programs, would make it difficult for disadvantaged to participate, and would seriously affect the training of scholars, especially in language and technical fields.

WAYNE STATE UNIVERSITY,
COLLEGE OF LIBERAL ARTS,
DEPARTMENT OF ECONOMICS,
Detroit, Mich., February 20, 1968.

Representative WILBUR M. MILLS,
Chairman, House Ways and Means Committee,
U.S. House of Representatives,
Washington, D.C.

DEAR SIR: The Administration's proposal to curb travel outside the Western Hemisphere is bound to be the subject of much debate. I enclose a short formal comment on one aspect of the proposal.

However, I believe that the proposal or some very similar measure should be passed by the Congress. The nation's balance of payments must be shown capable of being brought under control. I believe that travel is a good area to tax and has many significant advantages over increases in tariffs and other alternatives. My own assessment of the proposal is that the tax rate is not high enough, the duration too short and the *modus operandi* is too complex. This last comment does not express disagreement with the goal of progressivity, merely a lack of faith in the effectiveness of the system and the fear of too high a cost in making the system work.

While considering economic policy, may I draw to your attention the dangers inherent in the failure to pass some increase in the level of domestic taxation. Inflationary pressures do exist and are likely to continue to exist for some time. If curbs on foreign investment and on foreign travel are imposed, these measures are likely to divert even greater pressures on to the domestic economy and thereby to add fuel to the fire.

Finally let me say I am in favor of the limitations on foreign investment by American companies and individuals and that I believe this aspect to be crucial to the success of the reduction of the deficit.

Your sincerely,

H. PETER GRAY,
Professor of Economics.

SOME THOUGHTS ON ONE ASPECT OF THE ADMINISTRATION'S PROPOSAL TO CURB AMERICAN TRAVEL DEBITS

The proposals of the Administration to curb the travel deficit of the United States introduce an overt departure from the traditional American policy of non-discrimination among friendly nations in international trade. The present departure from tradition may be considered less serious because it concerns "only" trade in services rather than in commodities but this distinction is not a meaningful one. In fact, there are two elements of discrimination—one is overt and the second less obvious.

The first discrimination is that the proposals would apply the ticket and expenditure taxes only to journeys outside the western hemisphere. This discrimination can be justified on two grounds: practicality of administration of the tax and the lower loss rates per dollar of expenditure resulting from travel expenditures in western hemisphere countries. Foreign exchange control or supervision would be virtually impossible across the two great land borders between the United States and her neighbors. Equally, the Caribbean islands are so dependent upon American tourists that to impose a tax on these resorts would be completely ruinous to many island economies and certainly to many individual enterprises. Further, the ratio of gold loss to travel dollar is significantly less in western hemisphere countries than in other areas. This result stems largely from the trade patterns of the western hemisphere nations and on their traditional economic ties with the United States.

The second discrimination which is less easily justified, is possibly unintentional but is, nonetheless, one of the less attractive features of the set of proposals. The source of the second discrimination is the requirement that the expenditure tax rate rather than the ticket tax rate apply to transportation expenditures between points outside the western hemisphere. The discrimination inherent in this proposal can best be illustrated with an example.