PRESIDENT, WORLD TOBACCO CO., INC.; ACCOMPANIED BY HAROLD A. TAFT, COUNSEL

Mr. BRODY. Mr. Chairman and members of the committee, it is truly an honor and a privilege to appear before you and be given an opportunity to express my views with respect to the travel legislation proposed by President Johnson to alleviate the balance-of-payments problem confronting our Government.

My name is Bernie Brody. I speak as a leading member of the bonded merchandise industry in this country. I am president of World Tobacco Co. of New York and am thoroughly familiar with U.S. Customs and U.S. Treasury regulations applicable to duty-free goods.

I have prepared and submitted a formal statement for the consideration of this honorable committee. At this time I will confine myself to the highlights of that statement.

My remarks will be brief.

At the outset, I wish to make it clear that I am in complete accord with the aim and desire of the administration to curb the critical outflow of American dollars to foreign shores.

It is with this thought in mind that I respectfully oppose the reduction of the duty-free purchase allowance sought to be imposed on the American tourist traveling abroad.

In my humble opinion, the sharply reduced duty-free exemption is harsh and an unnecessary restriction and burden upon travel.

I sincerely believe that the proposal outlined in my formal statement will effectively implement the legislative intent and substantially improve the U.S. balance-of-payments position.

I respectfully submit that my plan can result in a net diversion to the United States of approximately \$200 million annually.

The adoption of the in-bond merchandise concept that I propose would permit a resident tourist, after he returns to the United States, to order duty-free articles from a U.S. supplier to be delivered from a U.S. Customs bonded warehouse after the resident returns to the United States. His merchandise would be shipped to him after he complies with U.S. Customs regulations.

In this manner the dollars involved in such transactions would be expended in the United States and would therefore be retained in the United States.

It logically follows and I respectfully urge that American tourists who use this method of purchase should be granted at least the same duty-free allowance as that permitted in the Virgin Islands.

Pursuant to my proposal, the American tourist would have an option. He could buy his goods on the foreign market and physically accompany them home, in which event American dollars would be spent and left abroad.

Or he could avail himself of the privilege to patronize an American supplier and receive his goods from a U.S. Customs bonded warehouse after his return to the States, in which event his dollar would be channeled home.

Moreover, the American tourist could buy the same goods from an American supplier at the same price or perhaps even at a lower price.

The proposal is feasible and practicable. It is consistent with the intent of the administration because it will obviously help to keep American dollars at home.

The fact that such a proposal is functional is in itself a tribute to the highly effective regulations of U.S. Customs.

The simple device of permitting a resident tourist to purchase duty-free goods from an American supplier and to receive the same from a U.S. Customs bonded warehouse after he returns to this country will substantially plug the drain of American capital to foreign nations.

By way of illustration, of every dollar that an American tourist spends abroad for duty-free merchandise, approximately two-thirds thereof could be retained in the United States if the same goods were purchased from an American supplier and delivered from a U.S. Customs bonded warehouse.

In many instances the entire dollar could be retained in this country.

For example, an American tourist who buys gin in a foreign country pays about \$3 per bottle. Inasmuch as gin is distilled in the United States, the entire purchase price could be retained here.

If adopted, the bonded merchandise concept that I propose will emphatically complement the object of the administration's travel legislation. It will be a boon to the United States in terms of reducing the balance-of-payments deficit, and will be a most welcome privilege to the American traveler.

In addition to its favorable impact upon the U.S. balance-of-payments problem, this positive measure will necessarily produce more employment and income tax revenue.

I noted with much interest the latest issue of the Travel Management's Newsletter which followed Monday's White House press conference on the report of President Johnson's Special Task Force on Travel.

The recommendations in that report coincide and support my proposal.

I respectfully quote. These are some of the recommendations:

That the tax-free shops selling U.S. goods at international ports of departure should be expanded and more effectively promoted.

Also they suggest that 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.

I would humbly suggest that they also include cigarettes and whisky and on which there would be a tax saving.

Mr. Chairman and members of the committee, permit me once again to thank you for the courtesy and kindness extended to me.

Mr. LANDRUM. Mr. Brody, you know that your oral statement varied from the printed statement that is filed with the committee. We wonder if you wish your oral statement to appear as a supplement to the printed statement or wish to exclude this from the record.

Mr. BRODY. I would appreciate if it could be included.

Mr. LANDRUM. Without objection, the statement filed with the committee will be entered into the record as a supplement to Mr. Brody's statement.

(Mr. Brody's prepared statement follows:)

STATEMENT OF BARNIE BRODY, WORLD TOBACCO CO., INC.

Mr. Chairman and members of the Committee, as President of World Tobacco Co., Inc., of New York, it is an honor and a distinct privilege to testify today in connection with the Travel Tax Program and Proposed Changes in Customs Rules. I wish to thank the Committee for extending to me the opportunity of expressing my views, as a member of an important segment of American industry, on this significant legislation.

World Tobacco Co. and its parent, Marine Tobacco Co. together, are domestic corporations which have been engaged for over four decades in the business of selling and distributing tax-free tobacco products and alcoholic beverages.

For forty years, Marine has been a leader in the "bonded sea-stores industry". In general, that term includes dealers in tax-free tobacco products and/or tax-free alcoholic beverages, and in other shipstores, who buy such stores from distillers, American manufacturers and/or authorized American importers, warehouse such tax-free tobacco products and/or tax-free alcoholic beverages in warehouses which are licensed by the Internal Revenue Service as export warehouses in the case of tax-free tobacco products, and in warehouses which are Customs bonded in the case of tax-free alcoholic beverages, sell them to ship owners and deliver them to ships.

World has for more than ten years been engaged in the sale of "tax-free" cigarettes to passengers departing from J. F. Kennedy International Airport on international flights. There is another company that sells "tax-free" alcoholic beverages to the same passengers.

Needless to say, it is the purchase of duty-free articles by Americans while abroad that represents a major drain on the balance of payments. It is this problem to which I address myself on this occasion.

At present there is a \$100.00 exemption allowed for purchases made abroad. These purchases must accompany the residents upon returning from abroad. The

legislation proposed by the Administration would reduce this exemption to \$10.00 per person.

From my own experience in the bonded merchandise industry, and as one intimately similar with the applicable Customs and Treasury Regulations, I believe the "in bond merchandise" concept can be effectively utilized to further stem the outflow of American capital.

IN-BOND MERCHANDISE

In general, I feel quite certain that the in-bond merchandising industry of this country shares the belief that the desired aims of the Administration could be more satisfactorily accomplished by means other than those proposed by the Administration.

If the legislation ultimately enacted would permit a United States resident, upon returning from a foreign country, or a possession of the United States to purchase duty-free articles to the extent of \$100.00 (or even \$500.00), to be delivered from a United States Customs Bonded warehouse after the resident's return to the United States, the drain on the balance of payments would be stemmed and millions of American citizens would continue to enjoy the privileges they have become to expect.

The merchandise would be shipped (or delivered) from a United States Customs bonded warehouse located in the United States directly to the returning purchaser following his compliance with United States Customs Regulations as revised to comply with this new legislation.

BENEFITS OF THE PROPOSAL

Under my proposal, permitting a returning resident to purchase duty-free goods from a domestic United States supplier and to receive delivery from a United States Customs bonded warehouse, it is estimated that approximately two hundred million dollars annually would be retained in the United States.

Thus, this addition would not only implement the curbs proposed by this legislation, but would indeed represent a decisive step in support of the Administration's efforts to stem the flow of United States funds into foreign countries.

Incidentally, the profits realized from this two hundred million dollar annual retention would, naturally, be subject to United States Federal income taxes. In addition, the United States Customs bonded warehouses would provide employment for a great many more of our own citizens, who in turn would be subject to the payment of personal income tax upon their earnings.

PROTECTION AND CONVENIENCE TO THE AMERICAN TRAVELER

The members of the Committee can well appreciate the position of the American traveling abroad. On all too many occasions, he is the "forgotten man".

Apart from all the jokes on the subject, it is no understatement to note that the American traveling abroad is subject to peculiar inconveniences and, indeed, the often predatory inclinations of foreign markets.

Under present conditions, the American traveler is not only forced to buy his duty-free merchandise from foreign markets, but would be forced to carry his purchases around with him and have them accompany him home. Indeed, we have all witnessed the comic spectacle of the "American tourist" lugging his "duty-free purchases" all over the airports, the piers, and railway stations of the world.

Under my proposal the American traveling abroad would be relieved of all of these burdens and would still have the privilege of continuing what he considers his "American heritage", to bring home tax-free and duty-free merchandise. As a matter of fact, it might be desirable to restore the former \$500.00 tax-free allowance under these conditions.

The adoption of my proposal would not only effectively implement the plans of the Administration but would give the traveling American a welcome relief and a substantial benefit.

Under the suggested modification, the American abroad would have a choice. He could still buy his goods on the foreign market, carry them around with him, and physically accompany them home, subject to all the restrictions and the \$10.00 limitations proposed.

However, he could make the exact same purchases or many more at the exact same or lower prices by simply placing his order upon his return to the United

States, and receiving delivery from a United States Customs bonded warehouse after his return, thus channeling his dollars home.

Thus, he would be afforded, by his own government, the considerable convenience of not lugging his foreign purchases all over the world. The Administration's desired end, namely, to stem the outflow of American capital, would be achieved by the retention of all this money at home, plus the income tax realized from the American companies selling the merchandise.

The added protection and convenience afforded by this option would be a welcome substitute to the weary American traveler even in light of the reduced exemption.

MACHINERY OF THE PROPOSAL

The machinery for effectively implementing my proposal would be very simple. The returning citizen, upon clearing through Customs, would obtain a permit to purchase articles to the value ultimately determined, and present it to a United States Bonded warehouse for processing.

Thus, only a minor variance from the highly effective regulation and control of Customs and Treasury would be involved.

INCIDENTAL BENEFITS OF PROPOSAL

Apart from the protection and convenience such option would afford the American traveler, certain other incidental benefits would accrue.

The present operating crush on Customs officials inspecting incoming merchandise would be substantially reduced, with absolutely no sacrifice in ultimate efficiency.

Laden weight of foreign passenger vessels and airplanes would be substantially reduced, and airline excess baggage charges constituting additional flow of U.S. funds into foreign countries could conceivably be reduced or eliminated.

As a matter of practicality and convenience, the hectic scrambling and fear of loss of accompanying parcels which we have all experienced would be eliminated.

All would be accomplished with no relinquishment of effective regulation or control whatsoever by the American government, and with no added cost whatsoever.

Indeed, the American traveler would be grateful for the convenience and added protection of such an option afforded him by his own government.

ULTIMATELY BENEFICIARY: THE UNITED STATES

In the past decade, we have witnessed an unparalleled increase in intercontinental travel and foreign commerce.

Despite the proposed restrictions on foreign travel, there is still every indication that the present boom will not only continue, but will rise to new heights in the years ahead. As a matter of fact, this should be encouraged so that the peoples of all parts of the world will become better acquainted.

As an incident of such foreign intercourse, new operations have sprung up designed for the convenience of the traveler, his carrier, and the respective governments, including our own.

This Committee has before it today a proposal to cope with the balance of payments problem. The adoption of the plan that I have today suggested will not only help to alleviate the balance of payments problem, but will give the revenue a boost. A further benefit and probably the most significant, is that it will eliminate any resentment on the part of the American citizen traveling abroad in the future. It is a plan for which every American traveler in the future will be grateful.

Mr. LANDRUM. Now, we note you are accompanied by another gentleman.

Mr. BRODY. Yes, Mr. Harold A. Taft, our counsel, a New York attorney.

Mr. TAFT. May I address the august committee for a moment, Mr. Chairman?

Mr. LANDRUM. Go ahead, sir.

Mr. TAFT. Mr. Chairman and members of the committee, Mr. Brody and I appeared here, I believe it was in 1965, at that time in support of the travel legislation which was then before this distinguished committee.

We submitted a proposal at that time that we sincerely believed would implement and complement the legislation then being considered.

We are here today, Mr. Chairman, to urge the same, if not a substantially similar proposal, and would be very grateful for the kind consideration of this committee.

Mr. LANDRUM. Are there any questions?

Mr. SCHNEEBELI. Mr. Brody, the merchandise you would sell to returning tourists from your bonded warehouse, would it all be American merchandise?

Mr. BRODY. It could be either. That is why I say in my statement, if it was manufactured here the entire dollar would be kept here, such as gin, domestic whisky, bourbon, and so forth; also cigarettes that are manufactured here. They also could buy scotch with two-thirds of the dollar being retained here.

Mr. SCHNEEBELI. I am thinking not of whisky or cigarettes, I am thinking of art objects or clothing, and so forth. I think one of the reasons people buy things abroad is because it has a foreign label and it indicates they have traveled abroad.

I don't think you can accomplish through your bonded warehouse, by the sale of American merchandise, exactly what the people have in mind when they are thinking of bringing back presents for friends or relatives.

What they have in mind is to return to their friends a handkerchief bought in Paris with a Parisian label on it.

If you sell the same merchandise with a Parisian label we have not gotten further on our balance-of-payments problem.

I think we would get much further ahead by reducing the \$100 to \$10 rather than buying the foreign merchandise from your warehouse.

Mr. BRODY. Let us assume they do buy the handkerchief abroad at a retail level. Assuming they pay a dollar for the handkerchief, it is obvious the importer or wholesaler could bring the same handkerchief into the United States for 33 cents. Therefore, only 33 cents of the dollar would be expended abroad. Whereas, if the individual purchased it he would spend the entire dollar.

Mr. SCHNEEBELI. It still is not accomplishing the same purpose of reducing by 90 percent, which is what the administration hopes to do in cutting down the bringing in of foreign merchandise.

All you would be doing is substituting the purchase of this product from Paris to your place in New York City, and I don't think we are accomplishing the intent of the proposal.

You are just building yourself a big empire of wholesale merchandise while the administration is trying to reduce the gift area by 90 percent. I question that all merchandise could be bought at 67 percent off.

Mr. BRODY. I can illustrate it factually, sir.

If you take American cigarettes under the customs regulations, and this is issued by the Treasury Department, it says you can bring back all the cigarettes you care to up to your allowance.

Now, these cigarettes are manufactured and produced in various foreign countries and the same label, Lucky Strikes, Chesterfield. Any labels you can mention, sir, can be produced on the other side.

If this were purchased by a smoker abroad, he spent the entire \$10, whether it is \$10 or \$100, whatever the fact is, we could sell him the same \$10 worth of cigarettes in this country on a duty-free basis.

Mr. SCHNEEBELI. First of all, I don't know why a person would want to buy American cigarettes abroad and bring them back here.

Secondly, why would he buy them at your place rather than someplace in Manhattan? Is it a tax dodge for the American merchandise in this country, they would avoid the American tax on cigarettes by buying from you?

Mr. BRODY. No, sir. What I am saying is this: If you were to go abroad, and let us assume you went to Switzerland, let us say you are a Camel smoker or Chesterfield smoker, you buy a package or carton or whatever cigarettes, at a duty-free shop, Shannon or Orly Airport in France, you buy your cigarettes there. You are going to bring them back.

You are allowed to bring back, as I say it is \$100 or \$10 worth of cigarettes, you can expend your entire \$10 or \$100 there. Those cigarettes have been manufactured in Europe. The \$10 stays there.

I say if you are coming back to the States and you are permitted the same \$10 or \$100, that you should be permitted to buy from a U.S. bonded warehouse. The cigarettes have been entirely manufactured here and the \$10, whether it is \$10 or \$100, remains right here.

Mr. SCHNEEBELI. I was not aware of the fact that American cigarettes were manufactured in Europe.

Mr. BRODY. Yes, sir.

Mr. SCHNEEBELI. How much cheaper are the same cigarettes in Shannon than in New York City?

Mr. BRODY. They would not be cheaper. They probably would be cheaper in New York.

Mr. SCHNEEBELI. Why would they buy in Shannon?

Why not buy it on Madison Avenue?

Mr. BRODY. They would pay four and a half dollars a carton.

Mr. SCHNEEBELI. What is it at Shannon?

Mr. BRODY. Two and a quarter. We could sell at the same price or possibly cheaper but the entire dollar has been kept here and American tobacco has been used, leaf tobacco. Whereas, if it is produced on the other side it may come from Rhodesia or any other foreign country.

Mr. SCHNEEBELI. It sounds like quite a monopoly you build up here. How many of these bonded warehouses do we have?

Mr. BRODY. I was looking over the roster of committee, sir. There is Louisiana, they have tax-free shops at the airport. There is Florida, that is Congressman Boggs and Congressman Herlong. In Philadelphia, they expect to have one. They expect to have one in Dulles. They have one already in Friendship Airport.

Mr. SCHNEEBELI. How are these tax-free shops determined, by Government allocation, by franchise, or by competition?

Mr. BRODY. By competition, sir. They are established under U.S. Customs regulations and they are established by competition.

Mr. SCHNEEBELI. That is all.

Mr. BRODY. There are 10 States listed represented by members of this committee where they have duty-free shops at the present time.

Mr. LANDRUM. Are there any further questions?

Thank you, Mr. Brody.

Mr. BRODY. Thank you, sir.

Mr. LANDRUM. The next witness is Mr. George A. Eddy of Alexandria, Va. Is Mr. Eddy present?

Mr. EDDY. Yes, sir.

Mr. LANDRUM. Mr. Eddy, if you will identify yourself for the record, please, and proceed with your statement.

STATEMENT OF GEORGE A. EDDY, ALEXANDRIA, VA.

Mr. EDDY. Thank you, sir.

Mr. Chairman and members of the committee, thank you for allowing me to appear. In view of the debate yesterday on the floor of the House concerning gold, I wish to entirely rewrite the written statement which I had reproduced yesterday and which I delivered to a couple of offices.

I have not yet been able to read the record but I certainly wish to rephrase my remarks to specifically meet some of the points made yesterday.

To identify myself, I am George A. Eddy, Alexandria, Va. I represent no one but myself. I am an economist who has been deeply interested in these problems for 35 years.

I worked with the Federal Reserve Bank of New York and for the Treasury for a total of 15 or 17 years and I was Chief of the Stabilization Fund, Gold and Silver Division, at the Treasury for a number of years.

Mr. LANDRUM. Mr. Eddy, we understand your request to be that you be allowed to revise the written statement you filed with the committee?

Mr. EDDY. Yes, sir.

Mr. LANDRUM. Without objection, that request is granted.

Mr. EDDY. May I have until the regular deadline, March 1, to submit that revision?

Mr. LANDRUM. Yes, sir.

Mr. EDDY. Thank you very much.

The essence of what I wish to place before this committee is that there are some very serious mistakes being made in thinking that we do have a serious balance-of-payments emergency, that there is a grave danger of the dollar becoming bankrupted or getting in terrible difficulties, called a liquidity crisis, or that such desperate measures as this travel tax and the restrictions on direct investment are really necessary.

The international monetary system of which the dollar is the most important part is working very well and lots of things that we cover up with the name "deficit" in the balance of payments are things which we should really encourage if we understood what was going on behind the statistics.

Also, the fear that we have to do something drastic in order to prevent a gold price rise in the London market, I am convinced is based on misunderstandings.

The main problem is to make the dollar worthy of long-term trust for people here at home even more than people abroad. If we do it for

those here at home, the balance-of-payments part regarding the dollar can mostly be left to adjust itself and to be a cause of no worry to us.

The problem here at home and the reason why there is deservedly some distrust of the dollar is exemplified by the fact that the purchasing power of the dollar has fallen so since the end of World War II that anybody who invested in savings bonds at that time and pays the tax on the accumulated interest since then ends up with less purchasing power than he had in 1945.

Everybody should have misgivings about the best national monetary unit in the world while such a serious price rise is going on.

Having said that much, I will be glad to stop and present my detailed support of these broad ideas in writing to you gentlemen, unless perchance any one of you wishes to talk about any of the points I have just mentioned.

I deeply respect your devotion to duty and regret spoiling your morning coming here listening to a stray individual. You cannot tell whether I am just one more money nut, of whom there are a great many, but my basis for thinking that my views are worthy of attention should be decided, I believe, by whether I can show you in carefully considered writing that the broad judgments I have summarized are really very sound commonsense and make more sense than some of the views set forth by the administration in thinking that they need this drastic new program.

I do commend and fully endorse and have fought for years to support some of the points that the President has made lately; namely, that we should not change the gold parity of the dollar, and also I am acutely aware of the difficulties of trying to operate a floating rate.

I feel that so long as conditions are within a considerable range of where they are now, this country and the world would do better to adhere to fixed exchange rates among the leading currencies than to follow the recommendations of some professors and others that we should just let the dollar float.

I shall be happy to discuss any point further if one of you gentlemen or Mrs. Griffiths wishes, but otherwise, I would be glad to submit the rest of my statement in writing.

Mr. LANDRUM. Thank you, Mr. Eddy. As has already been indicated, the committee will be glad to receive your supplemental statement up to March 1.

Mr. EDDY. Thank you, sir.

(The following statement was received by the committee :)

STATEMENT OF GEORGE A. EDDY, ALEXANDRIA, VA.

This statement—

(i) confirms the Committee's doubts about the surtax proposal as a cure for our price rises and balance of payments problems.

(ii) questions whether a reduction of Government spending would be clearly more effective on either problem,

(iii) urges rejection of the travel expenditures tax, and

(iv) submits a new program to solve both the balance of payments and the price rise problems.

EXAGGERATED CLAIMS FOR THE SURTAX

The Administration's surtax proposal seems more of a sham remedy for our main problems than a genuine one.

Critics of this committee's reluctance to approve the surtax have been insisting that it is the one indispensable measure to restore confidence in the dollar, stop

the gold drain, repair our balance of payments, and obtain the desired degree of restraint on our epidemic of rising prices.

In doing so they are largely ignoring at least two points made by the Chairman of this committee in the February 29 House debate on the Tax Adjustment Act of 1968, namely, that our present price rises are mainly cost-push ones—a point on which Mr. Curtis joined him—and second, that there is still a good deal of slack in our productive activity and on the side of demand. Despite frequent assertions by “experts” that the U.S. economy is “overheating,” there are few real signs of that apart from the disrupting shortage of copper products due to the 8-months strike and the questionable interpretation of the price rises.

The objection to the surtax implied in those two points seems correct and important. Slowing the rate of growth of the country's aggregate demand by several billions of dollars (assuming the plan works that far) is likely to get us into worsened employment and business conditions long before it has an appreciable retarding effect on cost-push price rises. This will be specially injurious at a time when hundreds of thousands of new jobs are wanted for hard-core unemployed and ghetto-dwellers and when expanded business undertakings are hoped for to improve slum housing, etc.

Also, a roughly 10% increase in income taxes may fail to reduce aggregate demand appreciably while corporations and individuals have enough other ways of maintaining their expenditures if they choose to, such as drawing on capital funds, including loans. Still further, as the Chairman has pointed out, increasing the taxes of corporations and of employees may actually add to the cost-push price rises, especially if pay increases to offset the higher taxes are secured, through union bargaining or otherwise.

The ability of the surtax to rescue the international monetary system seems even more remote. Among other weaknesses, it is far from sure to increase U.S. exports.

One question before the committee, therefore, seems to be whether it will bow to Presidential and public clamor for the surtax, or try to do a better job than the Administration has done in finding adequate answers to these critical problems.

EXAGGERATED CLAIMS FOR CUTTING GOVERNMENT EXPENDITURES

On the other hand, the replacement for the surtax favored by some committee spokesmen, i.e., cutting federal expenditures, has some of the same defects. Both would presumably work primarily through reducing the rate of growth of aggregate demand. The doubtful effectiveness of that on cost-push price rises was cited by the Chairman and confirmed above. Although an influence in the direction of restraining price rises, spending cuts of a few million dollars during the next year or more may be washed out in the operations of a GNP of well over \$800 billion. They would, however, be likely to lead more directly than the surtax to reduced employment, by causing lay-offs of employees on government projects which are curtailed, at least in the first instance. If these people find new jobs elsewhere without loss of income due to having to accept lower rates of compensation (and without forcing other people into unemployment), the committee spokesmen's case that budget cuts are a better answer than the surtax in curbing price rises and improving our balance of payments seems faulty, or at least unproven, if monetary policy remains the same in either case.

On the basis of the so-called neo-Keynesian economics used by the committee in the hearings to question the effectiveness of the surtax, there seems no clear reason to prefer Government cut-backs over higher taxes. A program of cutting Government expenditures accompanied by tax reductions can be claimed not to lead to a reduction in aggregate employment or demand, but in this case Administration agreement to cut expenditures is being discussed as the key to this committee's agreeing to approve the surtax. There would thus be a double danger to employment—and at a time when concern for domestic conditions is strong—with only vague hopes of holding down cost-push price rises and strengthening our balance of international trade.

(To try to prevent misinterpretation of the above discussion, the writer should perhaps add that he believes neither in government expenditures under prevailing conditions merely to continue employment of job-holders nor in so-called neo-Keynesian economics as supplying the answers to our present problems.)

DEFECTS OF THE TRAVEL EXPENDITURES TAX

The proposed travel expenditures tax seems to deserve to be called part of a meat-ax approach to the balance of payments problem.

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

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

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

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

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

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

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

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

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

A BETTER BALANCE OF PAYMENTS PROGRAM

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

The main misapprehensions include:

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

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

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

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

currencies of other countries at their nominal parities, almost all of which were sharply limited in use by their exchange controls. From the Fund's operative start on March 1, 1947, through April 1952, total "drawings" came to only \$726.2 million in U.S. dollars, 34 million dollars worth of pounds sterling, and 11.4 million dollars worth of Belgian francs. (That April 1952 date was chosen only because the writer happens to have the May 1952 issue of the Fund's statistical bulletin.)

From July 1, 1945, through 1952 the U.S. Government supplied about 50 times as much foreign aid—\$35 billion of non-military grants and credits, of which \$24.6 billion was in grants.

If this Government had only supplied smaller grants and more loans to various European countries, we would today be being serenaded with cries of the terrible dollar shortage instead of complaints of a dollar glut and lack of confidence in the dollar.

A roughly similar proportion between IMF drawings and U.S. aid continued for a number of years beyond 1952.

Besides shouldering a great deal of the burden of the non-Communist world's defense costs, the United States by the end of 1957 had furnished \$48.6 billion of nonmilitary grants and credits. These enabled a number of the stronger countries to rebuild their economies (relying heavily on scarce goods from this country), reestablish their export and import trades, accumulate reserves of dollars and gold, attract foreign investments (over \$40 billion worth, net, from the United States) and tourists.

Furthermore, the Fund Articles of Agreement were not drawn in the expectation that one or two national currencies would be the vehicles for most of the world's international trade and payments, or that 106 of the 107 members would fulfill their own currency stabilization commitments primarily through sales and purchases of one currency, the dollar.

The dollar has also been burdened with one or two other unplanned functions.

Consequently, it is wholly out of proportion for anyone to assert that the United States and the dollar must follow identical rules and behave according to the same principles as all the regular members of the Fund. The dollar has a set of problems peculiar to itself alone, in quantity and quality, and must be managed and judged on special principles.

Also, the IMF system was designed when the United States had about 60% of the world's official monetary gold stocks (excluding the U.S.S.R.), which rose to about 70% by 1949. There was worry that this country would receive almost all of the world's reserves, and that gold would then become of little monetary use.

It is natural that today a different relationship between the dollar and gold is necessary.

2. A second major misapprehension, at least on the part of some people, is that there are any genuine barriers in the way of continuing to use the international dollar system, or that there is any substitute for it in sight. (The prospective Special Drawing Rights in the IMF are no substitute and will add to the problems of the dollar.) Every country, however, should be free to make its own choice in the matter.

3. A third is that the U.S. Treasury has to keep on selling gold freely to foreign central banks on demand in order to make the system workable and to give value to the dollar. (Dr. Otmar Emminger, an official of the German Bundesbank, expressed the point well to the National Industrial Conference Board in New York on February 15, " * * * Nor has gold an immutable value. Money does not derive its value from its link to gold. On the contrary, gold derives its value, at least to a large extent, from its link to money. * * * " Dr. Emminger, however, favored more stringent action regarding the dollar's balance of payments that this statement recommends.)

A fourth misapprehension is that the United States has been "living beyond its means internationally" and that in a realistic sense foreign countries have been "financing the U.S. balance of payments deficits" on a large scale.

A fifth and most important misapprehension is that the United States should and must end its balance of payments deficit as shown in the Department of Commerce estimates "on the liquidity basis," through this country's applying deliberate, forceful measures to reduce its payments to foreigners and increase its receipts from them. Nor are the deficits "on the official reserve transactions basis" a proper target to eliminate either.

For one thing, a great many countries need more dollar reserves. For a second thing, if foreign business firms and foreign capitalists elect to acquire and hold dollar assets in the form of deposits in U.S. banks or in U.S. Treasury securities—increases which show up as “deficits on the liquidity basis”—there is no more reason to deny them that opportunity than to ban an increase in the U.S. domestic money supply, savings and time deposits, and holdings of Government securities. Thirdly, an increase in dollars held by foreigners is the best means the world now has for handling such situations as the periodic storms which blow up over one currency or another such as the pound sterling, the Canadian dollar, the Italian lira, etc., to name a few examples of recent years.

It is true, on the other hand, that the U.S. should most certainly put an end to utter and huge wastes—domestic and international—like the 8-month copper industry shut-down. It should also be less bountiful in supplying defense for other countries for which they mostly fail to offset even the U.S. foreign exchange costs of our doing so, and for which the direct dollar costs and all the indirect foreign exchange and dollar costs are not even mentioned and perhaps not even recognized to exist.

To set forth and reply to all the opinions which disagree with the above five assertions of misapprehensions would make this statement too long to read and impossible to complete before the deadline.

MORE SPECIFIC FEATURES OF A BETTER BALANCE-OF-PAYMENTS PROGRAM

A program to overcome the weaknesses of the present balance of payments proposals includes the following features:

A. The United States should plan to retain most of its remaining gold reserve.

B. Instead of applying harsh travel expenditures restrictions to every country outside the Western Hemisphere, it should ask each country in the Eastern Hemisphere whether it wishes American tourist expenditures in their area to be limited or reduced, on the basis that continuation of American tourist travel will require each country to agree to work out the balance of payments between it and the United States with virtually no further gold sales by us.

If any country elects to deter American tourist traffic, either they can apply the deterrents themselves, following ample warning of the intention to do so; or the United States can warn U.S. tourists to minimize their stays and expenditures in the specified countries and to tax each day's stay therein, as shown by passports on return to the United States. It is possible that different rates of tax could be applied depending on the individual's income tax bracket for that year.

It seems unlikely that any country will choose to lose its American tourist business to an appreciable degree. Applying the proposed travel expenditures tax to countries like Great Britain, which desperately needs dollars, would be the height of folly for both them and us.

C. The United States can offer foreign central banks and possibly others a right to deposit dollars in a new type of account in the United States which this country will guarantee, in dollars, against any increase in the Treasury's buying price for monetary gold or any devaluation of the par value of the dollar communicated to the International Monetary Fund.

D. The United States should show a new readiness and flexibility to consult with and assist other countries which may have or receive in the future a greater quantity of dollars than they think is in their best interest. Of course, they have many ways of disposing of such holdings at their own command. In some cases, however, it may be mutually advantageous for the United States to borrow back such dollars—the idea of the “Roosa bonds” but applied more widely—to offer guarantees adverse changes in exchange rates, or use other available devices.

E. Last and most important and difficult of all is the acute need for a direct approach to halt the erosion of the dollar by cost-push price rises which has gone on for the last 30 years. Neither more taxes nor tighter money nor cuts in Government expenditures are an effective answer to them. Monetary and budget restraints can reach them only after creating dangerous increases in unemployment and slow-downs in business and agricultural marketings.

Since World War II, and even since the late 1930's, monetary expansion and budget deficits have been compelled by the need to overcome the unemployment-creating effects of union wage exactions. The last have been made possible by Congress's granting unions excessive powers since the 1930's without proper guiding principles and limitations. A revised Government policy to curb union “muscle” in coercing increases in wage, fringe, and other compensation terms

which force labor costs upward. The statistics in the Treasury blue book on the dollar presents data on labor costs which are grossly misleading, and the subject is treated to a blizzard of false allegations in public statements by union spokesmen. The current copper strike is a prime example of this problem.

Congress, and especially this committee, has powers to correct this condition which earlier Congresses helped create, once there is some recognition of the true facts of the situation.

Action of exceptional forthrightness in this field is needed to make the dollar worthy of long run confidence for both American citizens and foreigners. The purchasing power of the dollar has declined around 50% in the last 23 years and is currently declining at a higher-than-average rate. It has gravely endangered our international position on exports and imports.

Should the committee be interested in pursuing this matter more realistically than merely to enact the requested surtax and some gestures regarding the balance of payments, the writer would welcome the chance to outline his conclusions further.

Mr. LANDRUM. Are there members who desire to ask questions?

Thank you, Mr. Eddy.

Mr. EDDY. Thank you, Mr. Chairman.

Mr. LANDRUM. Has Mr. Vidockler arrived? (Mr. Vidockler's prepared statement appears at p. 1097.)

That completes all the witnesses that the committee had scheduled for today. With that, the committee adjourns until 10 o'clock tomorrow morning.

(Whereupon, at 10:45 a.m., the committee adjourned, to reconvene at 10 a.m., Friday, February 23, 1968.)

ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS

FRIDAY, FEBRUARY 23, 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. Phil M. Landrum presiding.

Mr. LANDRUM. The committee will come to order.

This morning the first witness scheduled is Mr. Robert S. Kane, president of the Society of American Travel Writers, and Mr. Michael Frome, former president.

Are these gentlemen present?

STATEMENT OF ROBERT S. KANE, PRESIDENT, SOCIETY OF AMERICAN TRAVEL WRITERS; ACCOMPANIED BY MICHAEL FROME, FORMER PRESIDENT

Mr. KANE. Right.

Mr. LANDRUM. If you will come around please, Mr. Kane and Mr. Frome, and identify yourself for the record, the committee will be glad to receive your statement.

Mr. KANE. Mr. Chairman, members of the committee, my name is Robert S. Kane. I appear this morning as president of the Society of American Travel Writers, a nationwide organization of more than 500 members.

Our active members are the travel editors and writers of newspapers and magazines serving many millions of readers. They include the authors of virtually all guidebooks and contemporary travel literature. Our cooperating allied and associate members are public relations representatives of cities, States, and regions in the United States and Canada of foreign national travel organizations with offices in this country, of major hotel and transportation carriers and companies.

You may wish to have a copy of our national 1968 roster, Mr. Chairman, for our entire membership is at the service of this committee in solving the difficult problems before you.

Our society was born at a meeting in Ellinor Village, Fla., in 1956. The following year we met in the Ozarks, first in Oklahoma, then in Arkansas. Our 12th convention last year was held in Turkey. I am the travel editor of Cue magazine in New York and author of the A to Z travel books published by Doubleday Co., and I am pleased to have

with me Mr. Michael Frome, a former president of our society, who is distinguished as an author on both travel and conservation and especially so on our national parks and national forests.

The society has endorsed resolutions—first at its 1965 convention in Kentucky, most recently at its Turkey convention last fall—affirming the right of Americans to travel freely, both domestically and abroad.

The society remains of the firm conviction that the way to improve the so-called travel gap in the balance-of-payments deficit is to increase, rather than decrease, international travel in both directions. Reflecting this view, the board of directors recently voted to proceed with plans—formulated last year—to hold the society's 13th convention in Austria this October.

The very existence of a travel gap has been authoritatively questioned by, among others, Representative Thomas B. Curtis of your committee, in the Congressional Record. But if it must be assumed that the "gap" exists, the approaches to its diminution must be positive, hinging on the increased importation of foreign tourists to our shores under the aegis of a realistically budgeted U.S. Travel Service. A USTS worthy of America's name is but one positive step, however.

To be seriously considered, as well, are the recommendations of the President's Special Task Force on Travel. Under the direction of Ambassador Robert McKinney, the task force's various working—and I mean working—parties, on one of which I had the honor to serve, have come up with programs designed to bring us more foreign visitors now—this year.

There are, as well, a number of eminently practical proposals from private industry—the airlines' offer of cheap fares for visitors to the United States from abroad, the foreign carriers' plans to spend dollars earned from American sales in America; various proposals from Members of the Congress, including the reduction of our Armed Forces in Europe, the return home of Armed Forces dependents from Europe and elsewhere abroad, and a variety of economies in governmental expenditures abroad.

What can we look forward to if these proposals become law? Our traditional freedom to travel will have been violated with grave consequences. America would lose friends at a time when it has never needed them more. Negated would be the enlightened internationalist position which has been a cornerstone of American foreign policy for a generation. Severely crippled would be a vast international tourist-transport industry, scores of thousands of whose employees are American citizens. Perhaps most important, the doors would be open to reciprocal actions from abroad.

Already, the administration has had to suffer what one hopes it considers the embarrassment of urgent appeals from the government tourist departments of Europe, of Asia, and of the Pacific; from the national airlines of Europe, which spend billions of dollars on American aircraft; from every international agency of substance having to do with the touristic movement of peoples; even, indeed, from the two major U.S. travel industry organizations whose aim is to promote domestic tourism within the United States.

Next will come the diplomatic notes and, if the proposals are enacted, the divisive reciprocal acts they cannot but engender. For a saving of but \$500 million, are we to undertake this disruptive, ostrichlike reversion to isolationism? Do we not realize that it is our private traveler—not only the student and the teacher but the stenographer and the accountant and the farmer and the young-in-heart grandmother—who is America's safety valve in a complex world frequently unhappy with us? Even the Communist half of Europe, responding after a generation to our example and our urging, is at last beginning to allow its people to peep beyond their borders. Are we, at this point, to ignore such a remarkable step toward amity and reerect the arbitrary blinders of the Monroe era?

You have before you the proposals of the economists. We urge that you consider those of the nontechnicians—writers like myself whose stock in trade is not only places but people, the people of the one world toward which we have so long professed to aspire, and whose good will we lose at our peril.

Thank you.

Mr. LANDRUM. Thank you. Mr. Frome, do you have a statement?

Mr. FROME. No, but I would like to add just one word, Mr. Chairman.

Mr. LANDRUM. We would be glad to hear from you.

Mr. FROME. I have read some criticism of the critics of the proposal that we speak as vested interests who have some special concern in international travel as opposed to the development of promotion travel.

Personally, virtually all of my writing is on the domestic travel scene and I am very proud of it. I feel that all Americans should see the great riches that we have here, but at the same time I think that it would be catastrophic to impose the taxes that are implicit in the proposed legislation of the Treasury Department.

It would discourage foreigners from coming here. I think it would just have a blanketing effect on the whole travel scene in general, so I think that it should be recognized that it is not only the people who make their living out of sending Americans overseas, but it is all of us who are concerned with the movement of peoples at home and abroad.

Thank you.

Mr. LANDRUM. Do members desire to question?

Mr. SCHNEEBELI. Yes.

Mr. LANDRUM. Mr. Schneebeli.

Mr. SCHNEEBELI. This inquiry refers to a question I raised yesterday. Do the foreign airlines have any better inducement to travel agents, any better commission, to book tourists on foreign airlines rather than American airlines for overseas travel?

We were discussing the foreign airlines with the airline pilots group, why there were so many overseas flights particularly on foreign airlines as compared to American airlines, and I raised the question as to whether there was any greater inducement, any greater remuneration, commission, paid by foreign airlines to the travel agent.

I would think that you are in a position to answer that question.

Mr. KANE. As far as I know—I am sure there will be other witnesses this morning, Mr. Abels, for example, who can testify—the commis-

sions which agents receive are standard from all airlines whether they be domestic or foreign.

Mr. FROME. On an airline ticket from New York to Paris the agent will get the same commission whether it is Air France or Pan American.

Mr. SCHNEEBELI. To what degree is the determination of the airline made by the agent and to what degree by the traveler?

Mr. KANE. I would think this would be difficult to generalize on. I suspect the agent's influence is probably strong and I would like to think also that the travel writers' influence is very often taken into consideration, too.

Mr. FROME. I think you will find, Mr. Congressman, that the rates and commissions are fixed by the International Air Transport Association.

Mr. SCHNEEBELI. And are similar, both national and international?

Mr. FROME. However, competition is very keen.

Mr. SCHNEEBELI. I realize that.

Mr. FROME. And when it comes to the merchandising of package tours, the standard commission goes up. When it comes to booking charter flights, the elements of commission are more manifestly present, and it has been said that some of the foreign carriers are more competitive in this field of charter flights.

Mr. SCHNEEBELI. It is a very nice way of saying that probably the travel agents make out with a better deal from the foreign line.

Mr. FROME. Not necessarily. I don't think that is quite right because very often they are dealing with private organizations which are chartering the flight.

Mr. SCHNEEBELI. Correct. Since most foreign travel in the area of tours and booked grouping rather than individual, and this would take care of 40 people at one time rather than an individual, this would be paramount in the tour area, wouldn't it?

Mr. FROME. They are allowed to give a higher commission on a tour package than on an individual ticket.

Mr. SCHNEEBELI. They do.

Mr. FROME. The theory being if the agent goes out and sells a tour package he is participating in promotion rather than in just acting as a ticket agent, but you find, I think, that in the summertime our American carriers, Pan American and TWA, are in a difficult position to provide aircraft for charter flights because their planes are running to capacity.

Mr. SCHNEEBELI. We were told that on the average the American flights overseas were only about 50 percent booked—

Mr. FROME. On an all-year basis.

Mr. SCHNEEBELI (continuing). Going east and coming back west much less than that. We were told 65 percent in the peak season.

Mr. KANE. This may well be. Aside from Pan American, TWA, Northwest, and so forth, there are supplemental carriers, a number of which are very heavily involved in travel business abroad.

Mr. LANDRUM. Mr. Betts.

Mr. BETTS. All I have heard about are airlines. Don't steamship companies have any business any more?

Mr. FROME. You see what has happened to Cunard.

Mr. BETTS. I thought there might be an opportunity for them to get in on this cut rate.

Mr. KANE. The steamship companies' business is developing probably within a decade. I would think that the great bulk of the steamship company business would be cruise business, primarily in the Caribbean and cruises around the world, cruises within the Caribbean, transpacific cruises, and gradually the transoceanic. The transatlantic passenger steamship company is subsidizing each year, but that effort is being channeled into cruises. It is still considerable.

Mr. LANDRUM. Mr. Utt?

Mr. UTT. No questions.

Mr. BUSH. Mr. Chairman.

Mr. LANDRUM. Mr. Bush.

Mr. BUSH. I have just one question, Mr. Chairman. Would your society oppose a program of voluntary restraint? In other words, if the administration decided they couldn't get this travel tax thing and launched a propaganda offensive against a fellow who is going on a safari at a time when this country has a problem with the jet-set people that are going to spend a lot of money no matter what is good for their country, would you object to a voluntary propaganda offensive saying, "Look, we have some serious problems here and we don't want to impose restrictions, tax people any more, but, after all, we don't think they should travel abroad now because we do have some problems," how would you view this if it weren't legally restricted?

Mr. KANE. My view would be that, to begin with, I think a great deal of work has already been done in this area simply by the proposals having been made. I think to our great misfortune a great many of our citizens already feel that to travel abroad or beyond the hemisphere is an unpatriotic thing to do.

I, myself, and I know my colleagues in the Society of American Travel Writers, certainly would oppose a voluntary program. Our feeling is that we should have more international travel in both directions.

Mr. BUSH. I notice in your testimony you talk about students and teachers and stenographers, kind of little men, as we call them in politics, farmers, grandmothers, but there is no reference to the kind of rich guy wanting to go on a safari or the countess who wants to fly abroad to the ball in Monaco. Am I improper in drawing a differential? Is all foreign travel or all levels of expenditures to be a concern or is there any restriction when our country as a real problem like this?

Mr. KANE. I think, of course, once again it must be agreed as to whether or not this whole travel gap thing is a valid economic proposal. We believe it is not. I myself believe also that the percentage of the so-called jet-set travelers who are going abroad for a ball is relatively minimal.

Mr. BUSH. We have no figures on that. I don't know.

Mr. FROME. Mr. Bush, I think you will find when Congress, the President, or the travel writers appeal to patriotic instincts that the people who respond are the people who should be going. The students, the teachers, the families, the people that you are trying to discourage are going to go, anyway.

Mr. BUSH. I think you are right. I don't like this proposal. I came here with kind of an open mind. I don't like it, but I kind of feel that it is too bad that there is not some way to have some recognized patriotism, some sacrifice on the part of some people who are continuing to spend vast sums for sheer pleasure at a time when maybe it perhaps doesn't contribute as much as the administration thinks and maybe I think your focus is right on the size of the problem, but I think it is regrettable that there is no way that people will respond, the right people, the spending people, to a legitimate plea like this.

Mr. FROME. Perhaps one way we can reach that objective is by making life more meaningful at home and by developing the kind of meaningful places of interest at home. There was an article in the Washington Post about a week ago quoting the kind of people who have money, "Are you going to travel in the United States?" and they said, "Oh, no. It is a conglomerate of small towns and it is boring and I am going to go to South America."

I wanted to say, Mr. Bush, that I followed your interest in the Buffalo Bayou very closely and I think that you helped to save the taxpayers some money, that is, if the project goes along without having that attractive bayou cased in concrete.

I think if we could have Buffalo Bayous enhanced and made attractive all over the country and show people the treasures of the United States, that this might serve to accomplish the objective that you are asking for.

Mr. BUSH. I think you are right. Really I don't see the chance legislatively of getting it, but I am afraid that you both are correct when you say these people are the ones who are less apt to respond to persuasion.

I think it is a small part of the overall problem, but I just hate to see these fellows who just kind of thumb their nose at the administration's request on any kind of a consideration basis and get away with it, and yet I am terribly sympathetic to the testimony of both of you here.

Thank you.

Mr. LANDRUM. Mr. Kane, in your statement, specifically at the top of the second page, you refer to efforts to promote travel by people in other countries to this country and the expenditure by those people of money in this country for American tourists.

I wonder what influence, if any, is felt in this field by people traveling from countries that restrict the amount of money that people may bring out? For example, Great Britain restricts the amount of money that one can bring out. Italy restricts the amount of money. Japan, I believe, has been represented as restricting the amount of money.

How do you relate that to the proposal here to have our people pay some tax for the amount of money they spend abroad?

Mr. KANE. If I understand your question, you mean in the technique, the logistics of their plan, as contrasted to our proposals?

Mr. LANDRUM. What I am driving at is it is true that other countries limit tourists from that particular country, from a particular country, as to the amount of money that they can spend. When they come to America they are limited on the amount they can spend here.

Mr. KANE. Yes.

Mr. LANDRUM. You mention in your statement, "The airlines' offer of cheap fares for visitors to the United States from abroad, the foreign carriers' plans to spend dollars earned from American sales, in America."

To what extent do these limitations of funds that they can bring out influence the amount of money that they can spend over here and how is that related to our efforts to get some benefit from the money that our tourists spend abroad?

Mr. KANE. Well, the number of countries, of course, which do have these limitations are minimal and, of course, from what we understand even the contemporary British restrictions are more honored in the breach.

In other words, the British traveler finds means of getting dollars or he makes arrangements with friends abroad or with relatives abroad to get dollars or foreign currency when he makes his trip. This was the way the British operated when they had similar restrictions immediately after the war, in my experience.

I think the fact remains that the great majority of countries of the world still allow their travelers to travel without restrictions and that if we tap this market we are bound to do some business and increase tremendously.

The potential still remains tremendous as to the amount of foreign visitors who would visit this country given the right opportunity.

Mr. LANDRUM. What difference, if any, in the end result is there in a tax placed by this Government on our people traveling abroad and a similar restriction by Italy, for example, or Britain, on the amount of money that their people can bring over here? What principal difference is there?

Mr. KANE. Well, of course it is all a question. I think that the British program is a deplorable one and the Italian program—I am not familiar with the details of it—is also.

I don't think that Italy has ever been considered amongst the countries of Western Europe as a major tourist country insofar as appreciable members of its population traveling great distances. Italy by and large remains a fairly poor country as far as the great mass of its people is concerned, so I wouldn't think that Italy would be one of the countries where we would be looking for great quantities of travelers. The United Kingdom is something else again. Other than that, though, there are no restrictions in West Germany, Scandinavia, Holland, Belgium. The Eastern European countries are beginning to allow their people to travel, the Asian countries, Australia, New Zealand, Japan, and of course the countries in this hemisphere as well.

I think there is a tremendous potential there. The U.S. Travel Service, working with the limited budget that it has, has made tremendous progress, and given a budget of, say, \$10 or \$12 million a year to work with, with the specifics of the program that the President's task force has come up with, I think there is unlimited potential because there is, in my experience in visiting some 100 countries on every one of the continents, tremendous innate curiosity amongst the people of the world as regards the United States, tremendous curiosity, and touch a foreigner regardless of his nationality and he is curious to come to the United States if it is possible.

Mr. LANDRUM. Can you see any great difference between the imposition by the Italian Government of the limitation on the money their people may bring out and the program that is being proposed here to the Congress?

Mr. FROME. Mr. Chairman, why should the United States follow the lead in repression?

Mr. KANE. Exactly.

Mr. FROME. Why should we not hold the banner of freedom of travel?

Mr. LANDRUM. That is not the question. I said can you see any great difference?

Mr. FROME. I think that is the great difference, that we must show the way to freedom of travel, not follow the lead of others who are impoverished nations, whereas we are the greatest and most prosperous Nation in the history of the world.

Mr. LANDRUM. The facts are, though, in this case, that we are presently allowing unrestricted travel.

Mr. FROME. And I hope we always will.

Mr. LANDRUM. But that it is true that other countries do not allow unrestricted travel to this country.

Mr. FROME. A certain few do not.

Mr. LANDRUM. All right. Any other questions?

Thank you very much, Mr. Kane and Mr. Frome. The committee appreciates your views.

Mr. FROME. Thank you.

Mr. LANDRUM. The next witness is Mr. Carlos Moseley, vice president of the American Symphony Orchestra League. Is Mr. Moseley present?

Mr. Moseley, will you identify yourself for the record?

STATEMENT OF CARLOS MOSELEY, VICE PRESIDENT, AMERICAN SYMPHONY ORCHESTRA LEAGUE, AND MANAGING DIRECTOR, NEW YORK PHILHARMONIC SYMPHONY SOCIETY; ACCOMPANIED BY HELEN M. THOMPSON, EXECUTIVE VICE PRESIDENT, AMERICAN SYMPHONY ORCHESTRA LEAGUE

Mr. MOSELEY. Yes, Mr. Chairman. Mr. Chairman, members of the committee, my name is Carlos Moseley. I reside in New York City. I am accompanied this morning by Mrs. Helen M. Thompson, who is the executive vice president of the American Symphony Orchestra League.

I am here in a dual capacity to speak on behalf of the American Symphony Orchestra League of which I am a vice president, and in this case I speak for many U.S. orchestras, and also as the managing director of the New York Philharmonic, which is America's oldest symphonic organization, of which Leonard Bernstein is the music director, and which is scheduled to make an international concert tour this summer under U.S. Government auspices and which is expected to result in a favorable inflow of some \$144,000 to the United States advantage.

We have asked to appear before this committee to discuss the ways in which this proposed travel tax would affect the symphony orchestras and to discuss way in which we might deal with that problem.

Seldom, if ever, do more than two or three of our established orchestras undertake foreign tours in any one year and I can assure you that none of us would want to plan such tours in the future if they were deemed to be not in the best interests of the people of the United States and our Government.

I would like to emphasize, though, at the beginning, that these tours are not undertaken for tourism to which this tax program is directed, but, on the contrary, they represent the efforts of dedicated musicians and nonprofit institutions here backed up financially by citizens in each city, by public-spirited people in each city, often by the local governments and by the Federal Government, to do all they can to help project the true cultural image of the United States to peoples abroad and, therefore, even though so few of the established orchestras of the Nation are actually involved in this travel program or this touring program, orchestras in virtually every State of the Nation have expressed their concern over the implications that this tax could have on such tours and with the possible resulting loss to American international prestige and our cultural standing abroad.

The first two orchestras which might be affected by this program have already some time ago made arrangements for tours this coming year. The San Francisco Symphony accepted an invitation extended 3 years ago to open the International Music Festival in Osaka and to make a tour of various other Japanese cities in a 3-week tour of that country.

The New York Philharmonic is to make a 5-week tour of Europe and Israel, conducted by Mr. Bernstein, in August and September of this year. This tour is to include a number of international music festivals where we will be the only orchestra representing our country, though there will be orchestras from other countries, and our Department of State is assisting financially in this project so that we can bring this representation of America's great achievements to these international audiences.

Now, while we are talking first of all about these orchestras that are already committed to tours and which are quite imminent and upon us, we would also like to discuss with you the implications on future tours by American symphony orchestras, and to do so I would like to go on for a few minutes into just what these tours consist of, how the orchestras are financed.

The symphony orchestras in this country are, of course, nonprofit institutions. It is impossible for an orchestra to earn as much as it costs to run one of them. In fact, most of our orchestras earn some 50 to 60 percent of their total cost, but the remaining deficit of, say, 40 percent must be raised from interested local citizens and from whatever sources that the orchestras can turn to, sometimes the local government, sometimes foundations, or whatever it might be, but still it is a major struggle each year for these orchestras to raise this deficit amount, so anything that tends to increase this kind of deficit calls upon the local citizenry to do just that much more than they are already doing, which is substantial now, to keep the orchestras in business.

The undertaking of a good will international tour is certainly nonprofit. In fact it just costs that much more to the symphony orchestras and to those that back them. They are undertaken primarily for international good will and for the prestige of our country.

The Government has found that presenting these visits of our leading symphony orchestras abroad is one of the most dramatically successful ways of bringing home to people in other countries the deep concern that our country has for cultural values and the cultural achievements which are extraordinary in this country.

It is a means whereby American music, American musicians, composers, conductors, and so on, are brought into the lives of the citizens of other countries.

The State Department has already called upon various of our orchestras to assist in this program, among them Boston, Cleveland, Cincinnati, Detroit, Minneapolis, Los Angeles, New Orleans, New York, Philadelphia, Pittsburgh, and Washington.

I may have omitted some. But it is for these reasons, which our Government has found apparently very important, which we certainly as individuals have experienced in our travels abroad, that the organizations, even though they are deficit-financed, have been willing to undertake these costly foreign tours.

May I take a minute here to describe what a tour really consists of? There are some 100 to 110 musicians plus conductors and soloists, and librarians, and administrative staff, bringing to a total of some 120 to 130 persons, that are usually involved in a tour, and with them must go the necessary cargo, which comes to usually between 18,000 and 20,000 pounds.

This is musical instruments, equipment, concert attire, and other effects that must of necessity accompany a group of this size, a music-making group. The transportation, the salaries, living and administrative costs, usually come to around \$70,000 to \$100,000 a week, depending on the nature of the tour, the area of the tour, and the orchestra itself.

But in every case the major part of the cost of the tour is expenses here in the United States. They go for salaries and for paying the carriers which take the orchestras on the first leg of the trip, across the transoceanic passage.

Now, while we are abroad most orchestras earn perhaps 20 percent of the total cost. That covers roughly the living expenses while abroad. Then that remaining 80 percent must be raised from citizens at home or from contributions from local or Federal Government or from the orchestras' own funds.

In the case of our forthcoming tour, Trans World Airline, TWA, is giving us \$150,000 as a contribution to help make the trip possible. The proposed travel tax, however, would add some 10 percent, possibly more in some cases, to the cost of the tour, and in the case, then, of a 5-week tour this could increase the amount at the rate of \$7,000 to \$10,000 a week.

It could increase the cost by \$35,000 to \$50,000, which would be a severe financial burden on the orchestras and those who contribute to their support.

I would like, if I might, to take the specific figures for the Philharmonic's forthcoming tour. May I ask you to turn to page 12 here? The total cost of our tour is now estimated to \$580,000. To fund this we will be receiving in concert fees, which by the way are paid to us in U.S. dollars, \$250,000. This is a pretty high figure because this is, I think, going to be a rather historic tour. It is Mr. Bernstein's final tour

as music director of the Philharmonic and there has been unusually great interest of people abroad. People are willing to pay higher fees. They are arranging television programs for which they are paying and so this will take care of more than 20 percent of our costs, much higher figure.

Then besides the concert fees we are receiving from the State Department \$100,000 which we understand will be paid in the local currencies of the individual countries, and then the contribution from TWA of \$150,000, making a total of a half million dollars of income.

This leaves for the New York Philharmonic Symphony Society a deficit of \$80,000. We have calculated the tax on Secretary Fowler's formula to be \$59,000, which adds some 74 percent to our deficit, makes a total of \$139,000.

Now, on the inward-outward flow of dollars, which I think is of some consideration here, you will note that the fees paid in U.S. dollars for the concerts and for the telecasts—telecast money, by the way, is paid to the musicians here after we return to this country, and we simply act as a disbursing agent here; it does not help to reduce our cost—will amount to some \$300,000.

The total expenditures abroad are expected, though, to amount to \$255,610, and of those expenditures some \$100,000 would be the State Department's contribution in the local currencies, so they don't represent dollars, as I understand it.

This means, then, that there would be an inward flow of \$144,000.

May I ask you to turn to one more page of figures here, if you would be kind enough?

On page 13 you will see that the tax on personnel travel is \$20,667, on instruments and baggage, \$19,000. The per diem for the musicians is fixed by contract with the American Federation of Musicians at \$22 a day. The tax on that is \$17,000. The tax on our necessary transportation is even higher than the tax on the living expenditures abroad, but it does make a very high total for us, \$58,747.

This points up several of the real problems as far as touring by symphony orchestras is concerned. The proposed transportation tax you see for the movement abroad from city to city and country to country where we play night after night before new audiences is fixed at the 30 percent rate, which is the rate that applies to travel expenditures abroad, rather than at the 5-percent rate which applies to the first lap going and returning to this country.

The impact of applying that 30-percent tax would be prohibitive on a worldwide tour, such as the Los Angeles Symphony has just completed. They made an 8-week, very successful tour that was worldwide. They received some assistance from the Department of State. They received almost a half million dollars from the people of Los Angeles and they made a tour that included a number of European countries. They played behind the Iron Curtain. They played in Asia. And we have figured that had that tour been taxed under this new formula it would have added some \$75,000 which they would have had to find in subsidy somewhere or else been unable to make such a trip.

The Treasury Department has stated that its proposal of a graduated expenditure tax is aimed at the cutting down the amount which travelers will spend overseas rather than the number of travelers over-

seas, and we think that this approach, of course, might work with the businessmen or with the tourists abroad, but it can't very well apply where we are subject to our basic costs, our really fixed costs.

Our per diem, as I mentioned, is fixed by contract with the local of the American Federation of Musicians. However, when one travels as rapidly as we do from country to country and often in festival situations where hotels are already filled some time in advance, we have to take what we can get in the way of hotel accommodations.

Sometimes it is good. Sometimes it is medium good. Sometimes it is less than we would like to have it, but we are already forced by circumstance to take what is there, cost what it may.

However, we have a fixed \$22 per diem in our case. The application, then, of the proposed taxes to the symphony tours could have the effect of substantially reducing the number of future good will, cultural tours, rather than merely reducing the level of expenditures as the Treasury Department intends.

If we are to undertake tours in the future and if the taxes are applied, it simply means that we have to turn to our present sources of income and of subsidy for additional moneys.

It means we have to turn either to our local citizenry, and in contributing more to us they obviously will deduct from income taxes those contributions, which in the long run has its effect on the amount which is taken by the U.S. Treasury, or if we are making a tour under State Department auspices we obviously would turn to that agency to try to gain additional subsidy to take care of the additional tax which would be imposed.

In either case the proposed tax would produce an increased burden on the general public and upon the Government. So it is for all of these reasons that we feel that tours abroad by nonprofit American symphony orchestras, undertaken as they are for good will and high artistic purposes, should be exempted from the proposed new travel and expenditure taxes.

We think this could be done very simply by treating such tours as nontaxable trips for both the proposed transportation tax and the expenditure tax on foreign travel.

Thank you.

Mr. LANDRUM. Mrs. Thompson, do you have a statement?

Mrs. THOMPSON. No, sir.

Mr. LANDRUM. Any questions?

Mr. SCHNEEBELI. Mr. Chairman.

Mr. LANDRUM. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Moseley, I doubt very much, whatever tax is finally agreed on, if any, that it will be applicable to organizations such as your own. That would seem to me to be very unfair—

Mr. MOSELEY. I am delighted to hear that.

Mr. SCHNEEBELI (continuing). And impractical and at least you have one vote in the committee in behalf of you and your organization. As I say, I would be very surprised if organizations such as your own were not exempt from whatever tax is enacted.

Mr. MOSELEY. Thank you very much.

Mr. SCHNEEBELI. I think you do a tremendous job for international good will and I think we should not tax your good efforts.

Mr. MOSELEY. I think this is one of the most encouraging sentences I heard this week.

Mr. SCHNEEBELL. I am only speaking for myself. Of course there are 24 others. But I would think it wouldn't apply to you.

Mr. MOSELEY. Even though the dollar amounts may not seem large, it is of such moment to us that we couldn't take a chance on not coming before this committee and putting forth these views and asking for your consideration.

Mr. LANDRUM. Any other questions?

I assume, Mr. Moseley, that you would want to include your formal statement in the record.

Mr. MOSELEY. Yes, please. Thank you.

Mr. LANDRUM. Without objection that will be done.

Thank you very much.

Mr. MOSELEY. Thank you.

(Mr. Moseley's prepared statement follows:)

STATEMENT OF CARLOS MOSELEY, VICE PRESIDENT, AMERICAN SYMPHONY ORCHESTRA LEAGUE AND MANAGING DIRECTOR, NEW YORK PHILHARMONIC-SYMPHONY SOCIETY

Mr. Chairman, Members of the Committee, my name is Carlos Moseley. I reside at 963 Lexington Avenue, New York City. I am accompanied by Mrs. Helen M. Thompson, Executive Vice President of the American Symphony Orchestra League.

I appear before this Committee in two capacities—as Vice President of the American Symphony Orchestra League in which capacity I speak on behalf of many U.S. symphony orchestras; and secondly, as the Managing Director of the New York Philharmonic-Symphony Orchestra, America's oldest symphonic organization, founded 125 years ago.

My purpose in appearing before this Committee is to review with you the ways in which the proposed travel tax program would affect symphony orchestras, and to discuss ways of dealing with the problem.

Even under normal circumstances it is seldom that more than two or three orchestras undertake foreign tours in the same year, and I can assure you that neither by own orchestra association nor the other orchestras would want to undertake foreign tours unless such tours were deemed to be in the best interests of our Country and of our Government.

In spite of the fact that so few of our nation's symphony orchestras actually are involved in foreign travel, orchestras in every state of the union have indicated concern over the impact of the proposed travel tax program on orchestra tours simply because these taxes could serve to threaten the international prestige of our nation's great musical organizations and downgrade the cultural standing of the United States throughout the world.

SYMPHONY ORCHESTRA TOURS—NOT TOURISM, BUT UNDERTAKEN FOR U.S. CULTURAL PRESTIGE

The tours made abroad by the nation's leading symphony orchestras are not a part of the tourism to which the tax program is directed. On the contrary, symphony orchestra tours represent efforts of dedicated musicians and nonprofit organizations, backed up by public spirited citizens in each city (and often by their local governments and the U.S. Government as well), to do all they can to help project the true cultural image of the United States to the peoples of the world.

Furthermore, the forthcoming New York Philharmonic tour to Europe and Israel will result—not in an outward flow of dollars from the United States—but rather will actually produce a favorable inward flow of nearly \$145,000 to the United States.

TWO 1968 SYMPHONY TOURS WERE CONTRACTED PRIOR TO TRAVEL TAX PROPOSALS

The first two symphony orchestra tours that might be affected by the proposed new taxes were arranged long ago in all good faith.

The San Francisco Symphony, conducted by Josef Krips, accepted an invitation extended three years ago to open the International Music Festival in Osaka, Japan, this coming April, and to play concerts in other Japanese cities during a three-week tour of Japan.

The New York Philharmonic, conducted by Leonard Bernstein, is scheduled for a five-week tour in August and September 1968. The tour includes concerts for a number of very important musical festivals in Europe and Israel. The Philharmonic will be the only orchestra representing the musical achievements of the United States in these festivals which are of international fame and significance. Symphony orchestras from other countries also will be playing in some of these festivals, and it is unthinkable that the United States should not be represented by one of its most distinguished musical institutions.

The Philharmonic tour is being given financial help from the U.S. Government for the purpose of enhancing the nation's cultural prestige before these international audiences.

At least three other symphony orchestras, the Cincinnati, Cleveland and Pittsburgh orchestras, already are in negotiations for foreign tours scheduled during the next couple of years. It is questionable whether those plans could be cancelled without serious damage to the image of the orchestras concerned and, indeed, of the United States itself.

Our immediate concern is to find a solution for problems presented by the proposed travel and expenditure taxes for those orchestras already committed to play concerts abroad within the next few months, but we also bring to your consideration the implications of the tax plan on future appearances of other United States orchestras abroad. To do so, requires a brief explanation of symphony orchestra financial operations.

FINANCING OF SYMPHONY ORCHESTRAS AND THEIR FOREIGN TOURS

Symphony orchestras of this country are nonprofit institutions. It is impossible for them to earn as much as it costs to maintain them. In fact, most symphony orchestras are able to earn only between 50 and 60 percent of their operating costs. This deficit is made up year after year from contributions made by civic-minded individuals and business interests in each city. Therefore, any combination of circumstances that increases orchestra costs serves ultimately to place added burdens on the citizens who already are making significant financial contributions to their orchestras' support.

The tours that the orchestras make abroad are not profit-making ventures or pleasure trips. They are undertaken for purposes of international goodwill and to enhance United States prestige abroad. Our Federal Government has found that visits abroad by our nation's great symphony orchestras prove to be one of the most dramatically successful ways of providing to the world evidence of America's deep concern for artistic values and its brilliant achievements in cultural developments.

The symphony orchestras of Boston, Cincinnati, Cleveland, Detroit, Los Angeles, Minneapolis, New Orleans, New York, Philadelphia, Pittsburgh, and Washington are among those that have been called upon by the State Department to assist the United States in presenting its cultural and artistic achievements to other peoples of the world. These tours provide the channel through which American music and America's conductors, musicians and composers are brought into the lives of the citizens of other countries. It is for these reasons that leading American orchestras are willing to undertake foreign tours even though they are very costly to each organization.

In the first place, a symphony orchestra tour usually involves 100 to 110 musicians who play in the orchestra, plus 10 to 20 other persons, including the conductors, soloists, librarians, administrative staff, stage hands, etc. A tour also requires transport of necessary cargo totalling some 18,000 to 20,000 pounds, and consisting of musical instruments and other musical equipment, concert attire, and personal effects.

Transportation, salaries, living and administrative costs of the tours vary somewhat from orchestra to orchestra, and range from \$70,000 to over \$100,000 per week, depending on the particular tour and the individual orchestra. In every case, however, the bulk of these costs consists of expenditures made here at home including the salaries and amounts paid to American carriers for transportation on the initial and final stages of the tours.

Most orchestras receive in playing fees while abroad no more than 20% of these costs—or roughly the equivalent of their living costs while on tour. The remaining 80% of the total costs of the tour must be met from other sources including contributions made by citizens at home and in some cases, by the orchestra's city or county government, grants from the State Department, and allocations from the orchestra's basic operating funds.

The proposed travel and expenditure taxes would increase the total cost of a tour by some 10% or more, and thus would increase the tour deficit by at least \$7,000 to \$10,000 a week. This means that with the new tax, the deficit on a five-week tour would be increased \$35,000 to \$50,000. This would be a severe additional financial burden on the orchestras and on those who contribute to their support.

To show the application of these figures to a specific case, I will use the detailed figures for this summer's tour to which my own organization—the New York Philharmonic—is now committed, both morally and contractually.

FINANCES OF THE NEW YORK PHILHARMONIC 1968 TOUR

I should explain that there are unique circumstances for this tour which make its financing more favorable for our organization and for the United States dollar balance than has been true for other foreign tours of either our orchestra or other U.S. orchestras.

Mr. Leonard Bernstein, our conductor, is retiring from his present post with the New York Philharmonic, and this will be his farewell tour with us as Musical Director. So great is the interest abroad in our American-born conductor that our orchestra has been able to command much higher fees for this tour than ever before has been possible for any American symphony orchestra (any orchestra, for that matter).

This situation will make it possible for us to earn a much higher percentage of the total cost of this particular tour than I believe has ever been the case with any other orchestra. It also affects the ratio of outward-inward flow of dollars in connection with this trip as I will show in a few minutes—and to the advantage of the United States.

You will note on page 12 of this statement that the total costs of the New York Philharmonic tour will amount to \$580,000. To fund these costs, we will receive \$250,000 from concert fees payable in U.S. dollars; \$150,000 contributed by Trans World Airlines; and \$100,000 from the Department of State to be paid to us in the local currencies of the countries to be visited. This total income still leaves a deficit of \$80,000 to be provided by the New York Philharmonic-Symphony Society. The proposed travel and expenditure taxes would increase the Society's deficit by approximately 74% or by \$59,000, thus making the Society's possible total deficit \$139,000.

Another unique aspect of this particular tour has to do with the opportunity accorded to us to televise several of the tour concerts. The television fees received will be over to the performers after we return to the United States, and will not assist the Society in meeting the tour deficit. These same fees, however, do affect the total outward-inward flow of money to the advantage of the United States in the following manner:

Actual expenditures made abroad will total \$255,610, of which \$100,000 will be in the foreign currencies provided by the State Department. But the concert receipts along with the television fees, both of which are to be paid in dollars, will produce payments greater than the actual expenditures abroad, with a net result of an inward dollar flow amounting to \$144,490 from this tour.

You will note in the itemization on page 13, the great impact of the proposed travel tax on fixed costs which the Orchestra must of necessity incur—\$14,280 tax on the transport of our personnel, and \$19,530 tax on the transport of equipment. The living allowance, reckoned at \$22 per-day per-man (as called for by our contract with the American Federation of Musicians) is subject to \$17,350 expenditure tax. We call your attention to the fact that the proposed expenditure tax amounts to less than does the projected tax on transporting the instruments and baggage.

APPLICATION OF TRAVEL TAX TO TOUR OPERATIONS

This points up one of the aspects of the proposed transportation tax that makes it so burdensome on symphony orchestras. During a tour abroad, an

orchestra must move from city to city, country to country, in order to play for many different audiences. Therefore, cost of transportation between the first and last stops on a tour are of necessity extremely high.

Under the proposed plans, this portion of the transportation tax is computed at 30%—the rate applicable to travel expenditures abroad, rather than at the 5% rate as is the case for the initial and final stages of such a tour. The impact of the tax will be prohibitive in its effect on a world-wide tour.

The Los Angeles Philharmonic Orchestra, for instance, recently completed a most successful world-wide tour that lasted eight weeks. The U.S. State Department assisted financially in that tour and contributions to the Orchestra from the citizens of Los Angeles, totalling approximately half-a-million dollars, helped make it possible for that orchestra to play in Europe, behind the Iron Curtain, in India, and in other Asian cities. Application of the travel and expenditure taxes to that world-wide tour would have increased the amount of subsidy needed by at least \$75,000.

EXPENDITURE TAX WOULD APPLY TO FIXED EXPENDITURES

The Treasury Department has stated that its proposal of a graduated expenditure tax is aimed at cutting down the amount travelers spend overseas rather than at reducing the number of travelers abroad. However well this approach may work with the individual tourist or businessman, it simply cannot work that way for a touring symphony orchestra where the basic costs are *fixed costs* that do not lend themselves to reduction.

As indicated above, the per diem expenses of orchestra musicians must be established in the overall working agreements that are negotiated between each orchestra and the Local of the American Federation of Musicians in its home city. Usually, these are multi-year contracts with the amounts of per diem payments agreed upon for several years in advance.

In taking this large a group on a tour, it is absolutely essential to contract in advance for hotel accommodations in each tour city. We often find there is very little choice in foreign cities in the accommodations we can obtain for as many people as are involved. We take what we can get—be it first class and expensive, or less than satisfactory though very economical.

In any event, these necessary procedures result in the basic expenses of our people being fixed expenses for which contracts have been negotiated far in advance, and they are not subject to the individual control of the persons who make the trip as in the case of the individual tourist or businessman traveling abroad.

It is predictable, therefore, that application of the proposed taxes to symphony orchestra tours could have the effect of substantially reducing the number of future good will, cultural tours abroad by American symphony orchestras, rather than merely reducing the level of expenditures as the Treasury Department intended.

GOVERNMENT TO BE BURDENED WITH INCREASED COSTS

If future tours are to take place in the face of the proposed taxes, the extra costs produced by these taxes would have to be made up by larger contributions from the supporting general public at home. Since these increased contributions would result in larger charitable contribution deductions for Federal income tax purposes, part of the increased costs would be borne by the U.S. Treasury. In those cases in which the State Department assists in financing the tours, the orchestras undoubtedly would call upon that agency for increased subsidies to meet the increased costs resulting from the tax obligations. Therefore, in either case, the proposed taxes would produce an increased burden upon the general public and upon our Government.

EXEMPTION REQUESTED FOR FOREIGN TOURS BY NONPROFIT AMERICAN SYMPHONY ORCHESTRAS

It is for all of these reasons that we feel that tours abroad by nonprofit American symphony orchestras should be exempted from the proposed new travel and expenditure taxes.

This could be done very simply by treating such a tour as a "nontaxable trip" for both the proposed transportation tax and the expenditure tax on foreign travel.

New York Philharmonic Orchestra—Tour of Europe and Israel, August–September 1968

TOUR BUDGET

Total costs of tour.....	\$580, 000
Receipts:	
Concert fees (received in U.S. dollars).....	250, 000
Contribution by U.S. State Department (received in local currencies of countries visited; not in U.S. dollars).....	100, 000
Contributions by Trans World Airlines.....	150, 000
Total.....	500, 000
Deficit (must be met by New York Philharmonic Society).....	80, 000
Possible additional cost of proposed travel and expenditure taxes.....	59, 000
Possible total deficit to be met by the New York Philharmonic Society.....	139, 000

SUMMARY OF INWARD-OUTWARD FLOW OF DOLLARS

	Total	U.S. dollars only
Fees paid in U.S. dollars for foreign concerts and telecasts ¹	\$300, 100	\$300, 000
Total estimated expenditures in foreign countries.....	255, 619	
Paid from foreign currencies granted by U.S. State Department.....	100, 000	
Paid from U.S. dollars received in fees.....	155, 610	155, 610
Net inward dollar flow.....		144, 490

¹ Television fees to be disbursed to the musicians by the New York Philharmonic Society upon the musicians' return to New York.

ESTIMATED EXPENSE BUDGET

	Total cost	Spent outside United States	Estimated travel tax ¹
Salaries, 6 weeks.....	\$246, 000	\$2, 000	
Per diem and expenses, 37 days abroad.....	117, 000	115, 000	\$17, 350
Travel:			
Personnel.....	99, 330	42, 510	20, 667
Instruments and baggage (20,000 pounds).....	75, 400	65, 100	19, 530
General expenses, booking commissions, insurance, music, rehearsal hall rental, printing, representation, etc.....	43, 000	31, 000	1, 200
Total.....	580, 730	255, 610	58, 747

¹ Estimated travel tax is computed on Secretary Fowler's formula: Expenditures: \$8–\$15 at 15 percent; above \$15 at 30 percent. Travel: 5 percent on transatlantic travel; 30 percent on travel paid to foreign carriers (as expenditures).

Estimated transportation costs

Personnel transportation.....	\$99, 330
Transatlantic (RT) TWA.....	30, 530
European: U.S. carriers.....	21, 290
TWA.....	17, 290
Pan Am.....	4, 000
European: Foreign carriers.....	39, 510
Air France.....	3, 800
Alitalia.....	13, 310
KLM.....	4, 860
Lufthansa.....	3, 240
SAS.....	9, 000
Sabena.....	3, 800
Railroad, bus.....	1, 500
Miscellaneous and reserve: United States (including Washington, D.C.).....	5, 000
Miscellaneous and reserve: Foreign.....	3, 000
Baggage transportation.....	75, 400
Airfreight transatlantic: TWA.....	6, 800
Trucking in Europe.....	15, 000
Airfreight: European airline.....	47, 600
Miscellaneous and reserve: United States (including Washington, D.C.).....	3, 500
Miscellaneous and reserve: Foreign.....	2, 500
Total.....	174, 730

Mr. LANDRUM. The next witness is Mr. Joel M. Abels, publisher Travel Trade magazine.

Mr. Abels, if you will identify yourself for the record we will appreciate it.

STATEMENT OF JOEL M. ABELS, EDITOR AND PUBLISHER, TRAVEL TRADE MAGAZINE

Mr. ABELS. Mr. Chairman, my name is Joel M. Abels. I am the editor and publisher of the Travel Trade magazine, which is a weekly newspaper and magazine distributed primarily among travel agents within the United States.

Before I begin my testimony, there seems to be some misunderstanding as to the role of travel agents and the fact that their presumed interest is in selling only foreign travel, and if I may I would like to show you copies of several of the publications which we have published and distributed in recent months on domestic travel primarily in cooperation with the Discover America organization.

As editor and publisher of Travel Trade magazine, a trade publication which has served the American travel industry since January 1929, I welcome the opportunity to present my views, based on our publication's surveying and observations of the travel industry, on the proposed travel taxes and restrictions which are presently under discussion.

My remarks will be related primarily to the effect the contemplated legislation will, might, and is having on our more than 8,000 retail and wholesale travel agency readers, who comprise over 90 percent of the American travel agency industry.

By this stage of your committee proceedings, you have already listened to a host of industry speakers who have described the many disastrous effects the proposed travel taxes and restrictions would have on a broad spectrum of American industries, how our Visit U.S.A. program to attract foreign visitors to our shores would suffer, the probability of cancellation of foreign airplane orders, and a multitude of other cutbacks from abroad which could essentially deepen the present gold drain many times above and beyond whatever so-called travel deficit may now exist.

Part of my job as editor has been to read and study the testimony which you have already heard and, from the testimony already offered, I feel the travel industry has done a pretty convincing job of pointing out to you that the destructive effects of travel restrictions on American citizens far outweigh whatever surface benefits the Treasury Department might have contemplated. I should say that the industry's arguments have at least convinced me—not that I needed too much convincing. I'm hopeful that you, too, have been convinced of their soundness and merit.

Now I would like to outline and deal specifically with what is happening within the American travel industry today, and what is likely to happen within the immediate weeks and months ahead.

As of today, travel sales to Europe and the Orient are at a virtual standstill. As a side comment in answer to a previous question, the only people who are booking today are the jet set, because they don't care about potential cost.

The speech by President Johnson, on New Year's Day, followed by the suggestions of Treasury Secretary Fowler calling for a variety of monetary restrictions, including an involved set of per diem taxes, has practically strangled travel sales. The whole idea of restrictions and taxes has been extremely detrimental; but the per diem tax idea deals travel a death blow. Neither potential travelers nor travel agents can understand how the proposed taxes would or might work. Under these circumstances travel sales outside of this hemisphere are almost impossible to consummate.

Four weeks ago, in mid-January, the sale of escorted tour packages to Europe was roughly 15 to 20 percent behind the prior year's figure for the same week. As of last week, the week of February 19, those sales ran approximately 35 percent behind the prior year's rate. Cancellations of earlier sales have been fantastic—because nobody knows what his trip will end up costing. As we are in the midst of the peak season for booking travel to Europe, it is evident that each week which passes will see sales decrease geometrically, not just arithmetically. The result, by March 15, and surely by April 1, could be utter chaos within the American travel industry.

The uncertainty which now exists as to whether taxes will or will not be affixed to travel, how much they will be, and how involved their implementation will be, are factors which have already substantially reduced American travel abroad for 1968.

Travel, and the desire to travel at a particular time, is more perishable than you may have believed. A trip for the coming summer, put off in February, is often replaced by a car, a stove, or a color television set, and the money put away for that trip spent long before summer ever arrives. The result is that travel agents will have little opportunity to make up the substantial sum of business which they have already lost. European and Pacific group and incentive business for 1968 is already irretrievably lost. We have been advised of scores of major groups which have canceled their tours for 1968.

On Tuesday evening of this week, when I returned home to prepare this statement to you, I found a letter in the mail from the 75th Infantry Division Veterans Association to which I belong, advising that its long-awaited tour of World War II European battle sites would be put off for at least 2 years because of the pending travel restrictions.

Potential "Visit U.S.A." tourists on the opposite sides of the Atlantic and the Pacific are putting off their trips for 1968 in retaliation for anticipated curbs on American citizens. Travel agents have advised us of cancellations and postponements of large groups of Europeans and Japanese, and foreign carriers and governments are already cutting back and restricting their expenditures within the United States.

If you are as convinced as I hope you are that travel restrictions would bring a plague on vast segments of our economy, I strongly urge you to act now and strike out now, from the proposed legislation, the onerous per diem percentage taxes—the very suggestion of which has become a virtual ban on travel. If these threats, particularly of per diem taxes, are permitted to continue to hang over both the American public and the American travel industry, you will have drastically reduced travel this year—far beyond any possibilities which Secretary Fowler may have envisioned.

Seventy-five percent of all European travel is normally booked by April 15. If you do not eliminate the per diem taxes now, and thereby allow the sale of travel, by April 15 the European travel market will be practically dead. Travel will have been reduced by over a billion dollars, "Visit U.S.A." travel to the United States will have dried up just as thoroughly, and to all intents and purposes the 1968 travel year will be over. Pass the Fowler proposals now and you cut off the industry's head. Allow them to linger as a threat till mid-April before knocking them out and the travel industry may die of strangulation.

American travel agencies, with some 50,000 persons within their personnel, receive approximately 60 percent of their total dollar volume from the sale of European travel. It has been estimated that 85 percent of their modest profits come from this source. These are mainly small businesses with limited capital. One disastrous year, such as 1968 is likely to be, could easily destroy half of this industry.

The travel industry never was responsible for the so-called travel gap gold drain, but unless you act now, not in a few weeks, that so-called travel gap gold drain will have drained and bankrupted the travel industry to a point from which it will take many, many years to recover. Also, the momentum which the "Visit U.S.A." program had achieved will be lost for years to come.

Allow the travel industry an opportunity to survive this crisis, to prove its ability to lessen the gold drain through positive steps toward bringing foreign visitors to the United States—before it's too late. But give it that chance now—remove the threat of per diem taxes now. The longer this bill is permitted to linger, the more destructive it becomes.

Thank you.

Mr. LANDRUM. Mr. Schneebeli?

Mr. SCHNEEBELI. Mr. Abels, on page 2 you list a large decrease in escorted tour packages to Europe this year compared to last year. Is there any compensating pickup in business to the Western Hemisphere outside the United States?

Mr. ABELS. No; there is not because there is not room within the Western Hemisphere to send these people.

Mr. SCHNEEBELI. I realize they can't pick everything up, but is there any increase at all?

Mr. ABELS. Virtually none. Just as an example, there are complaints right this very day about overbooking in Puerto Rico and people not being able to obtain hotel rooms.

Mr. SCHNEEBELI. But there has been very little increase down toward the Caribbean area?

Mr. ABELS. That is right, because the Caribbean area was virtually filled before this happened.

Mr. SCHNEEBELI. You refer to escorted tour packages. Is this also reflected in individual arrangements for trips to Europe?

Mr. ABELS. In individual arrangements, but not in the so-called ultraluxury individual arrangements, for what you refer to as the jet set, because people who don't care what the taxes might be are the only ones who are booking now.

The bulk of travelers aren't booking because they don't know what they may have to pay for the tour.

Mr. SCHNEEBELI. I am referring particularly to businessmen who travel overseas. I presume their trips have not been cut back too much.

Mr. ABELS. Because travel agents book relatively few of those business trips, I am not familiar with that part of the picture.

Mr. SCHNEEBELI. This is only the business that is conducted through travel agents?

Mr. ABELS. Through travel agents, yes.

Mr. SCHNEEBELI. Thank you.

Mr. CONABLE. Mr. Chairman.

Mr. LANDRUM. Mr. Conable.

Mr. CONABLE. Mr. Abels, you refer several times to retaliation and the drying up of "Visit U.S.A." traffic. Why should there be retaliation? European citizens don't necessarily reflect concerns their governments may have any more than individual American citizens reflect concerns their Government leaders may have on all occasions.

Mr. ABELS. Well, I am referring there primarily to groups. I would guesstimate that most of the people who come here through the "Visit U.S.A." program are part of groups. Groups of any sort tend to be more civic minded than individual citizens.

As a result of that the civic-minded groups in foreign countries are pulling back on their trips to the United States.

Mr. CONABLE. Do you feel that there will be government retaliation by European countries?

Mr. ABELS. I don't know. I think that the retaliation in the form of groups who would not be coming here would be severe enough.

Mr. CONABLE. Have you had any reaction from European travel agents, for instance, expressed in any more formal way than by simply the canceling of group tours?

Mr. ABELS. I would say only in expressing their own feelings to the effect that if you are going to stop or substantially hold back Americans to our country, how can you expect us to do any sort of a job or go out of our way to help bring them to the United States?

Mr. CONABLE. So that the travel industry itself is likely to retaliate, in your opinion?

Mr. ABELS. The European travel industry quite probably.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. LANDRUM. Mr. Bush.

Mr. BUSH. No questions, Mr. Chairman.

Mr. LANDRUM. Mr. Abels, from your statement one could gather that all, or practically all, of your travel agent profits are derived from the arrangement and sale of travel tours to American people traveling abroad, and I gather you do not have any business or receive any income or profits from arrangements for travel of people coming to this country from other countries.

Mr. ABELS. The figures that I have given you relate to individual retail travel agencies. Individual retail travel agencies have very little opportunity to participate in the tours of Europeans coming to the United States.

Wholesale tour operators, of which there are several hundred in this country, do make a profit by bringing Europeans to the United States, but for a retail travel agency working in a small country there obviously is little means for him to bring people to the United States and make a profit from their arrangements in coming here.

Mr. LANDRUM. Any other questions?

Thank you, Mr. Abels.

Mr. ABELS. Thank you.

Mr. LANDRUM. The next witness is Mr. Caskie Stinnett, editor, Holiday magazine.

Mr. Stinnett, if you will identify yourself for the record please, sir, and proceed with your statement the committee will be glad to receive it.

STATEMENT OF CASKIE STINNETT, EDITOR, HOLIDAY MAGAZINE

Mr. STINNETT. Mr. Chairman and members of the committee, my name is Caskie Stinnett. I am the editor of Holiday magazine, which has its editorial offices in New York City and which has a circulation slightly in excess of 1 million copies each month.

I wish to oppose enactment of the travel tax program as prepared by the Department of the Treasury and submitted to the Committee on Ways and Means on February 5, 1968. On behalf of my magazine, however, I do not oppose the proposed changes in customs rules relating to tourist exemptions and processing of certain noncommercial importations which was submitted by the Department of the Treasury on the same date. My reason for opposing one, but not the other, of

these proposals is inherent in the views which I am pleased to have the opportunity to transmit to you today.

First, we recognize that a serious balance of payments exists in the field of foreign travel and that this, together with imbalance in other economic areas, creates a persistently tense situation in regard to the dollar. If the reduction of the duty-free exemption from \$100 to \$10 for U.S. residents returning from foreign countries, other than Canada, Mexico, and the Caribbean area countries, would reduce the noncommercial expenditures of dollars abroad, we can see very little reason for patriotic Americans to oppose this course of action.

We wish the travel tax aspects of the Secretary of the Treasury's proposals involved incursions into the basic rights of U.S. citizens no more serious than those threatened by the proposed changes in tourist exemptions, but this is not the case. The foundation of the Secretary's policy appears to be the assumption that there is nothing in the foreign travel economic structure that does not deserve to be raised to the ground, and that all would be well if it were replaced by domestic travel or no travel at all. It is often argued that individual liberties and basic rights exist only so long as it is prudent for the Government to permit them, but this is a constitutional issue of a highly emotive nature.

Certainly the stringent tax that has been proposed, and its obvious complexities, will—if enacted—reduce to a trickle the travel of Americans outside of the Western Hemisphere. Thus, in practice, it will mount an obstacle to foreign travel as effective as an outright prohibition. It is this unpalatable aspect of the Secretary's proposal that causes us vast uneasiness and the fear that we are being led back into the dark chamber of international isolationism from which, as a Nation, we have just begun to emerge. Too much of our energy in postwar years has gone into people-to-people dialog, the elimination of visas and other travel barriers, the reduction of tariffs, and the search for better understanding among the peoples of the world for us to regard any reversal of this direction as anything but a tragic regression.

The American today cherishes the belief that he has the right to go anywhere in the world that he chooses to go so long as his travel does not breach national security, and we recoil from the thought that this belief may now possibly be shattered.

We do not seek exemption from realism, but *Holiday* magazine earnestly requests the Committee on Ways and Means to look for a solution to our balance-of-payments problem in an area that does not require us, as a Nation, to barter away a right that we have long assumed was not negotiable.

Mr. LANDRUM. Any questions?

Thank you, Mr. Stinnett, for your statement.

Mr. STINNETT. Thank you.

Mr. LANDRUM. That concludes the witnesses scheduled for the committee this morning.

Mr. BROYHILL. Mr. Chairman.

Mr. LANDRUM. Mr. Broyhill.

STATEMENT OF HON. JOEL T. BROYHILL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. BROYHILL. Mr. Chairman, I think it is extremely doubtful whether the administration's proposal to tax spending of Amer-

ican tourists would save anything because of the expensive new bureaucracy that would be created to impose controls on the travel industry and the individual traveler.

Indeed, the President's proposal would save less than the \$100 million loss sustained when the administration's negligence resulted in the hijacking of the U.S.S. *Pueblo* and its expensive equipment.

The measure outlined by the Secretary of the Treasury would be a first step toward a currency control law and all such a concept of expanded big government implies in terms of socialization. The new controls sought are the very same restrictive devices imposed in Great Britain years ago, and we are now painfully aware of what ensued in terms of the British decline throughout the world culminating in the devaluation of the pound.

Complex new machinery would obviously be required to administer the tax on tourists. The Associated Press has reported that the U.S. Customs Service would need an additional 535 employees to handle the increased workload. New office facilities would be required. The Internal Revenue Service would need so many more people and facilities it is not yet possible to estimate their needs. So much red-tape would be initiated just to keep track of travelers checks, bank withdrawals, and so forth, that it would cost more to assess taxes on the individual tourist than his taxes would amount to.

If the administration is aiming at a back door technique of imposing a currency control law, telling us what we can spend, where we can spend it, and when, let the public know the truth.

The popular "package tours" now sponsored by our American travel agencies and airline companies would be hard hit. Individual travelers would be harassed and virtually forced into a situation which would promote fraud and evasion. Indeed, so much redtape would be created that the joys of travel would be undermined and each tourist would be turned into a combination bookkeeper and tax accountant.

Friendly ties with foreign nations would also be jeopardized by difficulties imposed on Americans of foreign background who would want to visit the homelands of their fathers. Foreign tourists and foreign governments would be less prone to promote tourism to the United States. The entire concept of equality and reciprocity would be negated, and the new law might even set off a wave of taxes imposed by other nations on travel to the United States.

Mr. Chairman, this proposal is a first step toward a dangerous "iron curtain" that would tell the world that America is so weak and so worried about the status of our dollar that American tourists must keep a record of every cup of coffee they drink abroad.

Mr. Chairman, I oppose this tax, because it would weaken our economy and undermine our national image. It is a drop in the bucket of the balance-of-payments deficit, creating more problems than it could possibly solve.

We need less restrictive Federal controls over the individual, certainly not more.

Mr. LANDRUM. The committee is adjourned until 10 o'clock Monday morning.

(Whereupon, at 11:10 a.m., the committee adjourned to reconvene at 10 a.m., Monday, February 26, 1968.)

ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS

MONDAY, FEBRUARY 26, 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. Phil M. Landrum presiding.

Mr. LANDRUM. The committee will come to order.

This morning the first witness scheduled is Mr. Stuart G. Tipton, president of the Air Transport Association.

Mr. Tipton, if you will identify yourself for the record the committee will be glad to have you proceed with whatever statement you have, sir.

STATEMENT OF STUART G. TIPTON, PRESIDENT, AIR TRANSPORT ASSOCIATION OF AMERICA; ACCOMPANIED BY NORMAN PHILION, VICE PRESIDENT, TRAFFIC, AND DR. GEORGE JAMES, VICE PRESIDENT, ECONOMICS AND FINANCE

Mr. TIPTON. Thank you, sir.

Mr. LANDRUM. And will you identify those accompanying you.

Mr. TIPTON. I will identify them. My name is Stuart G. Tipton. I am president of the Air Transport Association of America, which represents virtually all of the certificated scheduled airlines of the United States.

In addition to the 19 airlines now conducting international operations, our membership includes trunk and local service airlines, Alaskan and Hawaiian helicopter operators, and an all-cargo airline.

With me here this morning on my right is Norman Philion, vice president, traffic, of the Air Transport Association. On my left is Dr. George James, vice president, economics and finance of the association.

Together this system of airlines forms a transport system of tremendous significance to the national interest and play a vital role in the advancement of U.S. foreign and domestic commerce objectives. Needless to say, these airlines have a direct interest in the various proposals now under consideration and, more generally, in this country's persistent balance-of-payments deficit, and the role of travel therein.

At the outset let me try to state what we wish to argue about today and what we do not wish to argue about. The President said that our "travel gap" was \$2 billion, and that he wished to have it reduced by \$500 million. This statement, of course, opens up the whole balance-

of-payments problem and all the issues which have long been discussed concerning the identification of the travel gap, the components of the travel account, and a variety of others. We do not propose to discuss these broad issues. The President has laid down the objective—a \$500 million reduction in the travel gap. We propose to discuss only the methods of achieving this objective, and not the objective itself.

I suggest that the ideal program to reduce the travel gap should do three things: (1) it should avoid restrictions on travel abroad; (2) it should avoid invitations to retaliation by foreign countries; and (3) it should to a maximum degree redress the balance. As we measure the Treasury Department's proposals against these specifications, we find them unduly harsh and restrictive, and completely inconsistent with well-established and sound policies of the United States. They would also be self-defeating.

At the outset one must recognize the character of expenditures by U.S. travelers abroad. Those expenditures are U.S. imports just like any other import. The expenditures of foreign travelers in this country are U.S. exports, just like any other export. Consequently, any measures designed to restrict travel and the expenditures associated with it constitute restrictions on imports. Any measures taken to expand foreign visitor travel are measures to expand exports.

Following policies long advocated by the executive branch of our Government and endorsed by our Congress, we have sought to protect our balance-of-payments positions by expanding exports—not restricting imports. As the President said in his economic message of February 1, 1968, "protectionism is no answer to our balance-of-payments problem. Its solution depends on expanding world trade."

If we are to act in accordance with these well-established and successful policies in seeking to achieve the objective laid down for us by the President, we must first turn to expansion of exports—to efforts designed to increase the number of foreign tourists coming to this country. That number has been increasing during past years until it has now reached a point where approximately 1,500,000 visitors came to the United States from overseas countries in 1967. A much better job can be done in attracting the foreign visitor to the United States. What is needed is a determined highly concentrated program to do so.

This problem was attacked hard and effectively by the Industry-Government Special Task Force on Travel, under the leadership of Robert M. McKinney. The report of that task force has just been completed. It points the way to an effective long- and short-term answer to the President's request.

REDUCING COSTS FOR VISITORS

The task force found that a major deterrent to foreign visitor travel in the United States is cost. We agree. Being convinced that an affirmative program to increase foreign tourists was better than one restricting our own, the airlines have taken action to help reduce that cost.

First, a 50-percent reduction in the regular cost of domestic airline fares will be introduced for all those residing outside the Western

Hemisphere. These dramatic new discounted fares for travel within the United States have been developed by our airlines and have been submitted to the Civil Aeronautics Board for approval, with a proposed effective date of April 28. When one considers that this latest in a series of promotional fares will result in air transportation costs one-fourth of those prevailing within Europe today, will stimulate travel throughout the length and breadth of this country, and will encourage extended visits in this country, the prospective favorable impact on our balance of payments is self-evident.

Second, the U.S. carriers serving the North Atlantic proposed to the International Air Transport Association directional fares designed to encourage the foreign tourist to visit the United States. The IATA organization promptly called a special meeting of all the North Atlantic carriers—18 in number—to consider these proposals. Consideration has not been completed, but it appears that the great majority of carriers in that meeting favor the immediate introduction on the North Atlantic of a special family fare, designed to attract a large number of foreign tourists from Europe and the Middle East. For example, a man purchasing a round trip ticket to the United States can bring his wife and family with him on payment of only a one-way fare for those family members. In view of the fact that a high percentage of foreign visitor travel to the United States is business travel, we can expect these deep-fare cuts for families to be most effective in increasing the number of foreign visitors to the United States.

Third, on a somewhat longer term basis the IATA carriers agreed to the creation of a special task force for an urgent study of ways and means whereby IATA member airlines can further contribute to stimulating new traffic on the North Atlantic routes. This group will meet during the next few months in order to develop ideas for further discussion.

Fourth, special consideration is being given to full-plane international charters. One airline has already proposed a new directional charter rate enabling groups to travel from London to New York and back for \$124 per person, from Shannon to New York and back for \$110, and from Glasgow to New York and back for \$115.

Fifth, these proposals are in addition to the existing foreign visitor fares offered by the airlines. For example, the regional airlines as a group make available their coast-to-coast network of more than 500 cities at an adult fare of \$150 and a children's fare of \$75, for unlimited travel for a 21-day period.

All of these actions are indicative of the airline industry's desire to do its part in answer to the President's call for nationwide support in tackling our balance-of-payments problem. We should not and do not, of course, stand alone in this spirit of cooperation. The travel task force report ticks off a host of promotional discounts already introduced or proposed for introduction by many other segments of the travel industry. I will not burden this record with a recounting of those achievements and proposals. Suffice it to say that hotel and motel chains, restaurants, car rental companies, bus lines, railroads, steamship lines—element after element have pitched in to offer reductions in the cost of the total travel package.

INCREASED PROMOTION

So much for cost reductions for the foreign visitor. They will do little good unless promoted. To accomplish this promotion the airlines will do the following things:

First, there will be a dramatic increase in the volume of airline promotional efforts overseas. Collectively, the 12 U.S. trunk and international airlines will increase their overseas expenditures for advertising and promotion of travel to the United States from outside the Western Hemisphere by 53 percent in 1968 over 1967. For media advertising alone the total for 1968 will be approximately \$17 million.

Second, there will be a reemphasis on airline promotion of the United States as a tourist destination. Our international airlines have agreed to shift the focus of their effort from individual competitive approaches to a destination sell. And, our domestic airlines will expand their efforts which are already of the destination-sell type.

Third, new coordinated sales plans and programs abroad are being developed. High-level airline sales teams are being sent to Europe and the Far East to develop new sales plans and other coordinated activities. New efforts have already been launched to secure CAB approval of exchanges of air transportation for advertising and promotion abroad, as well as free educational tours of this country for foreign travel agents, tour operators, and travel editors.

Fourth, promotion of the 21-day, unlimited flight air fare offered by the regional scheduled airlines will be renewed.

While we believe our U.S.-flag airline activities will accomplish a great deal, it must be recognized that the efforts of all interested parties should be expanded. For that reason we welcome the indications in the task force report that foreign-flag airlines, international organizations, U.S. travel organizations, and a long list of private U.S. firms and individuals have all pitched in to do their part in promoting the further growth of the United States as a tourist destination.

The McKinney report makes another recommendation of great value and significance. It recommends that the U.S. Government increase its participation in the selling of the United States as a tourist destination. For some years the U.S. Travel Service has been in existence, and it has done good work, but its resources have been small. The McKinney report suggests that its appropriations be modestly increased this year, and that it ultimately be incorporated into an expanded and strengthened National Tourist Office.

This activity can be of great value in supplementing the efforts of private industry to make the United States become a tourist nation. The United States is a big country. Our travel industry consists of independently operated restaurants, hotels, motels, car rental firms, airlines, buslines, railroads, and an endless variety of enterprises. In addition, all of our States have a travel organization designed to attract visitors to the State concerned. It is essential that all of these elements be pulled together and their promotional efforts combined, in order to have maximum impact on the foreign visitor market. In addition, we need to have well-staffed offices of the national organization in major tourist cities abroad, in order that the prospective foreign visitor will have one place to which he can go to examine the offerings of all of our private sector enterprises, particularly those not otherwise

represented abroad. As we have learned from successful host nations, the existence of this national organization can make the difference between success and failure in a national foreign visitor program.

There is also much to be done to make the foreign tourist feel welcome from the moment he hits our territory to the moment he leaves. The task force report sets forth a number of hospitality projects which are imaginative, realistic, and badly needed. They call for the cooperation of every American—and that should be forthcoming, for the strength of our dollar is the concern of every American. The public service campaigns and the appeals to individuals and groups with specialized talents which can be used in the hospitality program should be launched immediately.

TRAVEL FACILITATION

I will not dwell on all those programs here; they are fully described in the task force report. But I do want to speak briefly to the facilitation measures—the measures calculated to ease and simplify the flow of these visitors across our borders.

First, the full scope of present immigration laws empowering the Secretary of State and Attorney General to waive visa requirements for citizens of contiguous countries and adjacent islands should be implemented. Thus far, we have done so only for Canada, Bermuda, and the Bahamas.

Second, legislation should be enacted to empower the Secretary of State and Attorney General to waive visa requirements, on the basis of reciprocity, for business or pleasure visits of up to 90 days by citizens of all friendly nations. Such visitors should be required to hold non-refundable round-trip tickets. This visa waiver power will bring U.S. requirements into substantial parity with those of many other host nations. We were pleased to see that the President recommended the necessary legislation last week.

Third, the advance, primary screening process used by Canada and several other countries—the so-called one-stop inspection—should be adopted for our own port of entry clearance operations. As a complement thereto, selective examination of visitors and their baggage, also already implemented by Canada and several other countries, should become the policy of our inspectional agencies.

Fourth, preclearance, the procedure whereby passengers and their baggage are inspected for customs, immigration and, when applicable, public health and agriculture quarantine purposes prior to departure from a foreign country rather than upon arrival in the United States, should be instituted at carefully selected points, on the basis of the traffic demands and route patterns involved. There is no single facilitation procedure which is more closely attuned to the public convenience.

The task force report includes several other recommendations for the removal of our border barriers. We endorse them; we commend them to your attention.

It seems to us that this is the program which meets the President's objective. There is no reason why we should make our own people miserable if we can accomplish the same thing by making other people happy. We are proposing a major national effort to entertain foreign visitors well. Their costs are to be reduced, their accommodations are

to be improved, and they are to be made warmly welcome. Since we have been able to attract foreign visitors in the past in large numbers without special concentration, the major national effort which I have just described should meet the objective the President has set for us.

CHANGES IN CUSTOMS RULES

We have said that we are against restriction, but there are some phases of the Treasury's program which may help.

First, the Treasury Department has recommended a lowering of the duty-free allowance on articles acquired by U.S. tourists in their foreign travels. We endorse such a reduction at this time, to whatever level is determined to be administratively feasible. In so doing we would be remiss if we did not now call to the attention of Congress the clear resulting need for increased manpower for the already over-taxed inspectional agencies. Absent substantially increased inspectional staffs, the already disturbing problem of congestion at our international airports of entry could become intolerable with the new workload brought about by the duty-free allowance reduction.

Second, we concur in the Treasury Department's recommendation for a modification of the gift exemption for parcels arriving by mail.

Third, the Treasury Department has recommended certain modifications in the duty assessments applicable to articles accompanying returning tourists, as well as parcels arriving by mail. We do not object to this.

The Treasury Department has estimated that this set of measures will result in a \$100 million savings in the travel account as now narrowly defined. These steps, therefore, could play a significant role in redressing the balance.

We have already said that the other Treasury proposals—the expenditure tax and the ticket tax—are unduly harsh and restrictive, and violate well-established U.S. policies. We will now make our criticism in somewhat more detail.

THE EXPENDITURE TAX

We do not believe that limitations on expenditures are necessary or wise, for all of the reasons previously stated with respect to restrictions on other imports. We believe that the affirmative export expansion program we have advocated and backed so extensively is a better way to achieve the President's objective. But if it were ever decided that we need a limitation of expenditures, the Treasury's proposal is far too strict.

We really do not need to treat our citizens so harshly. The Treasury proposes a tax for expenditures above \$7 a day. This can be disposed of quickly. Everyone knows that the most frugal person cannot travel in Europe on the basis of any such daily limitation. The tax of 30 percent on expenditures above \$15 a day is very nearly as bad.

The Treasury arrived at its judgment on the basis of figures which indicated that the average U.S. traveler in Europe spends \$16.73 a day. To us that seemed low, and even Mr. Fowler was not too confident of the figures he was using. The Treasury developed them under severe time limitation and without adequate data relating to who our

travelers were, where they went, how long they stayed, and how much they spent. We, too, find that accurate figures in this area are hard to come by. However, with the help of quite a number of experts and a computer we have produced figures on which we believe reliance can be placed. The details of this study have been given to the Treasury Department and to the staff of this committee. I will sketch the results.

The basic information on which our review is based was produced from questionnaires filled out by individual air travelers during the 12 months ended April 30, 1967. Virtually all of the transatlantic airlines cooperated in the collection of this data. It constitutes a scientific sampling of the characteristics of the U.S. traveler to Europe, his length of stay and his expenditures.

We sought to avoid to the extent possible the errors which inevitably creep into broad averages. One way of reaching an average expenditure per person in Europe would be to take the figures on total expenditures and divide by the number of visitors. This fails to give effect to the length of stay. In addition, it produces distortions, since a limited number of travelers are undoubtedly responsible for a high percentage of the total expenditures. In order to avoid this, we broke the reporting passengers down into 55 groups, the grouping depending upon the purpose of travel, and the average ground expenditures per day. In analyzing each of the 55 groups we introduced the element of varying lengths of stay. We then applied this to hypothetical expenditure limits. We started with a limit of \$500 per trip or \$25 per day, whichever is higher, and went up to \$1,000 per trip or \$25 per day whichever is higher. We were thus able to get a reasonably good measure as to who would be affected by limitations and who would not be, and as to the amount of balance-of-payments savings which could result. We found that the savings ranged from \$210 million to \$440 million annually. We also found that the expenditure tax proposed by the Treasury falls heavily on the low income traveler. For example, travelers having an income less than \$5,000 would have to pay \$76.20 in tax for their trip, those between \$5,000 and \$7,500 would have to pay \$114.75, and those between \$7,500 and \$10,000 would have to pay \$106.32. A large number of these travelers are obviously the ones for whom a European trip is a rare privilege, and they should not be so heavily penalized for taking it.¹

We will continue to work with the staff of the Treasury and the staff of this committee to perfect the statistical data we have thus produced. As we said at the beginning, no expenditure control is necessary, but if it is ultimately decided that some measures must be taken to impose import restriction in the travel area, it need not be nearly as harsh upon the average citizen and the once in a lifetime traveler as the Treasury's proposal.

TICKET TAX

Under the ticket tax proposal the airline passenger would pay a 5-percent tax upon the value of any airline ticket sold in this country for transportation to points outside the United States.

¹The analysis relates, of course, only to passengers in scheduled air service going outside the Western Hemisphere. It does not include passengers utilizing charter air service or traveling by ship, or any travelers within the Western Hemisphere.

The Treasury would thus take from the international passenger about \$70 million for the first full year of its application. The tax would be permanent and would apply worldwide. This recommendation should be rejected because it is wholly unjustified and is not germane to the balance-of-payments problem.

The Secretary merely described it as "an extension of the existing domestic ticket tax to international travel." I suppose we should not be surprised to find that there are those who have forgotten why the domestic ticket tax was imposed and why, at that same time, international passengers were not covered. There were good reasons why these actions were taken, and those reasons are just as valid now as they were when this committee and the Congress originally decided to treat domestic and international passengers differently.

There was at one time, of course, a ticket tax of 15 percent on all passenger tickets by air, rail, ship, and bus. At the end of World War II the international tax was removed from both airplane and steamship tickets. The domestic tax was continued, but was reduced to 10 percent. In 1961 it was concluded by all concerned that the 10 percent domestic ticket tax should be removed from air, rail and bus tickets. At the same time, the administration was contending that the airlines should pay the Government their fair share of the cost of the Federal airways system. Both issues being before this committee at the same time, this committee concluded, upon the recommendation of the Treasury and the airlines, that 5 percent of the airline ticket tax should be retained while exempting the other forms of transportation completely. Thus, the 5 percent domestic ticket tax was recognized as an airline user charge for the Federal airways system. It has been a most successful tax, having delivered to the Federal Government last year some \$200 million. It pays the airlines' share of the cost of the Federal airways system. Since 1961 it has not been a general revenue measure—and it is not now.

There were a number of reasons why this domestic user charge was not imposed upon international passengers. The first reason relates to the use of the domestic airways system by the international passenger. While the airplane transporting the international passenger uses the United States system to a degree; it uses the systems of other countries far more. The trans-Atlantic airplane with its load of passengers proceeds for a relatively short distance up the coast of Maine and then is caught up in to the Canadian system, then crosses the Atlantic using the British, Icelandic, Danish, Portuguese, Irish, Norwegian, French, and Spanish systems. By contrast, the domestic passenger in his airplane is served entirely by the domestic network. Countless examples could be given of the inequity of applying a domestic user charge to an international passenger, but such examples are easily imagined when you consider that U.S.-flag airlines with their passengers range all over the world, utilizing facilities that other nations make available to them.

But a good question could be promptly asked. In view of the fact that the international passenger uses some U.S. facilities, why should he or his airline be charged for that use? Unfortunately, that question cannot be answered in terms as simple as a 5 percent tax on his ticket.

By international law and practice, the establishment of facilities for international aviation is organized in this fashion: Through the

machinery of the International Civil Aviation Organization the world is divided into regions. Periodically, the experts of the countries within those regions meet and lay down the plans for the air navigation facilities that are required for international operations within the regions. The obligation of installing and operating those facilities rests upon the country in which they are to be located. The countries which actually install facilities have some reason to wish to charge the airplane operators who use them for the expenses of their installation, maintenance, and operation. The U.S. Government has discouraged the unilateral imposition of user charges upon international operations. It is felt that without a coordinated approach each country might well establish charges wholly on the basis of ability to pay and without reference to the costs fairly chargeable to the facilities being furnished.

Instead, the United States has sought to approach the problem of international user charges with considerable care and precision. Only last year the United States advocated a major international study of the current worldwide inventory of air navigation facilities, the cost thereof, the additional facilities required and the cost thereof—all of this data to serve as a base on which sound and uniform user charges could be established. This study is proceeding.

In getting ready for the most recent international conference held last year in this connection, the U.S. delegation was instructed as follows:

The principal U.S. objectives at the conference are the recognition of the importance of complete data as the essential foundation for sound charging methods; the improvement of cost allocation principles to achieve fair charging practices; the elimination from existing ICAO principles of the ability to pay as a proper basis for cost allocations; the recognition that complete cost recovery is a proper objective and one which the United States has adopted; the recognition that the timing and degree of cost recovery are matters for the determination of each state; and the discouragement of practices by states which are particularly damaging to the U.S. traveler or the U.S. air transportation industry.

With specific reference to charges imposed on passengers, the U.S. delegation's position included the following statement:

The most fundamental aspect to be considered in any charge is that of what it is for. In the numerous states where the charge is imposed the proponents of the charge do not endeavor to relate it in a specific fashion to identifiable benefits to the passenger . . . At a time when the airlines, states, and ICAO are devoting considerable attention to principles of charging, cost identification, and allocation, it would be an anachronism to endorse a charge that does not have an identifiable base. An exceptionally poor characteristic of any charge that cannot be identified is that long after the transient reason that occasioned its introduction passes, the charge continues as a source of general revenue.

The 5-percent ticket tax would amount to unilateral action of the very character the United States has sought to discourage. The charges thus established bear no relationship to the costs of the facilities furnished by this Government, and in fact would be greatly in excess thereof. The result would be to nullify the efforts being made by the United States and other nations of the world through ICAO to develop a fair and uniform system of user charges to apply worldwide. The other countries of the world would be encouraged to follow our lead in assessing whatever charges they desired, without any obligation on their part to justify the level of the charges.

The airlines of the United States have not opposed domestic user charges for the use of the Federal airways system. They have not opposed the payment of proper charges for the use of airports or any other ground facilities they use. They do not oppose the payment of international user charges so long as those charges are fairly and carefully arrived at. They do oppose the extension of a domestic user charge to international service when it is presented to the Congress by our Government without the slightest factual justification. The United States should carry out the obligation impliedly undertaken with other governments in the International Civil Aviation Organization to conduct the detailed studies and proceed to a determination of the methods by which countries charge users for their facilities.

CONCLUSION

This concludes my statement, Mr. Chairman. We hope that the committee will agree with us that the President's objective of reducing the travel gap by \$500 million can be achieved much more effectively by an affirmative program of bringing foreign tourists here than by restricting the travels of our citizens abroad. Particularly do we hope that the committee will examine critically and reject the Treasury's recommendations for an expenditure tax and an international ticket tax.

Mr. LANDRUM. Mr. Tipton, you desire your attachments to be included in the record with your statement I assume.

Mr. TIPTON. Yes, Mr. Chairman.

Mr. LANDRUM. Without objection they will be included.

(The attachments referred to follow:)

[Attachment A, if

EXPENDITURE PROFILE OF U.S. TRAVELERS TO EUROPE ON SCHEDULED FLIGHTS (12 MONTHS ENDING APR. 30, 1967)

Purpose of trip	All travelers ¹					Travelers spending over \$500 or \$25 daily		Average expendi- tures as percent of total expendi- tures
	Number	Expendi- tures in Europe (thou- sands)	Average expendi- ture	Average length of stay (days)	Average per diem expendi- ture	Number	Overage (thou- sands)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Business ²	1,610	\$1,319	\$819	25.2	\$32.50	918	\$593	45.0
Vacation.....	2,484	2,061	830	29.4	28.23	1,433	666	32.3
Visiting.....	867	438	515	33.7	15.28	226	81	18.5
Study.....	233	215	922	61.7	14.94	77	39	18.1
Other.....	201	155	711	32.7	14.63	94	41	26.5
Total.....	5,395	4,188	776	31.1	24.95	2,748	1,420	33.9
Percent of total.....						50.9		33.9

¹ Approximately 1 percent of U.S. residents traveling on scheduled transatlantic air services of IATA carriers was sampled as to their intended overseas expenditures and length of stay. Figures represent only the expenditure pattern of those who completed the questionnaire in all aspects (which represents two-thirds of total responses) exclusive of U.S. military traffic traveling on category A and Z fares, travel agents, and airline employees.

² Includes government.

Note: The basic data used above has been obtained from the most recent and as yet unpublished survey of the Port of New York Authority. Analysis of basic data and conclusions were developed by ATA.

RESULTS OF APPLICATION OF HYPOTHETICAL EXPENDITURE LIMITATIONS

Purpose of trip	Travelers spending over \$500 or \$25 daily			Travelers spending over \$600 or \$25 daily			Travelers spending over \$1,000 or \$25 daily		
	Number	Overage	Percent of total	Number	Overage	Percent of total	Number	Overage	Percent of total
Business.....	918	\$593	45.0	698	\$423	32.1	322	\$260	19.7
Vacation.....	1,433	666	32.3	1,118	563	27.3	507	345	16.7
Visiting.....	226	81	18.5	150	68	15.5	62	33	7.5
Study.....	77	39	18.1	65	33	15.3	37	25	11.6
Other.....	94	41	26.5	66	30	19.4	28	16	10.3
Total.....	2,748	1,420	33.9	2,097	1,117	26.7	956	679	16.2
Percent of total.....	50.9		33.9	38.9		26.7	17.7		16.2

¹ Applying these percentages to estimated 1968 total expenditures of \$1,300,000,000 for scheduled air carrier passengers to Eastern Hemisphere countries, the savings would be: 33.9 percent, \$440,000,000; 26.7 percent, \$347,000,000; 16.2 percent, \$210,000,000.

(See p. 764 for Attachment A, 3.)

Mr. LANDRUM. Mr. Watts has some questions.

Mr. WATTS. Mr. Tipton, I enjoyed your statement very much. I have a question or two that I would like to ask you. In view of the fact that a big part of the balance-of-payments travel gap relates to transportation, would it make any sense for Congress to take measures to require U.S. citizens to fly on U.S.-flag carriers?

Mr. TIPTON. It is very tempting to say yes to that, Mr. Watts, but we really could not support such a proposal if it were to apply to all American citizens. We do think, however, that all traffic paid for by the Government should be required to fly on American-flag carriers. One other thing that could be said is that if our citizens utilized American-flag airlines the same percentage as the foreign citizens use theirs it would improve our balance-of-payments position by almost \$150 million.

Mr. WATTS. In other words, you would like to substitute the word encourage for require?

Mr. TIPTON. I think that is right.

Mr. WATTS. Another question. Do you know of any instance where foreign governments with their own airlines insist that their nationals use that airline?

Mr. TIPTON. I cannot identify any instance in which the type of restriction we are talking about is imposed. As a matter of fact, all of our bilateral agreements which authorize the establishment of air carrier service between governments provide that the carriers of each government shall have a fair and equal opportunity to move the traffic moving between the two countries, so that they are both supposed to have an equal crack at the traffic that moves.

Mr. WATTS. You don't know of any instances where they even encourage them to use their own airline?

Mr. TIPTON. I can't identify them. There may be some encouragement that I can't identify. One thing I think that should be recognized in this instance is that we do think that traffic paid for by our Government, whether it be Government employees or Government freight or whether it be traffic financed by our Government, should move on American-flag airlines.

Now, in doing that we would be following a practice which is a very widespread one. That I think our Government should do.

Mr. WATTS. You do have such a proviso with respect to movement of Government commodities abroad that a certain percentage of them be shipped in American bottoms.

Mr. TIPTON. That is in the merchant marine. We have no such provision in airlines. However, I should say that there is no law on this subject, but the Bureau of the Budget has for many years had outstanding a regulation or instruction which provides that Government employees shall move when possible on American-flag carriers. That I think should be extended as well to Government freight and to Government-financed freight and passenger traffic.

In other words, whenever the Government is going to pay the charges, then it ought to move on an American-flag airplane.

Mr. WATTS. Thank you, Mr. Tipton. That is all, Mr. Chairman.

Mr. LANDRUM. Mr. Byrnes?

Mr. BYRNES. Mr. Tipton, first, I want to say I think you have given us some very valuable information in your testimony.

Mr. TIPTON. Thank you.

Mr. BYRNES. We have had some previous testimony with respect to the imbalance in the traffic distribution between foreign- and U.S.-flag carriers.

Do you have figures as to what that distribution is? I am talking now about the extent to which American travelers going abroad use American as opposed to foreign lines.

Mr. TIPTON. I will pass that question to Dr. James who has the figures here.

Mr. BYRNES. All right. I assume that those figures show an imbalance in favor of the foreign lines. If I am correct in that assumption I want to know why. Give us what the picture is as far as the distribution is concerned and if it isn't in reasonable balance then tell me why, if you can.

Dr. JAMES. The figures that we have between Europeans flying European airlines to the United States—

Mr. BYRNES. No; I am talking basically about U.S. traffic going abroad.

Dr. JAMES. I was going to make a comparison between what the percentage is for Europeans coming here and for Americans going abroad.

Mr. BYRNES. Go ahead.

Dr. JAMES. The percentage for Europeans coming to the United States is that 70 percent of them fly on European-flag carriers and 30 percent on American. The percentage for Americans going to Europe is 48 percent will fly American-flag carriers and 52 percent are flying foreign-flag carriers, a difference of about 22 percent between the percentage total that our citizens will fly on our lines as opposed to Europeans flying on their lines.

Mr. BYRNES. Does that encompass the round trip, or just travel in one direction?

Dr. JAMES. This is round trip.

Mr. BYRNES. Do the figures which you mentioned in the first place with respect to the foreigner coming here, also involve a round trip operation?

Dr. JAMES. It does.

Mr. BYRNES. You said 52 percent of all Americans going abroad use a foreign carrier as against 48 percent using a U.S. carrier. Are those figures also on a round-trip basis?

Dr. JAMES. It does.

Mr. BYRNES. Does it?

Dr. JAMES. It does.

Mr. BYRNES. We had some figures that were presented to us last week by the airline pilots. I am trying to find the tabulation that they had. I was under the impression that there was a bigger imbalance even among the American traveler, but according to your statistics there is a pretty good balance between Americans using American-flag carriers and foreign-flag carriers, about 50-50.

Dr. JAMES. That is correct and about 70 percent for Europeans using European airlines as opposed to American airlines.

Mr. BYRNES. I suppose in the trade there is some technical expression that you use to describe the extent to which any given flight or airline is operating at capacity.

Mr. TIPTON. Load factor.

Mr. BYRNES. Load factor; right. What is your normal load factor? Are you running fairly near capacity throughout the year?

Dr. JAMES. No; we don't run fairly near capacity through the year. We will have seasonal peaks of course, but our average for the year on our own carriers would run about 55 percent on the North Atlantic as the average for the year.

Mr. BYRNES. So that you don't find American travelers using a foreign line simply because they can't get accommodations on American lines?

Dr. JAMES. Yes; that is correct.

Mr. BYRNES. In other words, for the most part they could get passage on some American line without any trouble?

Dr. JAMES. Yes; they could.

Mr. BYRNES. Has the industry tried to make any check as to why our own citizens seem to prefer or at least have an equal desire to travel on a foreign line?

Mr. TIPTON. The answer to that is, of course, yes. Our carriers are in the business of selling everybody they can find of course and are very anxious to carry as high a percentage of American travelers as we can carry.

Actually we have had some success in this because several years ago—I think it is within the past 5 years—that percentage of Americans using American-flag airlines was about 38. It is now up, as Dr. James said, to 48 percent, so we have made progress there.

The main problem I think is the degree of foreign competition which exists on the North Atlantic. We have 17 carriers operating on the North Atlantic and two United States, so that I would say the U.S. carriers are doing quite a job in selling their own citizens. You do have an imbalance in the number of carriers.

Mr. GILBERT. Mr. Byrnes, I wonder if you would yield to me.

Mr. BYRNES. Yes; certainly.

Mr. GILBERT. May I ask, sir, is this 52-48 percent that you made reference to individual ticket sales, or are charter flights included?

Mr. TIPTON. It does include charters. We don't have the data on charters.

Mr. GILBERT. That is what I was curious about, whether the figures included charter flights and whether that created that disparity between the 30 percent and 70 percent inbound Europeans using foreign-flag ships as opposed to the individual tickets purchased here.

Mr. BYRNES. Are you through?

Mr. GILBERT. Yes. Thank you very much.

Mr. BYRNES. The representation was made to the committee last week that the imbalance was such that certain international agreements—the Bermuda Capacity Clause was mentioned—could be invoked to correct the imbalance and get a higher percentage of traffic on U.S. lines. Do you people disagree with that?

Mr. TIPTON. I will have to take a little bit more time rather than just agree or disagree. The Bermuda agreement, which is the regulatory base actually on which our entire international system is based, is a bilateral agreement. We have 50 of them very much alike.

The agreement, as I said, provides that the carriers operating between the two countries party to a Bermuda-type agreement shall have fair and equal opportunity to get the traffic. We regard that as a means of protecting our interest. It also provides for regulation of the capacity that may be operated by the carriers under the agreement, and that has been in effect for now 20 years, that very general provision for the regulation of the capacity that the carriers may operate.

Now, it is the operation of that capacity provision which many times has been used to check the increases of capacity by American-flag carriers that is a frequent subject of dispute between our Government and foreign governments and I will say this: that our Government has worked pretty hard to protect the interests of the American carriers and our growth and development has indicated that it hasn't served as a great depressant or as a great impediment to airline development.

Now, it is spotty all over the world as to the extent to which nations seek to be restrictive and, as I say, it is subject to constant argument between nations. On the whole it seems to work reasonably well and not to hurt us unduly.

We have some special situations which I guess I better not mention that are in dispute at the present time and are causing trouble, but I think our Government is doing the best it can.

Mr. BYRNES. In other words, it is not just a dispute then apparently between our Government and some other government in some few instances, but there is also apparently in this whole area a dispute over what the situation is between the airline pilots and the airline operators, and I would think it would be advisable for you to take a look at their testimony because they certainly made the representation to this committee that there was an imbalance, and an imbalance that required international action and that it was an imbalance that could be corrected through the invoking, at least, of certain provisions that were currently in existence in international agreements.

They suggested, in fact, that the respective bilateral air transport agreements be renegotiated to achieve a reasonable ratio of traffic distribution and that this would produce a reversal of almost \$100 million in dollar flow if it was done.

However, you represent the airlines. You apparently seem to think that you are getting a fair shake in the international traffic as far as passengers are concerned.

Mr. TIPTON. I will review that statement and I will talk to the pilots about it. If there is a way by which we can get any more traffic I certainly would like to know about it. As I said, we have problems where we think we are not being permitted to expand as rapidly as we should, but the problems are static.

Mr. BYRNES. As an organization of the airlines do you make representations to the State Department with respect to its policy in booking air travel for those travelers for whom it provides accommodations?

Mr. TIPTON. Yes, we make representations.

Mr. BYRNES. Are you satisfied with the shake that you are getting from them?

Mr. TIPTON. Fairly well.

Mr. BYRNES. Or have you told them that you thought they were buying too many flights on SAS or some other airline?

Mr. TIPTON. We keep, as best we can, constant check on how they use our services and we keep constantly pressing them to make certain that they use them completely, so that on the representations on that I guess I would have to say we are not completely satisfied with the extent to which that Bureau of the Budget circular is observed.

One of our reasons is that we don't have good solid data on the extent to which it is observed. We would like to have better data than we have on the extent to which the Bureau of the Budget circular requiring all Government employees to travel on American-flag airlines is observed.

So to that extent, to answer your question are we satisfied—

Mr. BYRNES. You don't know the degree to which it is being observed within the area of practicality, do you?

Mr. TIPTON. We don't have firm information on that. We would like to have.

Mr. BYRNES. I shouldn't think that that would be so awfully difficult to find out, at least where airline tickets are purchased under Government vouchers.

Mr. TIPTON. Mr. Philion will comment on that.

Mr. PHILION. Sir, these Bureau of the Budget regulations are to a large extent, on the basis of our knowledge of the vouchers, and there are ways in which you can check, being fairly well applied to Government employee travel. There are some loopholes in these regulations and we are concerned about those.

What we are primarily concerned about is other Government-financed traffic that isn't specifically Government employee traffic; for example, the Peace Corps. There is no requirement that Peace Corps employees use American-flag transportation and there is a lot of AID contract type transportation which is not covered by any regulation.

It is this type of traffic that we have no specific knowledge on.

Mr. BYRNES. I am not so interested in the regulations. I am interested in what are the practical results, because I have never seen a regulation that hasn't been written so that the agency has a convenient loophole, that triggers the barn door. These regulations always look good on paper. I thought maybe you people could give us some information as to the way the regulations actually operate—their practical effect.

Are you getting the Government traffic or aren't you? If you are not getting it, why not, and why do 50 percent of the Americans want to travel foreign lines instead of traveling on an American line, because they are doing a lot more traveling than the foreigners are.

My goodness, the President appoints a major task force to encourage foreigners to travel to the United States but the biggest bulk of all travelers are Americans and only half of them use American lines. After all, the failure of the U.S. travelers to use American carriers also contribute to our balance-of-payments problem.

Mr. TIPTON. And our objective there is to sell them. As I said, we wouldn't like to have our citizens restricted in that respect.

Mr. BYRNES. No, I am not talking about restriction. I am sure no one else would.

Mr. TIPTON. But it is up to us to sell them.

Mr. BYRNES. But if there is something here that is in the works that causes this imbalance, somebody ought to focus in on it. That is all.

The CHAIRMAN. Mr. Ullman.

Mr. ULLMAN. Mr. Tipton, you have given us some very constructive testimony. There are a number of things I would like to get your views on.

First, your analysis of tourist expenditures abroad. They aren't too complete and I won't go into detail about them. You object to a graduated rate, is that right?

Mr. TIPTON. Yes.

Mr. ULLMAN. If there were some kind of expenditure tax, probably the most palatable kind would be an overall exemption with a flat rate above that amount. Would you agree with that?

Mr. TIPTON. I think that is right, a flat rate coupled with a daily rate, a reasonable one. If we had to have some that would work better. There isn't any point in having a graduated rate because the Treasury has not suggested that this is a revenue measure, so that the percentage tax above \$7 is something everyone that went abroad would have to pay, and that isn't their objective as we understand it.

Mr. ULLMAN. You gave us some figures about income groupings based upon your study and indicated that under the administration proposal the low-income people would pay a higher proportion. Can you give me any figure as to an overall expenditure exemption that in your judgment might be fair?

Mr. TIPTON. Well, in our test run we set out the results. This is attachment A, page 2, at the back of our statement. On the test results of our study it appeared that if travelers were to limit themselves to \$500, or \$25 daily, whichever is higher, \$440 million of expenditures would be saved. \$600, \$25 daily, which is probably a more reasonable figure, would produce savings of \$347 million.

Mr. ULLMAN. What is your reason for advocating the daily exemption and what would the difference in revenue be if you had no daily exemption but just had a flat overall exemption?

For instance, use your \$500 overall figure. If you eliminated the \$25 daily expenditure provision what would be the effect on revenue?

Mr. TIPTON. The reason we include a daily figure is to accommodate those who wish or are required to stay a longer time and to give those who are making a trip a reasonable limit to work under.

Now, I am going to have to ask Dr. James to see if we can answer this. I don't know that we can.

Dr. JAMES. No, we can't at this point. We could, but we can't at this point.

Mr. TIPTON. We could, couldn't we, George?

Dr. JAMES. Yes.

Mr. ULLMAN. Based on your studies to date you couldn't even give me a rough estimate?

Mr. TIPTON. No; we could not because of the introduction into the studies of such a large number of groupings dealing with lengths of stay and expenditures. We would have to regroup them and see what would come out.

Now, one thing we have learned in this study is not to give rough judgments because you tend to do that on averages and I have never seen a case where averages worked so badly. We were greatly surprised with these figures, as a matter of fact.

Mr. ULLMAN. It would depend a great deal on traffic patterns. If in the traffic flow relatively few people stay a few days and most of them stay a long period of time, then the overall limit would be effective in curbing expenditures.

I don't know what the traffic pattern is.

Mr. TIPTON. And we have the data on the traffic pattern in terms of length of stay, expenditures, but in order to work it out we have to ask the computer to do another set of data for us.

Mr. ULLMAN. Mr. Chairman, I would ask them to submit for the record this data.

Mr. TIPTON. We would be glad to do that.

Mr. ULLMAN. A response to the question I asked.

Mr. TIPTON. In order that I can be sure of the question, it is a flat figure of \$500, to see what that would turn out to be?

Mr. ULLMAN. Yes, without any daily.

Mr. TIPTON. Without any daily.

Mr. ULLMAN. I would also like to have you run a figure of a flat \$400 and a flat \$300 if you can do that.

Mr. TIPTON. We will do that.

Mr. ULLMAN. I think it will be helpful to me personally.

Mr. TIPTON. We can do that I think quite promptly.

(The following letter was received by the committee:)

AIR TRANSPORT ASSOCIATION OF AMERICA,
Washington, D.C., February 28, 1968.

HON. AL ULLMAN,
House of Representatives,
Washington, D.C.

DEAR MR. ULLMAN: In the course of our testimony before the Ways and Means Committee on February 26, you asked me to furnish a further analysis of projected savings in balance of payments from the application to the expenditure profile of U.S. travelers, which we had submitted, of absolute limitations of \$500, \$400, and \$300, respectively. Such an analysis is contained in the attached table marked "Attachment A—Page 3". This table is an extension of "Attachment A—Pages 1 and 2", which were submitted with our testimony.

You will notice that the estimated dollar savings from the application of such flat limitations to U.S. travelers to Europe on scheduled flights are estimated to be \$619 million, \$731 million, and \$853 million, respectively. I would appreciate the opportunity to discuss these tables and any other aspect of our testimony with you at your convenience.

Cordially,

S. G. TIPTON.

RESULTS OF APPLICATION OF HYPOTHETICAL EXPENDITURE LIMITATIONS INCLUDING \$300, \$400, AND \$500
FLAT LIMITATIONS TO EXPENDITURE PROFILE OF U.S. TRAVELERS TO EUROPE ON SCHEDULED FLIGHTS

Limitation	Overage ¹ (in thousands)	Percent of over- age to total expenditures	Estimated savings ² (in millions)
\$500, or \$25 daily, whichever is higher.....	\$1, 420	33. 9	\$440
\$600, or \$25 daily, whichever is higher.....	1, 117	26. 7	347
\$1,000, or \$25 daily, whichever is higher.....	679	16. 2	210
\$500.....	1, 993	47. 6	619
\$400.....	2, 356	56. 2	731
\$300.....	2, 746	65. 6	853

¹ Amount of total expenditures over indicated limitations based on 5,395 travelers with total expenditures of \$4,188,000.

² Based on estimated 1968 expenditures of \$1,300,000,000 for scheduled air passengers to Eastern Hemisphere countries.

Mr. ULLMAN. Turning to another matter, this 5-percent tax, you made a rather convincing statement in opposition to it but what you are saying in effect is that you agree to the 5-percent domestic tax as an air facility use tax.

Mr. TIPTON. Airways.

Mr. ULLMAN. Airways use tax, but you are saying then that the passengers in international travel should not pay anything to contribute to airway use, is that right?

Mr. TIPTON. No; if I left that impression I want to make it clear. We have been working toward the payment of a user charge for international facilities. Our objection here is not with respect to payment, but the process by which it is arrived at.

In thinking of user charges we feel that the result of the user charge should pay the proper share of the use of the facilities and no more. That involves you in making a determination of the cost of the facilities, the proper share to be borne by the operation concerned, and then a determination of a user charge method to pay it.

Now, none of this is done here. This is just put before the committee without justification, so that what we are saying is that what we ought to do is carry out the process the United States has started along with the other foreign governments, determine what the cost is as far as the United States and other governments are concerned, lay down guidelines so that our Government doesn't charge any more than it should, so that, and this might be even more important, no other government will charge more than it should.

Mr. ULLMAN. You are leading yourself into a little bit of a trap, Mr. Tipton, because a lot of people don't think that the 5-percent domestic tax covers the cost of airway use, particularly in view of the cost that we are going to have to incur on airline safety, and if the costs were more would you concur that the passengers might be required to pay it?

Mr. TIPTON. Our policy has been for years that we will pay our fair share of the cost of the airways system. I think that our present \$200 million contribution through the ticket tax is adequate payment for our share.

Now, I emphasize, I think, because that is a very debatable area and I think at some stage this committee may well consider the whole user charge problem since they have before them recommendations from the administration on it.

At that point I will look forward to arguing before this committee

that our present payment is enough, hopefully convincing the committee that it is enough.

Mr. ULLMAN. Are there any nations that do impose a tax?

Mr. TIPTON. There are a few. Most nations do not. The only way I can answer that question very well is to say that the last time the International Civil Aviation Organization collected data on that subject, which I think was 1964 or 1965, the total cost of the international portion of the airway system worldwide was about \$160 million and user charges assessed rather haphazardly all over the world were recovering about 10 or 11 percent of that.

Mr. ULLMAN. This is on international travel.

Mr. TIPTON. International travel only.

Mr. ULLMAN. Are there any hidden taxes imposed by foreign nations that would accomplish the same purpose in a different way?

Mr. TIPTON. We have some suspicions that there are. I will give one example. The airport charge in London, for example, is a very high one, around \$600 per landing. That is designed to cover the cost of airport use, but I think also it includes payment for air navigation facilities that are provided.

Now, I think that very example indicates why we are so anxious that the United States pursue the studies that they are making abroad with these foreign governments because one of the purposes of those studies is to determine what are these costs and how should they be charged for in order that the user will know what he is paying for and will be satisfied that he is not paying too much.

I think there are charges that are turning up here and there that are paying for air navigation facilities in another way.

Mr. ULLMAN. Is this a general practice among the European cities to make large user charges?

Mr. TIPTON. I would say not general.

Mr. ULLMAN. In other words, they are comparable to those charged here.

Mr. TIPTON. They are higher. They are higher than they are here.

Mr. ULLMAN. Generally speaking.

Mr. TIPTON. Generally speaking, yes. They are all going up at a great rate too, including ours.

Mr. ULLMAN. There has been, as you know, quite a lot of complaint about the fact that passengers in international travel don't pay their share of the cost for the use of our airways.

Mr. TIPTON. We have regarded the airport problem, both domestically and internationally, as different from the airways problem. We try to pay our fair share of the cost of the airport to the airport owner, whether it be a municipal, or port authority, or what. That is what we try to do, and of course we try there, as in every other case, to pay our fair share and not any more than that.

We always of course have to, since governments always operate the airway system, pay directly to the government.

Mr. ULLMAN. We can pursue that matter at a different time. Would there be any advantage at all in your judgment in the use of a head tax for overseas travel?

Mr. TIPTON. I think there might be. We have examples of course of head taxes in Europe. For example, at the airport at Orly you pay \$3 as a charge as you go out. That goes as a part of the revenue to support the operating and capital expenses of the field, the airport.

Mr. ULLMAN. That is only in international travel?

Mr. TIPTON. No; for everyone that goes out of the airport. And there are quite a number of examples in Europe of that same thing.

Mr. ULLMAN. You wouldn't advocate that as a general practice in the United States?

Mr. TIPTON. I would not advocate it as a general practice in the United States. We have too many airports. It would become completely disorganized, most difficult to administer for quite short hauls and long hauls. I think it is an area that we have to study in connection with the problem that will be before the Congress and before the Government as to the extent to which the Federal Government shall participate in airport improvements within the United States.

That issue naturally arises there, as to whether the United States, the Federal Government, should make such a charge.

Mr. ULLMAN. There would be some justification for a head tax if it were used to defray the cost of airport facilities. When you talk about airways, there probably is more justification for a percentage tax.

Mr. TIPTON. Yes.

Mr. ULLMAN. But in international travel, can you see any justification or any benefit that might be derived from a small or nominal head tax?

Mr. TIPTON. To be assessed at our airports for departing passengers?

Mr. ULLMAN. Yes.

Mr. TIPTON. I don't think so. It depends, of course, on the purpose for which the funds were to be paid. If the funds go back to the airport for airport improvement, it probably would make some sense if it were a national tax.

In other words, if the tax were paid to the Federal Government—the thing I am wrestling with here is that I think it would be very bad if we established a principle in the United States which permitted individual airports to assess head taxes on passengers.

Mr. ULLMAN. Right.

Mr. TIPTON. It is a different matter if the Federal Government were to do it and probably worthy of more consideration.

Mr. ULLMAN. Getting back to the 5 percent, has any progress been made at all in agreements with other nations or in an understanding with other nations as to the type of tax that might be assessed?

Mr. TIPTON. Here is the process that the International Civil Aviation Organization is now going through. They are collecting the information from each government as to what they have, how much it costs to maintain and operate it, what is required in the near future to be installed, and the cost of that.

The last meeting of the group of experts that are working on it was held, I believe, last month, and it is expected that the inventory, as we have gotten to call it, will be available during the summer or early fall, and that is an essential before you can go any further with determining charges, is to determine what costs we are talking about, both present and anticipated.

Mr. ULLMAN. If it were agreed that 5 percent were the right figure to defray the cost, then you would not object to it?

Mr. TIPTON. I would hate to anticipate the type of taxation that would be involved. I would answer the question by saying that when the determination is made as to what the airlines owe, then that type of taxation ought to be considered.

I am fuzzing that question all up simply because—

Mr. ULLMAN. You really are.

Mr. TIPTON (continuing). I don't really want to make a commitment on a type of taxation so far in advance.

Mr. ULLMAN. There is just a little inconsistency in my judgment, in your viewpoint that a 5-percent tax on tickets domestically is a fair way of assessing the cost of the use of airways and yet the same tax internationally is not a fair way of doing it, or might not be a fair way of doing it.

You didn't flatly say it would not be, but in my judgment the situations are pretty parallel and pretty comparable.

If other nations assessed just as we did, the situation, it seems to me, would be very comparable.

Mr. TIPTON. I think that you may well be right. I am just deliberately hedging on this because I am afraid I would change my mind after I saw the data and how it was shaped up.

Mr. ULLMAN. The difficulty would be that if foreign nations assessed an indirect tax, such as obviously the London Airport is doing, in addition to the 5 percent, then this would create the imbalance, but you have indicated that generally they don't do that, that generally they are quite fair.

Mr. TIPTON. That is right; generally speaking.

Mr. ULLMAN. This, I agree, does need study, but, unfortunately, the problem is urgent.

Well, turning to another matter, the recommendations of the administration generally exempt the Western Hemisphere. Do you see any justification from a balance-of-payments viewpoint for making that Western Hemisphere exemption?

Mr. TIPTON. I am sorry to say that I am not in a position to argue that issue, because among the carriers I represent there is a sharp difference of opinion as to whether the Western Hemisphere exemption is justified or is not.

Consequently—

Mr. ULLMAN. You are not a good witness on this issue.

Mr. TIPTON. I am not a good witness on that issue.

Mr. ULLMAN. You talked about the use of foreign airlines by American citizens. Could you summarize for me your judgment of the reasons that American citizens do use a much higher percentage of foreign airlines in their travel as against foreigners using ours coming here?

Mr. TIPTON. I am going to take a shot at this, and then I am going to ask Mr. Philion, our vice president-traffic, to comment on it. I think one of the major reasons that our citizens take foreign-flag carriers is that they tend to want to start their trips abroad in the United States. The foreign-flag carriers advertise and make a great point of that in their advertising, that start your European trip on a European airline, or Latin American, or whatever.

I think that makes a difference. I think that our citizens, who have always been rather determined to do as they please on almost everything, have just not felt any compulsion to use an American-flag airline. I think those two elements, taken with the very high degree of competition in the North Atlantic, for example, are making the difference.

Now, do you have anything to add or subtract, for that matter?

Mr. PHILION. I think you have covered the essentials; there may be one or two other things. I think one you mentioned earlier is that it is a fact of life that there are 17 European carriers operating from the United States to Europe competing with two American carriers.

Now, that isn't to say that the competition is 17 times better, but it is a fact of life that there is a greater degree of frequency choices and destination choices as a result of that large number of foreign carriers.

Secondly, you have in this country a great and effective program by foreign government tourist offices of the kind we would like to see the U.S. travel office compete with.

Now, as to these foreign tourist offices, I wouldn't want to take the position that they refer passengers to the flag carrier of their country, but I think it is a normal thing to expect that when you walk into the tourist office of country A that there is some high degree of persuasion to go to carrier A's ticket office for your tickets. This kind of thing goes on.

Mr. ULLMAN. That is certainly very responsive. It seems to me in the normal competitive process that if you have 17 in the business to promote travel by other than American and only two to promote American, in the natural course of events they would have the advantage.

I am wondering what the situation would be, for comparative purposes, whether the people in Great Britain would use their own airlines as against the 17 or more airlines that come in there from other countries.

Mr. PHILION. We don't have any data on that, do we, George?

Dr. JAMES. We don't have any data on it but I would conjecture that you would find a similar picture as to what you have in the North Atlantic. I think one of the primary reasons for this is that with the European countries being smaller than the United States and having normally only one airline the citizens there will identify themselves with that airline and attach themselves to it to a much stronger degree than our citizens will, because, throughout the United States, counting large and small, we will have over 40 airlines and you normally do not find us attaching ourselves to one of those for international purposes as strongly as you would in the case of Europeans.

Mr. ULLMAN. One of the reasons might be that some foreign airlines are owned partly by the government. Is that not right?

Mr. TIPTON. Yes. Many of the foreign-flag carriers are owned by their governments or their governments have a heavy participation financially in them. One thing I left out that is always true, of course, is the United States is made up of many people whose families came from Europe; came from the Far East; came from Latin America, and they would tend more to patronize the carrier from their original homeland than if you don't have that type of a population makeup.

Mr. ULLMAN. We were talking about the indirect taxes that might be involved. Certainly it seems to me those countries that have ownership in their airlines would provide the indirect assistance to the airlines in lieu of this type of tax.

Would you not think so?

Mr. TIPTON. I think that that is entirely possible. One of the reasons that we have sought, and I think gotten, protection from our Govern-

ment in the whole user charge area, the whole charge area, is that we are private enterprise operators with no government interest and thus a foreign government if unchecked could levy heavy charges on us.

There is a provision in international law that one's government cannot discriminate in making these charges, but if you own the carrier you can impose heavy charges without creating difficulty, so that even with the nondiscrimination provision the U.S. carrier could be hurt by high charges abroad, hurt more than its foreign competitor.

Mr. ULLMAN. Thank you very much.

(The following letter was received by the committee:)

AIR TRANSPORT ASSOCIATION OF AMERICA,
Washington D.C., March 18, 1968.

Hon. AL ULLMAN,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN ULLMAN: In our recent discussion of the amount of traffic carried by U.S. airlines between the United States and various foreign countries, you raised some questions about the disparity in the statistics on this subject which have been presented by the different witnesses to the Committee.

Attached is a memorandum which, I believe, will clarify some of the uncertainty and confusion on this point. If it is not too late, perhaps it would be useful information for inclusion in the record before the Committee.

Sincerely yours,

LEO SEYBOLD,
Vice President, Federal Affairs.

MEMORANDUM—AIR TRAVEL BETWEEN THE UNITED STATES AND FOREIGN COUNTRIES
DURING THE YEAR ENDED JUNE 30, 1967

The purpose of this memorandum is to clarify certain questions concerning the U.S. international air carriers' share of the overseas air travel market. In the recent Congressional hearings regarding the proposed travel tax, Air Transport Association said that the U.S. carriers had approximately 49% of the U.S.-Europe market. In contrast, Air Line Pilots Association stated that the U.S. carriers had approximately 40% of the U.S.-Europe market. The reason for this differential is the fact that, in effect, ALPA and ATA were discussing two different markets. On the one hand, ATA was discussing the percentage of U.S. citizens who flew on U.S. flag carriers between the U.S. and Europe. On the other hand, ALPA was referring to the percentage of total traffic the U.S. flag carriers transported between the U.S. and Europe.

AIR TRAVEL BETWEEN THE U.S. AND FOREIGN COUNTRIES

Generally, the U.S. enjoys a favorable share of the traffic between the U.S. and foreign countries, as shown in Table I. Approximately 62% of the traffic is composed of U.S. citizens and 52% of the traffic is carried by U.S. flag airlines. Almost 60% of U.S. citizens are carried on U.S. flag carriers world-wide.

The following is a more detailed analysis of air travel between the U.S. and geographical areas.

Per Cent of Traffic Composed of U.S. Citizens (World-wide average 62.2%)

The percentage of traffic composed of U.S. citizens is above 50% in all geographical areas except Oceania (48.2%) and South America (35.1%). U.S. citizens as a per cent of total traffic is higher between the U.S. and Africa (72.7%) than any other area.

Per Cent of Traffic Carried on U.S. Flag Carriers (World-wide average 52.1%)

U.S. flag carriers only obtained less than half the total traffic in two markets—Europe (41.4%) and South America (39.4%). The highest per cent carried on U.S. flag carriers was between the U.S. and Africa (98.1%). The principal reason for this high per cent is the fact that the African countries do not have a national airline operating to the U.S.

Per Cent of U.S. Citizens Carried on U.S. Flag Carriers (World-wide average 59.9%)

Only in the U.S.-Europe market (48.9%) do less than half of the U.S. citizens travel on U.S. flag carriers. However, in the U.S.-South America market only 51% of the U.S. citizens travel on U.S. flag carriers.

Per Cent of Aliens Carried on U.S. Flag Carriers (World-wide average 39.3%)

There is a wide range of the per cent of aliens carried on U.S. flag carriers. Africa (97.7%) has the highest per cent while Europe with 28.8% has the lowest.

Per Cent of Foreign Flag Traffic Composed of U.S. Citizens (World-wide average 52.1%)

In three geographical areas (North America, Africa, and Europe) over half of the foreign flag traffic is composed of U.S. citizens. In the other three geographical areas (Asia, South America, and Oceania) less than half of the foreign flag traffic is made up of U.S. citizens.

Per Cent of U.S. Flag Carriers Composed of U.S. Citizens (World-wide average 71.5%)

In only one area (South America 45.2%) is less than half of the U.S. flag traffic composed of U.S. citizens. In all of the other areas at least two-thirds of the U.S. flag traffic is composed of U.S. citizens.

AIR TRAVEL BETWEEN THE U.S. AND EUROPE

Since recently most of the attention has been focused on air travel between the U.S. and Europe, this market will be discussed in detail.

Generally, the U.S. has an unfavorable share of the travel with the European countries as shown in Table II. While the U.S. citizens compose 62.7% of the traffic, the U.S. flag carriers handle only 41.4% of the traffic. Less than half of the U.S. citizens fly on the U.S. flag carriers between the U.S. and Europe.

Per Cent of Traffic Composed of U.S. Citizens (European average 62.7%)

In only one market (Sweden 45.3%) is less than half of the traffic composed of U.S. citizens.

Per Cent of Traffic Carried by U.S. Flag Carriers (European average 41.4%)

The per cent of traffic carried by U.S. flag carriers ranges from a low of 3.7% (Denmark) to a high 63.5% (Portugal). Portugal's high percentage is explained by the fact that during the period under discussion they did not have a national carrier serving the U.S. Thus, all of the foreign flag traffic between Portugal and the U.S. is fifth freedom traffic. In general, U.S. flag airlines carry a higher percentage of the traffic in the larger countries. For example, U.S. carriers carry 57.3% of the traffic between the U.S. and United Kingdom, 48% between the U.S. and Germany and 45.8% between the U.S. and Italy. Conversely, U.S. flag carriers have a small share of the traffic between the smaller European countries, such as the Scandinavian countries, Iceland, Switzerland, and the Low countries.

Per Cent of U.S. Citizens Carried on U.S. Flag Carriers (European average 48.9%)

A greater percentage of U.S. citizens travel on U.S. flag carriers between the U.S. and the United Kingdom (68.8%) than any other European country. More than 50% of U.S. citizens fly on U.S. carriers between this country and Spain, Portugal, Germany, Italy, and Greece. As with the previous category, a low percentage of U.S. citizens fly on U.S. flag carriers between the Scandinavian countries and the Low countries.

Per Cent of Aliens Carried on U.S. Flag Carriers (European average 28.8%)

A greater percentage of aliens flew on U.S. flag carriers between the U.S. and Portugal (69.6%) than any other European market. In fact, aside from the Portugal market no more than 30% of the aliens flew on U.S. fly carriers between any European country and the U.S.

(It is interesting to note in absolute terms more aliens than U.S. citizens flew on U.S. flag carriers between Sweden and the U.S.)

Per Cent of Foreign Flag Traffic Composed of U.S. Citizens (European average 54.6%)

In all but three countries (United Kingdom 46.6%, Spain 45.9% and Sweden 45.3%) the majority of foreign flag traffic was composed of U.S. citizens. The

highest per cent of foreign flag traffic composed of U.S. citizens was between the U.S. and Portugal.

Per Cent of U.S. Flag Traffic Composed of U.S. Citizens (European average 74.0%)

More than 50% of U.S. flag traffic was composed of U.S. citizens between the U.S. and every European country aside from Sweden which had 45.7%. Travel between the U.S. and Greece (84.1%) was the highest per cent of U.S. flag traffic made up of U.S. citizens.

SCHEDULED TRAFFIC OPERATED BY IATA AIRLINES ACROSS THE NORTH ATLANTIC

In order to fully analyze the share of the traffic that the U.S. flag airlines have in the European market, the traffic capacity that they offer should be considered. It is not possible to get completely comparable data as to the share of the traffic and the capacity offered in this market for the period under discussion. However, the IATA traffic reports of scheduled traffic over the North Atlantic give some indication of the relationship between the traffic carried and traffic capacity.

Table III shows that the U.S. flag carriers offer approximately 40% of the traffic capacity operating over the North Atlantic for the year ended June 30, 1967. In other words, the share of the market realized by the U.S. carriers is roughly comparable to the traffic capacity offered by the U.S. flag carriers in the U.S.-Europe market.

TABLE I.—AIR TRAVEL BETWEEN THE UNITED STATES AND FOREIGN COUNTRIES,¹ YEAR ENDED JUNE 30, 1967

	Percent of travel between United States and foreign countries	Percent of traffic composed of U.S. citizens	Percent of traffic carried on U.S. flag	Percent of U.S. citizens carried on U.S. flag	Percent of aliens carried on U.S. flag	Percent of foreign-flag traffic composed of U.S. citizens	Percent of U.S.-flag traffic composed of U.S. citizens
All countries.....	100.0	62.2	52.1	59.9	39.3	52.1	71.5
Europe.....	42.6	62.7	41.4	48.9	28.8	54.6	74.0
Asia.....	8.0	59.6	56.9	72.4	34.0	38.1	75.8
Africa.....	.3	72.7	98.1	98.5	97.7	57.3	73.0
Oceania.....	2.0	48.2	53.1	73.3	34.4	27.5	66.4
North America.....	41.2	66.8	63.6	68.3	54.3	58.2	71.6
South America.....	5.8	35.1	39.4	50.8	33.2	28.5	45.2

¹ Exclusive of travel over land borders (except Mexican air travel), crewmen, military personnel, and travelers between the United States and its possessions.

Source: Immigration and Naturalization Service.

TABLE II.—AIR TRAVEL BETWEEN THE UNITED STATES AND EUROPE,¹ YEAR ENDED JUNE 30, 1967

	Percent of travel between the United States and Europe	Percent of traffic composed of U.S. citizens	Percent of traffic carried on U.S. flag	Percent of U.S. citizens carried on U.S. flag	Percent of aliens carried on U.S. flag	Percent of foreign-flag traffic composed of U.S. citizens	Percent of U.S.-flag traffic composed of U.S. citizens
Europe.....	100.0	62.7	41.4	48.9	28.8	54.6	74.0
Belgium.....	2.5	62.4	19.8	17.4	23.7	64.2	55.0
Denmark.....	4.4	52.2	3.7	4.0	3.4	52.8	56.4
France.....	12.5	63.8	39.2	47.8	24.1	54.7	77.7
Germany.....	15.3	65.8	48.9	58.9	29.7	52.9	79.2
Greece.....	1.7	64.1	40.0	52.4	17.7	50.8	84.1
Iceland.....	3.2	55.5	4.5	6.4	2.1	54.4	79.6
Ireland.....	4.7	69.8	22.8	26.7	13.7	66.2	81.8
Italy.....	7.9	67.7	45.8	53.4	30.0	58.2	78.9
The Netherlands.....	5.6	58.1	9.8	10.5	8.9	57.6	62.0
Norway.....	.6	60.5	23.7	21.7	26.7	62.0	55.5
Portugal.....	3.5	74.1	63.5	61.3	69.6	78.4	71.7
Spain.....	4.3	62.0	49.3	62.5	27.7	45.9	78.6
Sweden.....	.5	45.3	15.4	15.6	15.3	45.3	45.7
Switzerland.....	3.6	64.3	12.6	15.4	7.7	62.3	78.2
United Kingdom.....	28.9	59.9	57.3	66.8	43.2	46.6	69.8
Other Europe.....	.9	68.0	84.4	86.6	80.0	58.8	69.7

¹ Exclusive of travel of crewmen and military personnel.

Source: Immigration and Naturalization Service.

TABLE III.—SCHEDULED OPERATIONS OF IATA AIRLINES ACROSS THE NORTH ATLANTIC,
YEAR ENDED JUNE 30, 1967

	Number of passengers	Percent of subtotal	Percent of total	Number of available seats	Percent of subtotal	Percent of total	Load factor
United States-Europe:							
U.S. carriers.....	1,554,013	40.17	35.03	2,754,504	40.91	36.10	56.78
Foreign carriers.....	2,329,338	59.83	52.51	3,977,781	50.09	52.12	58.56
Subtotal.....	3,883,351	100.00	87.54	6,732,285	100.00	88.22	57.83
Canada-Europe: foreign carriers.....	552,745	100.00	12.46	898,848	100.00	11.78	61.49
Total.....	4,436,096	-----	100.00	7,631,133	-----	100.00	58.13

Sources: American Aviation; International Aviation Weekly.

The CHAIRMAN. Mr. Schneebeli?

Mr. SCHNEEBELI. Mr. Tipton, recognizing the importance of the American travel agent's determination of what airline a person is going to use, do foreign airlines have any greater inducement which they give the U.S. travel agents to have them choose the foreign line over domestic line?

Mr. TIPTON. I would like to pass that to Mr. Philion.

Mr. PHILION. No, sir.

Mr. SCHNEEBELI. Do they give any higher commission?

Mr. PHILION. No, sir.

Mr. SCHNEEBELI. Do they give any free trips to Europe? Do they give any inducement that the U.S. lines don't give?

Mr. PHILION. The rules that apply here on all the points that you make cover equally U.S. and foreign-flag airlines.

Mr. SCHNEEBELI. Are there formal agreements to this effect?

Mr. PHILION. That is right.

Mr. SCHNEEBELI. Another question along this line. Are the inducements to the travel agents for foreign travel greater than they are for domestic travel?

Mr. PHILION. In one area. Let me give you an example. For domestic air transportation in the United States we pay travel agents 5-percent commission for point to point travel, 7 percent for promotional fare travel, where we expect the travel agent to be out selling and promoting travel in the country.

Mr. SCHNEEBELI. How do you differentiate that?

Mr. PHILION. That 7 percent applies to specific fare plans, like the family plan fare, the "Discover America" fare, and so on, and we pay 10 percent domestically for tours. In international they pay 7 percent for point to point and 10 percent for tours, so the only differential is in the area of point-to-point transportation within the United States where we pay 5 percent.

Mr. SCHNEEBELI. Which is less than you do for the travel agents for foreign travel.

Mr. PHILION. That is correct.

Mr. SCHNEEBELI. Couldn't you equalize this to eliminate the temptation to book someone overseas?

Mr. PHILION. I doubt that that is a real incentive, sir.

Mr. SCHNEEBELI. You don't think it is instrumental in the travel agent trying to influence a person to go overseas rather than travel in this country?

Mr. PHILION. I think it is more than just a commission. You have to examine the dollars, the work involved. Obviously if a travel agent had an incentive to steer a person abroad instead of to a point in the United States I think you would have to look at what he was trying to sell, compare a New York-London fare with a New York-Chicago fare. A 7-percent commission on the New York-London fare is not going to be an incentive in that connection.

Mr. SCHNEEBELI. Then, you don't think the differential has much effect?

Mr. PHILION. No, sir.

Mr. SCHNEEBELI. Referring to your specific proposals on page 4, of a 50-percent reduction in the regular cost of domestic airline fares for all those residing outside the Western Hemisphere, how are you going to implement this? Does the reduction have to be effective with the purchase of the ticket in Europe, let's say, or can the European come to New York, stay for a week, and then make up his mind at that late time to travel throughout the United States? How do you handle this?

Mr. PHILION. This particular domestic discount fare for people outside the Western Hemisphere can be either purchased abroad or in the United States within 30 days after the person's arrival.

Mr. SCHNEEBELI. How about a student that gets here for 6 months and decides to travel after he has been here?

Mr. PHILION. Under the proposal we have given to the Civil Aeronautics Board on this he would have to make up his mind within 30 days of his arrival.

Mr. SCHNEEBELI. Within 30 days.

Mr. PHILION. Yes.

Mr. SCHNEEBELI. Another thing. If you reduce the fares 50 percent you have to double the amount of business you have in order to have the same gross income, don't you?

Mr. PHILION. Yes.

Mr. SCHNEEBELI. Do you expect to double your business, or are you going to have less sales income?

Mr. PHILION. Let me answer it this way, sir. There are going to continue to be a large number of visitors to this country that are not going to qualify for this new fare. We hope through this new fare proposal to attract a whole new group of foreign visitors.

Mr. SCHNEEBELI. The people who come to this country who now do not travel throughout the United States you say will not use this?

Mr. PHILION. Depending on their purpose.

Mr. SCHNEEBELI. But with respect to the people who come normally, their business will have to be doubled, won't it, in order to come out just on gross income, or else you are going to have less sales.

Mr. PHILION. That is so.

Mr. SCHNEEBELI. And your cost of doing business is going to be much greater if you double the amount of business so this could end up in your making less money.

Mr. PHILION. There is no question about that. It is not the most economic fare in the world.

Mr. SCHNEEBELI. Do you think you are probably going to double your business?

Mr. PHILION. We hope to be able to attract just as a result of this new air proposal 200,000 new visitors this year.

Mr. SCHNEEBELI. What percentage of your total overall present business is made up of foreign travelers traveling in the United States? Is it as high as 5 percent?

Dr. JAMES. The total number of European travelers in the United States is approximately—

Mr. SCHNEEBELI. How about outside the Western Hemisphere?

Dr. JAMES (continuing). Is approximately 600,000.

Mr. SCHNEEBELI. I was thinking in dollars and cents. I was wondering how is this going to affect your sales, because you are going to reduce your income by 50 percent per person in this area.

Is it as high as 10 percent of your total gross income?

Mr. TIPTON. No.

Mr. PHILION. I think I should describe this fare proposal to you so as to insure that we are not misleading anyone.

This fare proposal is calculated to be attractive to a certain group of new visitors and, we hope, as part of a larger effort to reduce costs, that it will be successful. It has some basic requirements in it.

For example, a person must be in this country at least 14 days, so a businessman who is coming over here normally or regularly for a week or 10 days is not going to qualify for this discount fare. You are going to have to stop at at least three cities beyond the port of arrival and before departure.

In other words, that is a kind of incentive to get out and see more of our country. And there is a minimum fare of \$79. These qualifications or requirements taken together we think will be attractive to a large segment of the visitor market that has not come here and therefore should not divert too much of our existing business from the foreign businessman.

Mr. SCHNEEBELI. In all likelihood most all of it will be all new business?

Mr. PHILION. We are hopeful.

Mr. SCHNEEBELI. And it won't be a reduction in fares of a lot of business you presently have.

Mr. PHILION. We are hopeful.

Mr. SCHNEEBELI. Thank you very much.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. I would like to explore, Mr. Tipton, a little bit more if I may, this question of trying to get some balance or some approach. In order to help with what the President terms a very serious problem, do you believe that your membership would be adverse to a reasonable charge, say \$5 departure tax, which fund might be used for promotion of the European traveler to the United States?

Mr. TIPTON. I don't think there would be objection to that. The important thing there is that the use be identified and that the charge be small, and I would say also that it would also be temporary.

Mr. BATTIN. I have one other question. You are no doubt aware that a statement was inserted in the record by Secretary Fowler which he attributed to the Civil Aeronautics Board. This statement, which later developed was only a staff paper, gave several reasons why there should not be a Fly American Carrier program.

It seems to me that it isn't un-American to suggest that citizens of this country use our own flag carriers. Do you have any comment that you would care to make on that? I know you covered some of it earlier, but I would like to get specifics.

Mr. TIPTON. As I said, I don't think there should be any restriction on the choice by our citizens of the carrier they want to ride on, but it would unquestionably be of great aid to the balance of payments if a larger percentage of them preferred the American-flag carrier. It would help.

Mr. BATTIN. Going a little bit further on what Mr. Byrnes questioned you about earlier, in the testimony of the pilots association last week they indicated that some countries—I don't remember even if they identified them—made it extremely difficult for their own citizens to fly to the United States on a U.S.-flag carrier and they accomplished this by means of making it difficult to get an exit visa, and continue this through their local agencies so that a prospective passenger felt it was much easier to go on his own national carrier than it is to go the route of American flag.

Now, we were also told at that time that the international agreements that all of the carriers have, and in which all of the countries are involved, specifically prohibited this type of action and that, in fact, complaints had been filed with whatever board or group that would make a determination whether there had been an illegal action under the agreement.

Are you aware personally of this having happened or does it happen? What recommendation would you make to bring about a parity between the action of our Government here and foreign governments?

Mr. TIPTON. I think I would say this. I wouldn't be at all surprised if there don't exist practices some place in the world which are designed to, shall we say, push the local citizen on to his own airline. I cannot prove to this committee that such practices exist and consequently am not prepared to make that as a representation.

To the extent that those practices exist they are violative of our bilateral agreement with the country concerned because both carriers are supposed to have, to quote the agreement, "A fair and equal opportunity to move the traffic."

And if we had proof that such actions were being taken by a foreign government, our remedy would be to ask our Government to protest the violation of the arrangements between the two governments.

Now, to my recollection we have never had occasion to do so. I do not believe we have.

Mr. BATTIN. This, as I say, was the testimony of another group and it might be well for the two associations to discuss the matter.

Mr. TIPTON. I think it is essential that we discuss this matter in order that we can take the necessary action if we have justification to do so.

Mr. BATTIN. I felt, as I am sure you have, that when left to a competitive role, U.S.-flag carriers are going to do what is necessary to get their portion of the business, but where we find governmental restrictions cropping up behind the scene, so to speak, it makes it very difficult for our own flags to get that fair share or fair opportunity.

Mr. TIPTON. Indeed it does, and if we had good reason to believe that, in a particular country, we would take action very promptly because the competition in the air transport business is hard enough without having artificial competitive restraints inserted.

Mr. BATTIN. The reason that I press this particular point is because we know from experience that some of the countries where we have agreements relative to trade, we have what they call nontariff barriers

that are just as effective as any tariff they might impose. I am not so sure that the travel business, as it is being practiced by some countries, is very close to that same area. For that reason it might well be worth the association's time and effort to become involved.

Mr. TIPTON. I think we must pursue it.

Mr. BATTIN. Thank you.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Mr. Tipton, there is an implication in your testimony, particularly on page 2, that there would be retaliation if the President's proposals were put into effect.

What type of retaliation do you anticipate?

Mr. TIPTON. It is difficult to tell the form of the retaliation. We have always, I think, in our general discussion of import restrictions, and our expenditure tax is just that, worried that foreign governments would adopt the same or similar rules which would prevent our expansion of exports which our foreign tourism program contemplates. It is just generally difficult to mount a major campaign to attract foreign tourists here when we are imposing limitations on our own tourists going abroad.

It seems to us to be a conflict in policy.

Mr. CONABLE. You think there would be a reason for retaliation even though that country might remain in a surplus area?

Mr. TIPTON. There might be because you might have differences there between countries. Many of our foreign destinations from the United States are heavily involved in tourism and regard tourism as one of their major, and rightfully, items of trade and the action of the United States to reduce that concerns them a great deal.

Mr. CONABLE. Mr. Tipton, in response to a question by Mr. Battin, you said that you felt that your organization would probably have no great objection to a small head tax, say \$5 apiece, to be earmarked and used for promotional purposes.

Can you give us some idea of how much such a head tax at the \$5 level would raise if the President's proposals were not enacted and how that compares to present Government efforts in this area?

Mr. TIPTON. A \$5 tax on scheduled air passengers to Europe would yield \$6 to \$7 million annually and our present expenditures in the U.S. Travel Service are \$3 million. I think, in considering various industry contributions to the expansion of a foreign visitor program, it must be remembered that the foreign visitor program to a degree benefits the carrier, but for the most part it benefits virtually everyone in the United States in that it makes a contribution to our economy, our hotels, our motels, rent-a-car, the restaurants, the whole travel industry, which of course is a major one.

(The following letter was received for the record:)

AIR TRANSPORT ASSOCIATION OF AMERICA,
Washington, D.C., February 28, 1968.

HON. BARBER B. CONABLE, JR.,
House of Representatives,
Washington, D.C.

DEAR MR. CONABLE: In the course of our testimony on February 26, you asked about the amount of revenue that a \$5.00 head tax would produce. Our response of \$6-7 million was directed to U.S. scheduled air travelers bound for Europe and the Mediterranean area.

For your information the estimated figure for the revenue produced from a \$5.00 head tax applicable to all departing U.S. resident air travelers to overseas

destinations, excluding Canada and Mexico, would be \$17 million. A tax applicable to all departing U.S. resident air travelers, including Canada and Mexico, would approximate \$20 million.

We trust this will clarify our answer to your question. Please do not hesitate to advise us if you have further questions. We will insert this additional information in the hearing record.

Cordially,

S. G. TIPTON.

Mr. BATTIN. Would you yield to me?

Mr. CONABLE. I yield to the gentleman.

Mr. BATTIN. Talking about earmarking this tax, I have heard some rather severe criticism of the real function of the U.S. travel agency as far as it is out promoting travel to the United States, that it is more of an information agency; it doesn't really have the spark that is necessary to get people enthused about seeing the United States.

I am not familiar enough with it personally, but you must know their operations and how they function and I am just really asking more for constructive criticism than anything else.

They don't spend much, but your industry along with Hertz, Rent a Car, and hotels, and the rest of it spend millions more than the U.S. travel agency does. Yet the criticism I get from them is, well, it is another Government agency. It doesn't really have the goal in mind that the people who are in a competitive business do.

I would like some fair criticism of what could be done or what should be done in your opinion?

Mr. TIPTON. I would like to ask Mr. Philion to answer that. He has been closely associated with the travel service and worked with them carefully for several years. You might comment.

Mr. PHILION. With all due respect, sir, I would start off by saying it is probably less of a bureaucratic Government agency than most.

Mr. BATTIN. That is fine. I don't know. I am just asking.

Mr. PHILION. We think it has done a really remarkable job in the short time that it has existed and with the severe limitations it has had. Not only has it not been given its authorized appropriation; I think for the last several years, almost from its beginning it has been given or has had appropriated \$3 million a year, not even taking into account the increasing cost of doing business each day.

Mr. BATTIN. They have been authorized \$3 million, but I think they have been getting a million or a million and a half.

Mr. PHILION. They have been authorized \$4.7 million and they have been getting \$3 million. When you take into account the chief market areas abroad in which we hoped when this office was established in 1961, that is, Western Europe, Japan, Australia, Mexico, to create a new coordinated program under the leadership with the U.S. Government serving as a catalyst, the hopes there were tied to a large extent on what the Government could do to encourage destination promotion and advertising abroad and we foresaw a good part of their authorized appropriation going directly to that.

With the \$3 million budget there isn't very much left for that kind of promotion abroad. So the question develops if the airlines, for example, as we did last year, the U.S.-flag airlines, including international and domestic, spent something in the neighborhood of \$40 million in media advertising promotion and general sales expenses in all countries outside the United States to promote travel to the United States, what impact then is this \$3 million appropriation?

There are several factors involved. First, we are competing not only among ourselves, but with foreign carriers, steamship lines, and we are competing with foreign government tourist promotion programs, and there is a certain amount of cohesiveness, but there needs to be more coordination.

There needs to be a place, as Mr. Tipton said in his prepared statement, for a prospective visitor to the United States in Rome to go to one office and get all the information he needs about the United States instead of having to go to several offices, particularly so with regard to the industry or interest in this country that is not represented abroad.

If we have any criticism of the U.S. Travel Service today it is the extent of their program which is limited by budget.

Mr. BATTIN. Thank you.

Mr. CONABLE. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions? Mr. Collier.

Mr. COLLIER. You said it has been a short time. Isn't this agency now in its fifth year?

Mr. PHILION. It was established in 1961. The first full year was 1962, so it is 6 years.

Mr. COLLIER. Six years. I am sorry. Has it been true that the greatest percentage of its budget goes for salaries and not for the type of promotion that you are talking about?

Mr. PHILION. I don't have a complete breakdown of how each dollar is allocated. I would say a majority of it goes for the operation of the service rather than in promotion.

Mr. COLLIER. It seems to me I saw some figures—I am drawing on my memory but I think it is accurate—that we have been spending \$23 million in the travel agency since its inception and it really didn't get rolling until 1962, so we consider 1962, 1963, 1964, 1965 and 1966, and my further recollection is that the salary factor in the appropriation has almost quadrupled since the first year.

Mr. PHILION. I don't know if I can answer that as specific as a representative of the U.S. Travel Service might. In the first year of course they did not take on or employ all of the people that were authorized for the program so that might have had some effect. Since then there has been of course some change in the Government pay scales which is beyond the control of the agency.

Mr. COLLIER. Not in every case.

Mr. PHILION. That may be. The cost of advertising, the cost of any facility abroad, of course, has gone up like the cost of any other business in the last 5 years, considerably so.

Mr. COLLIER. To get an idea, what would be necessary in the way of personnel and with the cooperation of those who are directly concerned with foreign tourist travel to this country to establish the type of office that you are talking about that would be in a position to provide all information necessary to a foreign traveler about coming to the States or traveling here. What would you need, for instance? What is involved in having this information available if it were funneled into this office?

Mr. PHILION. I don't know if I can give you a precise figure in numbers of people. Certainly there are some major market areas in the

world. There are some market areas in the world which we believe from our own experience can be encouraged to visit the United States with a good total program and that total program to include an effective U.S. Government effort, so it would take some additional offices, not only in Western Europe, but in the Far East and in Latin America, too.

Now, in terms of what amount of money is involved I can't give you a precise answer on that either. We take the position that the vast majority of the amount appropriated ought to go into advertising and promotion. We are not as interested in fancy street floor offices as much as we are in the kind of selling that is necessary in any market, the kind of selling we have to do.

Mr. COLLIER. Mr. Chairman, with unanimous consent at this point I would like to submit for the record—I do not have it available—a breakdown of the expenditures in the agency that I think are pertinent to this colloquy if I may.

The CHAIRMAN. Oh, yes; without objection that will be included at this point.

(The following table was received by the committee:)

COST FOR FISCAL YEAR 1962 THROUGH 1968—U.S. TRAVEL SERVICE

[In thousands of dollars]

	1962 actual	1963 actual	1964 actual	1965 actual	1966 actual	1967 actual	1968 estimate
Permanent compensation:							
Permanent positions.....	269	425	505	583	674	737	807
Positions other than permanent.....	31	31	25	11	18	16	20
Other personnel compensation.....	1	1	7	4	9	10	9
Total, personnel compensation.....	270	457	537	598	701	763	836
Personnel benefits.....	34	56	68	64	82	101	112
Travel.....	84	94	111	115	103	102	100
Transportation of things.....	51	65	33	59	103	57	60
Rent, communications, and utilities.....	75	132	153	224	187	189	205
Printing and reproduction.....	26	42	313	367	360	376	378
Other services.....	1,123	1,775	1,110	1,312	1,161	1,029	921
Services of other agencies.....	60	79	138	206	234	215	301
Supplies and materials.....	26	34	26	40	37	95	56
Equipment.....	60	73	6	6	7	7	5
Grants, subsidies, and contributions.....						1	1
Total costs.....	1,809	2,807	2,495	2,991	2,975	2,936	2,975
Change in selected resources.....	609	492					
Total obligations.....	2,418	3,299	2,495	2,991	2,975	2,936	2,975

The CHAIRMAN. Any further questions?

If not, Mr. Tipton and those with you at the table, we appreciate so much your coming to the committee and giving us your statement and responding to our questions as you have.

Mr. TIPTON. Thank you, Mr. Chairman. It has been a privilege to appear before your committee as always.

The CHAIRMAN. Thank you.

Mr. Titus.

Mr. Titus, if you will give us your name, address, and capacity in which you appear we will be glad to recognize you, sir.

STATEMENT OF WARREN TITUS, DIRECTOR, PACIFIC AREA TRAVEL ASSOCIATION

Mr. TITUS. My name is Warren Titus. I am appearing on behalf of an organization called the Pacific Area Travel Association which adopted a resolution in Taipei, Taiwan, in February at their 17th annual conference having to do with the subject before the committee.

The resolution was adopted with the knowledge that you would hear many other interests and that these interests obviously undoubtedly would cover the statistical data and the areas of concern in considerable detail.

The CHAIRMAN. Where is the headquarters of your organization?

Mr. TITUS. It is headquartered in San Francisco, registered in Hawaii. I think perhaps in the interest of time, since almost all of the points covered in the resolution have been covered in the past, I will, if I may, just take a moment or two to describe briefly the Pacific Area Travel Association and then touch on the pertinent points of the resolution, Mr. Chairman.

The CHAIRMAN. With the understanding that the entire resolution will be included in the record.

Mr. TITUS. We have submitted the appropriate numbers to you; yes, sir.

The CHAIRMAN. Without objection that will be included in the record.

(The resolution referred to follows:)

SPECIAL RESOLUTION—U.S. GOVERNMENT ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSAL

The following Resolution of the 17th Annual Conference of the Pacific Area Travel Association, drafted by the delegates named below, who were appointed at the direction of the Board of Directors to draft such a Resolution, is herewith submitted to the President of the United States of America:

Mr. John D. Bates, C. B. E., V.R.D., Chairman, Australian Tourist Commission
Lt. Gen. Chalermchai Charuvastr, Director General, Tourist Organization of Thailand

Mr. Gordon R. Girvan, President, American Society of Travel Agents

Mr. Robert W. Hemphill, President, Hemphill World Cruises, and President, Creative Tour Operators of America

Mr. Shigeo Kimura, Executive Director, Japan National Tourist Organization

Mr. Matt Lurie, Vice President—Passenger Division, Matson Navigation Company

Mr. Homer Merchant, Vice President—Sales, United Air Lines

Mr. Thomas E. Orpin, Manager, North America, British Overseas Airways Corporation

Mr. F. Marvin Plake, Executive Director, Pacific Area Travel Association

Whereas on Monday, February 5, 1968, the U.S. House of Representatives Committee on Ways and Means began public hearings at which Administration officials presented the Administration balance of payments proposal, and

Whereas these proposals will tend to reduce travel abroad by United States citizens through the imposition of certain restrictive measures, and

Whereas requests to be heard from the interested public should be submitted not later than the close of business Wednesday, February 14, 1968, and

Whereas the 17th Annual Conference of the Pacific Area Travel Association recognizes the seriousness of the current United States imbalance of payments, and the related seriousness of this imbalance to the 35 Government and 43 Carrier members of the Pacific Area Travel Association, as shown on Attachment No. 1, and to the more than 800 other members of the Association, and

Whereas the Conference recognizes the importance of maintaining the immediate and long-term strength of the U.S. dollar, and

Whereas conference appreciates that while the measures relating to travel proposed by the Administration illustrates a seriousness of purpose, it deplors them as being contrary to the basic democratic right of freedom to travel, and moreover believes that the restrictive measures proposed will not, if adopted, contribute significantly to improving the balance of payments but may in fact produce a number of serious adverse economic effects among which Conference enumerates the following:

(a) Limiting the trade potential of many countries with the United States, leading to the undermining of free enterprise and possibly augmenting the demand for greater foreign aid.

(b) Imposition of similar restrictions on the travel of foreign nationals to the United States.

(c) Undermining the present world-wide confidence in the soundness of the U.S. dollar.

Conference therefore resolves to reaffirm the position of the Board of Directors of the Pacific Area Travel Association, who on January 19, 1968, through the Association's Executive Director, communicated to the President of the United States the belief that approaches other than those now under consideration by the Ways and Means Committee would be more effective in improving the balance of payments position; and

Accordingly recommends that the approaches should include those shown on Attachment No. 2, and

Further resolves to authorize the immediate initiation of programs by the Pacific Area Travel Association either independently or in cooperation with the United States Travel Service designed to increase travel to the United States, and identifies the specific measures to this end in Attachment No. 3, and

Further resolves that this Resolution be transmitted by the most expeditious means, as representing the overwhelming opinion of the nearly 800 delegates to the 17th Annual Conference of the Pacific Area Travel Association assembled in Taipei, Taiwan, Republic of China, February 12 through February 16, 1968, to The President of the United States of America, and to Mr. John M. Martin, Jr., Chief Counsel, Committee on Ways and Means, 1102 Longworth House Office Building, Washington, D.C. 20515, U.S.A., so as to be delivered prior to the close of business Wednesday, February 14, 1968, and

Further resolves that it be requested this Resolution be read into the record of the public hearings on the Administration's balance of payments proposals, and be given the same full consideration as though it had been presented in person.

ATTACHMENT NO. 1—GOVERNMENT AND CARRIER MEMBERS OF THE PACIFIC AREA TRAVEL ASSOCIATION

GOVERNMENT MEMBERS (35)

Alaska (State of) Travel Division
American Samoa Office of Tourism
Australian Tourist Commission
Cambodia, Kingdom of
Canadian Govt. Travel Bureau
Ceylon Tourist Board
China (Republic of) Tourism Council
Fiji Visitors Bureau
Guam Tourist Commission
Hawaii Visitors Bureau
Hong Kong Tourist Association
India Department of Tourism
Indonesia National Tourist
Organization
Japan National Tourist Organization
Japan Ministry of Transportation
Korea Tourist Service
Macau Information & Tourism Center
Malaysia Ministry of Commerce &
Industry

Mexican National Tourist Council
Nepal Department of Tourism
New Caledonia Office of Tourism
New South Wales Dept. of Tourist
Activities
New Zealand Tourist & Publicity Dept.
New Zealand Travel & Holidays Assn.
Papua & New Guinea Tourist Board
Philippine Tourist & Travel Assn.
Ryukyu Islands Trade & Industry Dept.
San Francisco (City of)
Seattle (City of) Visitors Bureau
Singapore Tourist Promotion Board
Tahiti Tourist Development Board
Thailand Tourist Organization
United States Travel Service
Vietnam National Tourist Office
Western Samoa Dept. of Economic
Development

CARRIER MEMBERS (48)

Air Canada	Japan Air Lines
Air India	KLM Royal Dutch Airlines
Air New Zealand	Korean Air Lines
Air Vietnam	Malaysia-Singapore Airlines Ltd.
Airlines of New South Wales	Matson Navigation Co.
Alitalia Airlines	Mitsui O.S.K. Lines Ltd.
Aloha Airlines	New Zealand Natl. Airways
American Airlines	New Zealand Shipping Co.
American President Lines	Northwest Orient Airlines
Ansett-A.N.A. Airlines	P & O (North America) Inc.
Ansett-Pioneer Road Passenger Group	Pan American World Airways
Braniff Intl. Airways	Philippine Air Lines
British Overseas Airways Corp.	Qantas Airways Ltd.
Canadian Pacific Airlines	Royal Air Cambodge
Cathay Pacific Airways Ltd.	Royal Nepal Airlines
China Airlines Ltd.	Shaw, Savill & Albion Co.
Civil Air Transport	Thai Airways Intl. Ltd.
Continental Air Lines	Trans-Australia Airlines
Eastern Air Lines	Trans World Airlines
Garuda Indonesian Airways	Union Steamship Co. of New Zealand
Hawaiian Airlines	United Air Lines
Indian Airlines Corp.	UTA French Airlines

ATTACHMENT NO. 2—APPROACHES TO IMPROVE THE BALANCE-OF-PAYMENTS POSITION

(a) Increasing the budget and strengthening the efforts of the United States Travel Service, observing that on a relatively small budget in 1967, the United States Travel Service contributed largely to an increase of approximately 30% in visitor intake.

(b) The implementation of programs to make travel to the United States by these visitors more attractive and to simplify entry formalities.

(c) Encouraging U.S. flag and other carriers to intensify advertising and promotional programs aimed at attracting visitors from abroad to the United States.

(d) Negotiating the release of PL 480 and other similar funds for promoting travel to the United States from those countries where such funds are available, and for making such funds available, where they are not already so, for use by Americans traveling abroad.

ATTACHMENT NO. 3—AUTHORIZED PACIFIC AREA TRAVEL ASSOCIATION PROGRAMS

(a) The annual publication of a Special issue of *Pacific Travel News* (the Association's influential and highly successful travel promotion magazine) on Pacific coast gateway cities of America to be translated into Japanese and Chinese, and to include information on tourist facilities and services available in those cities.

(b) The initiation of a program of motivational/attitudinal research on current and potential Pacific visitors to the United States, making the findings of such studies available to organizations promoting travel to the United States.

(c) The institution of essay contests on the United States throughout the countries of the Pacific with the cooperation of the United States Information Agency.

(d) The compilation of an industrial tours handbook and assisting in arranging industrial tours for visitors to the United States from the Pacific.

(e) The institution of North American Film Festivals throughout the countries of the Pacific.

(f) The staging of seminars through the various chapters of the Pacific Area Travel Association, including those in Europe, on travel in the United States.

(g) The naming, if requested by the Congress or agencies of the United States Government, of an exceptional committee to consult and work with the United States Travel Service and related organizations in devising and implementing programs to increase the flow of visitors from abroad to the United States.

The CHAIRMAN. You are recognized to proceed, sir.

Mr. TITUS. The Pacific Area Travel Association came about in about 1950. This was the result of a belief on the part of a group of leading travel people and businessmen in the Pacific that tourism provided a major potential contribution to the economic recovery of the Pacific countries after the devastating effects of World War II.

Out of this conviction came the formation of the association and I believe they held their first convention in Hawaii in 1950 and the association is registered in Hawaii. Over the years the conviction of the gentlemen who founded the organization was certainly proven to be right because tourism has played a very substantial role in the economic recovery of the Pacific countries.

The association has grown to the point where it now includes in its membership 35 countries in and about the Pacific, mainly through their tourist organizations. Also included in the membership are the United States Travel Service, the cities of San Francisco and Seattle, and the State of Hawaii. It also numbers in its membership 43 major carriers serving the Pacific, so it really represents a complete cross section of the travel industry in and about the Pacific.

With regard to the resolution itself, it expresses concern over the fact that the administration's proposals will not produce the results that they are intended to produce and makes certain recommendations as to what steps might be taken in lieu of the administration's proposals, and I will read the pertinent parts of it.

Conference appreciates that while the measures relating to travel proposed by the Administration illustrates a seriousness of purpose, it deplors them as being contrary to the basic democratic right of freedom to travel, and moreover believes that the restrictive measures proposed will not, if adopted, contribute significantly to improving the balance of payments but may in fact produce a number of serious adverse economic effects among which Conference enumerates the following:

(a) Limiting the trade potential of many countries with the United States, leading to the undermining of free enterprise and possibly augmenting the demand for greater foreign aid.

(b) Imposition of similar restrictions on the travel of foreign nationals to the United States.

(c) Undermining the present world-wide confidence in the soundness of the U.S. dollar.

Now, as to proposals as to what steps might be taken, I broke these down in two parts, one being suggestions as to what the U.S. Government might do, the other one an indication of what the Pacific Area Travel Association is prepared to do.

In the first instance—

(a) Increasing the budget and strengthening the efforts of the United States Travel Service, observing that on a relatively small budget in 1967, the United States Travel Service contributed largely to an increase of approximately 30 percent in visitor intake.

(b) The implementation of programs to make travel to the United States by those visitors more attractive and to simplify entry formalities.

(c) Encouraging U.S. flag and other carriers to intensify advertising and promotional programs aimed at attracting visitors from abroad to the United States.

(d) Negotiating the release of PL 480 and other similar funds for promoting travel to the United States from those countries where such funds are available, and for making such funds available, where they are not already so, for use by Americans traveling abroad.

Finally, these are the areas that the Pacific Area Travel Association is prepared to involve themselves in.

(a) The annual publication of a Special issue of Pacific Travel News (the Association's influential and highly successful travel promotion magazine) on Pacific coast gateway cities of America to be translated into Japanese and Chinese, and to include information on tourist facilities and services available in those cities.

(b) The initiation of a program of motivational/attitudinal research on current and potential Pacific visitors to the United States, making the findings of such studies available to organizations promoting travel to the United States.

(c) The institution of essay contests on the United States throughout the countries of the Pacific with the cooperation of the United States Information Agency.

(d) The compilation of an industrial tours handbook and assisting in arranging industrial tours for visitors to the United States from the Pacific.

(e) The institution of North American Film Festivals throughout the countries of the Pacific.

(f) The staging of seminars through the various chapters of the Pacific Area Travel Association, including those in Europe, on travel in the United States.

(g) The naming, if requested by the Congress or agencies of the United States Government, of an exceptional committee to consult and work with the United States Travel Service and related organizations in devising and implementing programs to increase the flow of visitors from abroad to the United States.

That, gentlemen, I think, covers the submission of the Pacific Area Travel Association.

The CHAIRMAN. Mr. Titus, we thank you, sir, for bringing to the committee your statement. Are there any questions of Mr. Titus?

If not, we thank you, sir.

Mr. TITUS. Thank you.

The CHAIRMAN. Without objection we will recess until 2 o'clock this afternoon when we will hear as our first witness, Mr. Woods.

(Whereupon, at 11:59 a.m., the committee recessed to reconvene at 2 p.m., the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. Al Ullman presiding.)

Mr. ULLMAN. Our next witness is Mr. Thomas H. Woods.

Mr. Woods, will you identify yourself, please, and proceed as you see fit?

We welcome you before the committee.

STATEMENT OF THOMAS H. WOODS, PRESIDENT, AMERICAN HERITAGE TOURS

Mr. Woods. Thank you, sir.

Mr. Chairman and members of the House Ways and Means Committee: Thank you for this privilege. I thank Congressman Broyhill for getting me on the agenda.

Gentlemen, my name is Thomas H. Woods. I am president of American Heritage, Inc., operators of American Heritage Tours and operators of American Industry Familiarization Tours. I am also president of AAF-Woods World Wide Travel Agency, Inc., located at 6300 Leesburg Pike, Falls Church, Va.

I agree with all those opposing restrictions and taxes on international travel. I would like to present some facts. How much is spent before going abroad? Picking a \$695 tour for 22 days in Europe, including air transportation New York City to London, motor coach

transportation on the Continent, sightseeing, breakfasts and dinners, taxes and tips. The international traveler spends before he packs:

Passport and passport pictures, \$13; smallpox shots, health and dental checkup, \$5 to \$30; new luggage, minimum, \$25; minimum baggage insurance, \$3.50; minimum life insurance, \$5; travel light, and travelling light to a lady means a whole new wardrobe. We will be conservative, and say \$100; because she won't have time to visit a beauty salon, most women buy a wig, \$100; for a man, new clothes, \$100; grooming for both, \$10 each;

Miscellaneous: Sewing kits, travel irons, cosmetics, convertors, plastic hangers, medicines, cigarettes, extra glasses, extra keys, film supplies, memorandum book, stamps, language and guide books, and so forth, minimum, \$50; travelers checks, \$5, after you are packed you may borrow \$300 from your bank to go; minimum interest on that is \$36; kennel care of pets, minimum \$2 a day, total \$42; airport car parkings or limousine fare to and from airport, \$15; babysitter \$5 a day, if a relative cares for them, \$110.

A very conservative total of \$310 which each person spends in preparation, and anyone experienced knows that this is underestimated. The difference between \$695 and the \$300 air fare leaves a balance of \$395 for European land tour costs and, as previous tour operators have here testified, at least one-third of this is spent in this country, for administrative costs, commissions, and so forth, leaving a total of \$263.30 actually to be spent overseas. However, a great amount of this is deposited in U.S. banks and earns interest here.

Now, you say, oh, yes, but what about the money they spend over there? Don't forget, they took their money in travelers checks, and we have the benefit of that which are exchanged for payment here in the United States. Credit cards are used by those who have them.

Mr. Chairman, I do not think you or any member of this committee wants to dilute today's prosperity in any U.S. community.

Just think, over 75 percent of each \$1,000 spent by a tourist on a 21-day tour overseas can be safely estimated as helping directly our own U.S. businesses. Economic benefits will accrue proportionately on any of the total costs by those persons spending \$2,000 or \$3,000 apiece. And let's not forget the unmeasurable benefits we reap when any one person leaves our shores and returns with new knowledge and new spirit.

Mr. Chairman, I am a small businessman, a minute businessman; perhaps you can even call me a mini-businessman. But, mini-businessmen number nearly 2½ million individuals in this United States who employ, besides themselves, up to 10 employees. We like our independence, freedom from overregulation by big business, and big Government.

Since the announcement of this horrendous and shocking suggested restrictions and tax proposal, it has come to my attention that seven travel businesses have closed their doors. If you measure that as the pollsters do, of the 6,000 tour operators and travel agents in this country, 60 of them may have closed their doors already.

This Fowler threat has already stunted my potential 1968 foreign business growth by 60 percent in just 2 months' time. American Heritage Tours was founded for groups or individuals wishing to see the things that make this, our United States great. Our affluent society,

however, quickly filled hotels, motels, lodges, trailer park areas, and even camping areas in our national parks and all the areas nearby. We had difficulties in 1967. We anticipated more difficulties in 1968. Another reason that I come to you today is because I have been stepped on again, not by our banks or our avaricious big businesses, but by the innuendo of a misinformed President. A man who has made a wonderful record as a legislator and vote-getter, has asked citizens of these United States to travel in the Western Hemisphere.

I am here to inform you, right now, we do not have enough facilities for the people who want to travel now; not enough hotels, motels, lodges. In the past 20 years, with all our massive advertising campaigns, hardly 10 percent of this Nation's citizens ever have been in an airplane and barely five-tenths of 1 percent have ever been out of our country's borders as tourists.

[Portion of statement withdrawn by witness. See colloquy below.]

Mr. Woods. I thank you very much.

Mr. VANIK. Mr. Chairman.

Mr. ULLMAN. Mr. Vanik.

Mr. VANIK. Mr. Chairman, as a member of this committee, I am quite concerned with the statement made just before this gentleman closed.

I think that in fairness to the committee, in fairness to the integrity of the Congress, of the House of Representatives, I ask him now to put into the record precisely what he means in the statement referring to a political shakedown. I think a statement like that made before a public committee should be thoroughly investigated and analyzed. I think the gentleman owes it to the members of this committee to put into the record the basis for what he says in this statement.

Mr. Woods. I am not prepared to do that yet, sir, and I don't mean it—

Mr. VANIK. You say you are not prepared to back up your statement?

Mr. Woods. You only gave me 5 minutes.

Mr. VANIK. You have to be prepared to back up everything you say in your statement. You have made a charge, a very serious charge, before a committee of the U.S. Congress and you are under obligation to support your statement. We have got to get to the bottom of these things.

I would be as offended and shocked if the gentleman's statement were true. Mr. Chairman, I expect him to lay before the committee supporting evidence to support a statement which he makes in his prepared statement, prepared properly and carefully and under due deliberation.

I would like him to support what he says before this committee. If he cannot support it, I want him to withdraw it from the record.

Mr. Woods. My instructions were to—

Mr. VANIK. This is not a place to engage in political barb shooting. This is not a place to spread unfounded political rumors. The gentleman has made a charge. The gentleman should support his charge or withdraw it from the record.

Now, which are you going to do?

Mr. Woods. I will withdraw it from the record. I will withdraw it from the record if that is the case, sir.

Mr. ULLMAN. Does the witness then request that the last statement from the middle of the page on page 4 be withdrawn from the record?

Mr. WOODS. With an explanation, sir, that I was only prepared with 5 minutes material and I didn't think I was supposed to—

Mr. VANIK. If the gentleman wants more time to elaborate, I would be very happy to let him extend his statement in the record and back it up. If he would like to amplify his statement and submit further evidence to support his statement, I am perfectly willing that he should have more time to do it.

Mr. WOODS. I am not prepared to do that today, sir, but I could come back with that, I am sure, if it is necessary.

Mr. ULLMAN. Does the witness request that this be withdrawn from the record?

Mr. WOODS. Yes, sir.

Mr. ULLMAN. Without objection, that will be the case.

Mr. WOODS. Yes, sir.

Mr. ULLMAN. Are there any other questions?

Mr. UTT. I would like to know just what you are withdrawing.

Mr. ULLMAN. Page 4, the last half of the page, from the paragraph beginning with "There are some other reasons which knowledgeable politicians and analysts have been rumoring around" on to the end of the statement.

Mr. UTT. It does not include the paragraph above that?

Mr. ULLMAN. No, the witness did not read that paragraph, so it would not be included in the record anyway.

Mr. VANIK. In other words, you want to remove the rumor statement?

Mr. WOODS. Yes.

Mr. ULLMAN. Very well then, it will not be put in the record.

Are there any other questions?

Thank you very much.

Mr. WOODS. Thank you, sir.

Mr. ULLMAN. Our next witness is Mr. George Marucci, president, Air-Res Travel Service.

Mr. Marucci, we welcome you to the committee. Please identify yourself and proceed as you see fit.

STATEMENT OF GEORGE MARUCCI, PRESIDENT, AIR-RES TRAVEL SERVICE

Mr. MARUCCI. Yes, sir.

My name is George Marucci, President of Air-Res Travel Service, New York.

AIR-RES AND ITS CLIENTS

I operate a travel agency and my principal clients are three national associations: The Modern Language Association, New York, with 26,000 members, most of whom are language teachers in schools and universities throughout the United States and Canada; the American Historical Association, Washington, D.C., with 16,000 members, most of whom are history teachers in schools and universities throughout the United States and Canada; and the American Association of Teachers of Spanish and Portuguese, Wichita, Kans., with 15,000 members, most of whom are high school teachers of Spanish throughout the United States and Canada.

PRINCIPAL ACTIVITY

Last year, I organized charter flights through the auspices of these associations and sent 1,200 members and their families to Europe.

This year, I had approximately 1,500 members reserved on group flights to Europe and had anticipated a 25 percent increase in members traveling to Europe. Instead, I find I am receiving around a 20 percent to 25 percent drop in business due to cancellations since the proposed tax was announced. Cancellations at normal times average around 8 percent. I feel I would be fortunate to do the same amount of business this year as I did last year, but if the travel tax is passed I can anticipate at least another 25 percent in cancellations.

REACTION FROM MEMBERS

I have received about 80 phone calls and two dozen letters from members and all of them expressed displeasure and dissatisfaction with the Administration's proposed travel tax policy.

Many members feel they cannot cancel since they do serious work in Europe such as attending international congresses in their field, doing research projects, gathering original material on their specialty and toward theses, teaching school, et cetera. Some of the members teach school in Europe during the summer and earn money for this and bring back valuable foreign exchange. Others feel they must travel and speak the tongue of the foreign country of their specialty in order to teach more accurately in their schools here.

All the members that have communicated with me feel the tax would be a financial burden to them.

THOUGHTS ON THE TAX

I think the proposed travel tax is not only financially hard on those people I work with but affects all Americans by restricting their freedom of movement and their choice of how they are to spend their money.

In addition, a travel tax would limit Europeans from earning dollars to spend here on travel, aircraft and parts, manufactured goods and other items. I think if we impose a tax on travel we should logically expect that other countries with travel deficits will impose one in turn on their nationals and that we may begin a chain reaction of reciprocity and retaliation that once started may be impossible to stop.

ALTERNATIVES TO THE TAX

Tourism is one of the cheapest means of earning money that exists. Every country in Western Europe knows this and does a great deal to encourage tourists to their land to spend money. The United States has not learned the lesson of how to compete with other countries on earning relatively inexpensive tourist money. I think if we spent 10 percent of the advertising budget on travel that tobacco companies spend to sell cigarettes, we could go a long ways toward encouraging foreigners to visit one of the most unique places on earth, the United States of America. We do not have to create the Niagara Falls, the Grand Canyon, the Redwood Forest, or Vermont in October—it has all been done for us.

The United States Travel Service should become a strong aggressive, and competitive salesman of the United States, throughout the world. These are qualities we Americans excel in. Let us put these characteristics to practical and profitable use together in cooperation with the travel industry.

Fares for visitors to, and within, the United States should be cut by the transportation companies as far as financially practical and costs for visiting in the United States should be subsidized to some extent until we generate sufficient exchange where subsidies are no longer necessary.

CONSEQUENCES FOR THE FUTURE

If a travel tax is enacted into legislation this year, then I predict a 50-percent drop in Americans going to Europe, and consequently a large proportion of Europeans will then not be able to afford to travel to the United States. I think if such a drastic drop in business occurs, then foreign airlines will have to delay or cancel orders of aircraft and parts with U.S. plane manufacturers with resultant layoffs of workers in the aircraft manufacturing industry and the transportation and travel industries. I think hundreds of travel agencies will close their doors for good.

A PLEA TO COMMONSENSE

We, as a people, pride ourselves on being able to tackle and beat the most difficult of problems and to search for creative and positive steps with cheery good will. It is not within our natures to admit defeat by restrictive and discriminatory measures against ourselves.

If we admit defeat before we have even tackled this one problem seriously, will not our recourse be to quickly turn to other restrictions as new problems face us?

We must try all other positive measures that we can create before we, as a people, erode our own freedoms.

I strongly advise a travel tax not to be enacted into legislation until every other possible positive means has been exhausted to combat the travel deficit.

Mr. ULLMAN. Thank you, Mr. Marucci.

Are there questions?

If not, we appreciate very much your testimony.

Mr. MARUCCI. Thank you.

Mr. ULLMAN. Our next witness then is Dr. Richard A. Schwartz.

We welcome you to the committee, Dr. Schwartz.

Please identify yourself and whom you represent and proceed as you see fit.

STATEMENT OF DR. RICHARD A. SCHWARTZ, WASHINGTON, D.C.

Dr. SCHWARTZ. My name is Dr. Richard Schwartz from Washington, D.C.

I would like to preface my remarks today by thanking the committee for the opportunity to testify, and, for the record, I would like to state that while I have in the past been associated with the National Rowing Foundation and the National Association of Amateur

Oarsmen, I am testifying today as a private citizen and amateur athlete concerned about travel tax measures before this committee.

I have, however, arranged for supporting testimony to be forwarded to this committee from the National Rowing Foundation and the National Association of Amateur Oarsmen.

Mr. ULLMAN. Would you like that testimony to be a part of the record when you send it in?

Dr. SCHWARTZ. Yes. I believe it is coming under that cover.

Mr. ULLMAN. Without objection, it will be a part of the record.

Mr. SCHWARTZ. Thank you.

(The following letters were received by the committee:)

THE NATIONAL ROWING FOUNDATION,
Washington, D.C., February 21, 1968.

Mr. JOHN MARTIN JR.,
Chief Counsel, House Ways and Means Committee, Longworth Office Building,
Washington, D.C.

DEAR Mr. MARTIN: The National Rowing Foundation was founded in 1966 to finance travel expenses for American oarsmen in international competition.

In 1966 the Foundation raised and spent approximately \$40,000 to send 36 young men to compete in the World Championships of Rowing in Bled, Yugoslavia. Again in 1967 the Foundation spent another \$27,000 to send a full team to the Championships in Vichy, France. The results were most gratifying. At Vichy, with 34 nations competing, the United States reached the finals in 6 out of the 7 events and won 1 gold, 1 silver, and 1 bronze medal.

A travel tax on the expenditures of these oarsmen competing in international competition would seriously hurt the work of the National Rowing Foundation and would jeopardize the opportunity that such competition offers to our young oarsmen.

We are therefore appealing for an exemption from the proposed travel tax on those expenditures incurred by groups such as ours whose primary function is the financial sponsorship of international competition.

Very truly yours,

HORACE E. DAVENPORT, *Chairman of the Board.*

NATIONAL ASSOCIATION OF AMATEUR OARSMEN,
February 27, 1968.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN MILLS: It is my understanding that your committee is reviewing the President's proposal on travel and expense tax in his Balance of Payments Program.

On behalf of the National Association of Amateur Oarsmen, I am herewith requesting your committee to exempt all officers, executive committee members, administrative personnel, delegates, athletes and team personnel from per capita taxes while serving and/or competing under the sanction and auspices of our National Association of Amateur Oarsmen while in foreign countries.

Our association is comprised of athletes and retired athletes striving to promote the qualities of discipline, good sportsmanship and highest achievement in the world of sports through rowing.

Our members, both on and off the water, act as ambassadors of good will and American diplomacy.

Very recently the United States Cultural Exchange Program as developed by the United States State Department, financed sending our crews to foreign countries.

The funds for travel and living expenses are all raised through donations from supporting members and organizations.

To place an additional tax on members of our organization while competing and/or serving in foreign countries would become an extreme burden on our international participation program.

The world needs our fine athletes to be represented internationally and we therefore must have an exemption to this proposed tax.
Very truly yours,

WILLIAM J. KNECHT.

POSITION ON PROPOSED TAX

Dr. SCHWARTZ. As an athlete, I do not feel that I can legitimately speak to the economic questions concerning the proposed taxes. Instead, it is my position that if the taxes are passed, they will impose a financial hardship on American athletes engaged in international competition. Therefore, I will urge that an exemption be made for such athletes and the groups sponsoring them.

ROLE OF GROUPS SPONSORING ATHLETES

It is the custom in this country that amateur athletes either support themselves or gain support from groups organized for this purpose. These groups range in size from the U.S. Olympic Committee to small athletic clubs sponsoring only a few athletes.

The funds of these organizations are obtained through voluntary contributions or dues. Many of these groups are tax-exempt with their sole aim being to foster improvement in athletics. One of the best ways of achieving this end is by giving international experience to our best athletes and those who show promise of becoming our best athletes. The situation in American rowing today is illustrative of this.

BENEFITS OF SPONSORSHIP

Prior to the organization of the National Rowing Foundation in 1966, the United States had never, except for the Olympics and Pan American games, fielded a full rowing team for international championships. Efforts to send oarsmen to these events were fitful and disorganized, and the performance reflected this.

Beginning in 1966, the National Rowing Foundation sought to put rowing on a par with other sports in this country with respect to international competition. The simple expedient used was the incentive provided by an organized effort to fund a first-class team of international competitors. The results are truly noteworthy.

In 1966, the first full United States team ranked fourth in the world championship in Bled, Yugoslavia. This past year at the 1967 championships in Vichy, France, the United States tied with Russia for second place behind the East Germans. And this was only the second year of this organized effort.

COST OF SPONSORING ATHLETIC TEAMS

An effort such as this is not without its cost. The 1967 expenditures for travel, food, lodging, et cetera, which would have been subject to the proposed tax totaled \$21,775, or about \$588 for each member of the 37-man team.

The proposed tax on the amounts just mentioned would total \$1,800, more than enough to support three athletes.

For an organization working with the fixed income from an endowment or depending solely on voluntary contributions, the situation

becomes one of seeking additional funds or limiting the scope of its support.

EFFECT OF THE PROPOSED TAX

In essence, then, the effect of the tax would be to jeopardize our international athletic effort. We would be forced into a choice between taking a less competitive position or maintaining our present position at a greater cost. I would add here that this problem is magnified for individual athletes and small groups who lack organized support and who must literally reach into their own pockets and go from door to door in order to compete.

CONCLUSION AND RECOMMENDATION FOR EXEMPTION

It is my opinion that the benefit gained from these taxes, in the form of tax dollars or keeping some athletes at home, will be far outweighed by the loss to American athletic prestige and our competitive position. From whatever angle they are viewed, these taxes will be an added burden to our athletes. Moreover, they put our Government in a paradoxical position.

The U.S. Government neither supports nor subsidizes our athletes—a position with which I heartily concur. Yet, with these taxes the Government would be placing itself in the position of creating an obstacle to competition. Therefore, I urge this committee to exempt expenditures by athletes and groups sponsoring athletes from the proposed tax when such expenditures are made for the purpose of international competition.

I would suggest that adequate controls for such an exemption could be expeditiously worked out with the sports governing bodies involved, and that the total effect of the exemption would be to enable our athletes to compete unencumbered by any additional financial burden.

Thank you.

Mr. ULLMAN. Thank you.

Would you like to have the supplemental material included?

Dr. SCHWARTZ. Yes.

Mr. ULLMAN. Without objection, that will be included in the record. (The document referred to follows:)

BREAKDOWN OF TAXABLE EXPENDITURES FOR 1967 ROWING CHAMPIONSHIPS, VICHY, FRANCE

	Expenditures	Taxes
Total 14-day expenditures for 37-man team (cost per man, \$588.51).....	\$21,755	
Airline tickets subject to 5 percent tax.....	12,210	\$610.50
European expenditures for food, lodging, laundry, transportation, etc.....	9,565	
Exemption: \$7 per day per man.....	3,626	
Taxable remainder.....	5,939	
\$8 per day per man taxable at rate of 15 percent.....	4,144	621.60
Remainder taxable at rate of 30 percent.....	1,795	538.50
Total tax bill (or enough to support 3 athletes).....		1,770.10

Mr. ULLMAN. Are there any questions?

Mr. SCHNEEBELI. Dr. Schwartz, your position is similar to that outlined by a gentleman we had here last week on behalf of the New York Philharmonic Orchestra.

I think it is silly to consider taxing the people who go abroad for international good will where the travel is conducted by an organiza-

tion of your type. I think it would be very surprising if the committee did include groups of your type in the proposed tax coverage. I, personally, would probably vote very much against the inclusion of groups such as yours. I think you are to be commended for taking a position in opposition to the proposals in their application to your group.

Dr. SCHWARTZ. I appreciate that sentiment but from my reading of the bill I could not see any exemption in it besides those for students on long term.

Mr. SCHNEEBELI. That is right. It is good for you to underline your interested position on the proposed law.

Mr. ULLMAN. Are there any further questions?

We appreciate your bringing this matter to our attention and you can be sure the committee will give it its serious consideration.

Dr. SCHWARTZ. Thank you very much.

Mr. ULLMAN. Thank you, Dr. Schwartz.

The committee will stand adjourned until 10 a.m. tomorrow morning.

(Whereupon, at 2:28 p.m., the committee adjourned, to reconvene at 10 a.m., Tuesday, February 27, 1968.)

