American-flag passenger ships, which contribute substantial sums to a favorable balance of trade, are presently in a fight for economic survival. To maintain the high quality services in the face of rising costs and expanding foreign competition is a never-ending battle. The proposed travel tax, if enacted, would clearly result in a significant drop in passenger trade. Such losses might be enough to drive American-flag ships operating outside the Western Hemisphere from the high seas. This will have a twofold negative effect on our balance of payments. It will then not be possible to attract either American or foreign travelers to our ships and those same travelers will become the permanent customers of foreign ships.

Concurrently, with the proposal to impose travel taxes the administration is developing a program to stimulate travel of foreigners to the United States, in the interest of reducing the balance-of-payments deficit. If we were to reduce our own travel abroad by imposition of a variety of taxes, we feel that almost certainly reciprocal action might be generated in foreign countries outside of the Western Hemisphere. It is felt, therefore, that the proposed travel restrictions are negative and self-defeating and the only reasonable approach to improving the balance-of-payments picture in respect to travel must be achieved through the positive stimulation of travel from abroad and greater utilization of U.S.-flag ships. This would include acceleration of promotion activity by carriers, by the U.S. Travel Service and travel groups such as "Discover America, Inc."

The belief that our U.S.-flag steamship industry is contributing significantly to the improvement of our balance-of-payments position has only very recently been affirmed by an economic study just completed by Dr. Paul Cherington, Hill Professor of Transportation at Harvard Graduate School, who was assisted by Harbridge House, a management consultant firm in Boston, Mass. This study also includes the contribution of Dr. Eli Shapiro, an eminent economist of Harvard University. A copy of this study is offered for review by this committee in its full detail.

(A copy of the study entitled, "The Balance of Payments and the U.S. Merchant Marine," is in the committee files.)

Essentially, it concludes that the American-flag merchant fleet contributes approximately $900 million annually toward the improvement of our national balance-of-payments account. The indications are clearcut that of every passenger travel dollar spent aboard American-flag passenger ships for transportation, food and entertainment, over 90 cents remains in the United States.

These sums are not to be considered lightly in weighing the matter of solving our balance-of-payments problem. Therefore, it would seem that any action by taxes or otherwise which would reduce traffic in American-flag ships is clearly working to accentuate the already serious balance-of-payments deficit.

From the purely mechanical aspects, the proposed new tourist taxes would seem to create an environment for a variety of evasive practices by travelers in declaring their daily expenditures. This aspect of the proposed taxes would also impose a fantastically awkward paperwork and policing burden in the collection of taxes which might well exceed the income gained by additional taxes.

We call your particular attention to the matter of cruise ships. A passenger crusing on a U.S.-flag vessel is effectively spending most of his money in the United States regardless of the area in which he is