

In this statement, the NAM will concentrate its comments on the tax aspects of the proposals requiring new legislation. These are: (1) a temporary tax on per diem living expenses of U.S. travelers going outside the Western Hemisphere amounting to 15% on outlays between \$7 and \$15 and 30% on outlays above \$15; and (2), a permanent extension of the 5% excise tax on domestic air travel to all international air travel and a temporary extension to sea travel outside the Western Hemisphere.

As presented by the Administration, the only travel tax exemptions would apply to business and educational travel of over 120 days, individuals who establish foreign residence and U.S. Government travel.

The NAM is opposed to such tax measures on the grounds that they:

Represent another step in the drift toward foreign exchange controls and restrictions on the market economy.

Are inconsistent with the government's own policy principles regarding international trade, could invite retaliatory measures abroad, and in many cases involve illusory balance-of-payments savings.

Risk a marring of a good record of voluntary compliance with the tax laws.

Do not relate to the basic cause of the balance-of-payments problem.

In his testimony before this Committee on February 5th, the Secretary of the Treasury said that "... the long-term solution to the travel deficit should not be found through restrictive measures, but must be sought through the expansion in the number of foreign visitors to the United States." We heartily concur with this sentiment. The difficulty is that reliance on the long-term approach is apt to be put off indefinitely once restrictive measures have been accepted as short-term expedients.

The whole history of economic controls and tax restrictions strongly indicates that such expedients translate into more rigid, more widespread, and long lasting impediments to the market economy. This has applied particularly with respect to international transactions; witness the steady tightening and spread in coverage of the interest equalization tax and controls over foreign investment.

Even in the case of limited controls that appear to be accomplishing their objectives, there is always the tendency to make them more stringent, to force more complete compliance with their objectivity. Despite general agreement that industry was responding to the former "voluntary" restrictions on foreign investment, mandatory controls are now a fact. There are ample precedents for fear that a "temporary" and "moderate" tax on tourist and business travel abroad could escalate easily to a much more burdensome tax restriction, absolute limits on dollars taken out of the country, or some combination of prohibitions.

Admittedly, in the narrow balance-of-payments accounting there is some logic in levying a tax on the travel sector. For many years Americans have gone abroad in greater numbers and spent more money than their foreign counterparts have done in the U.S. In short, there is an identifiable travel "deficit" estimated at around \$2 billion last year of which approximately two-thirds can be attributed to non-Western Hemisphere areas.

However, there are serious defects in applying too narrow a statistical framework—in fragmentation of the balance-of-payments problem—for purposes of corrective action. In the case of direct investment abroad, restrictions have been placed on an observable outflow of funds, even though, in fact, these funds finance a substantial part of our merchandise exports and are responsible for a much larger return flow of repatriated income. The excess of direct investment income over capital outflow for the period 1946-1967 has amounted to over \$16 billion. Furthermore, this excess has been steadily widening.

With respect to travel expenditures, a large share of business spending is associated with efforts to strengthen our export and investment position. It is estimated that over 50% of American travel spending in European and Mediterranean countries is for business, educational, scientific and other non-pleasure purposes. Restrictions on such travel could have a quite unintended adverse effect on the balance-of-payments.

One of the most immediate repercussions of a travel tax would be a likely reduction in the export of aircraft and aircraft parts. Foreign purchases of U.S. commercial aircraft have been running at an annual rate of \$1 billion. To tax the most important segment of the international passenger market and therefore to depress international air travel in general invites a marked slowdown in an important area of commercial exports.

The Administration does not appear too concerned over the possibility of retaliatory measures by foreign countries. It is inconsistent, however, to re-