

emphasize a program to attract more foreign visitors to the U.S. and at the same time impose a tax on U.S. travel abroad. Certainly, such a tax would complicate and endanger negotiations seeking to minimize the discriminatory aspects of tax systems in the EEC countries with respect to U.S. goods. Even if there is no overt retaliation, the travel tax, if it does cut down on dollar spending abroad, would restrict foreign countries' ability to obtain U.S. exports. For some less developed areas, travel income is virtually the only means of earning dollars to buy U.S. goods.

Tourist spending abroad is equivalent to the importation of vacations by American consumers. A tax designed to penalize and curtail such activity is, hence, equivalent to a protective tariff on the importation of vacations. It is a protective tariff with some peculiar and complicating features.

As far as we know, the domestic vacation industry has not asked the government for such tariff protection. But what is even stranger is the fact that the Administration itself consistently has denounced the idea that we should seek to correct the balance-of-payments deficit by protective tariffs or quotas. If the government is to violate its own principle, it seems strangest of all that it do so in respect to the vacation industry. Is the domestic vacation industry more essential to national security than the steel, glass or textile industries—on which tariff or quota protection has been refused?

The NAM is also concerned about the mechanics of the proposed travel tax and their implications for tax compliance in general. The recommended system of deposits, declarations, and graduation of rates would inevitably involve a burdensome bureaucratic procedure and inconvenience for essential as well as pleasure travel. The administrative expense would be high. The arbitrary discrimination in tax liability between the Washington Hemisphere and other countries would be an invitation to evasion.

Also, the exemption from tax liability of business travel of over 120 days is entirely arbitrary. If a travel tax is imposed, it would make far better sense to make a blanket exemption for all business expenses. At least in this way the tax would be concentrated on the pleasure travel sector. As indicated earlier, business travel, in particular, does not necessarily mean a net drain on the balance-of-payments. If government travel in "official capacity" would receive an exemption, businessmen should obtain the same exemption when traveling in their "official capacity."

Both the travel tax proposal and the foreign investment controls have been criticized rightly for not dealing with the fundamentals of the problem. The fundamental balance-of-payments problem is, of course, a continuing large deficit in the government account—through government expenditures abroad—which more than offsets the net contribution of exports and investment income in the private account. Over the long-run, some means must be found to limit the public sector outflows, at least to the amount of inflows earned by the private sector.

Short of a quick settlement in Vietnam, our present global commitments would appear to rule out any great improvement in the government's account at this time. If we are to maintain those commitments, there are three principal alternatives for attacking the basic balance-of-payments problem:

1. Proliferation of direct controls and restrictive measures.
2. Devaluation or suspension of gold convertibility.
3. Fiscal and monetary restraint at home.

The first is the course we are now traveling and which, for reasons cited before, is an undesirable course.

The second is what quite a few suspect will eventually occur. However, it would take an event of proportions not imaginable in the immediate future for this country to accept devaluation or scrapping of the fixed exchange rate system.

The third alternative is referred to as the "classic" response whereby the nation suffering a serious balance-of-payments deficit adopts a hard line to control domestic inflation, keep interest rates high, and improve its export-import position relative to other countries. In the early 1960's, when the balance-of-payments became an issue of concern in this country, the U.S. refused to follow this line on the grounds that it would mean more stagnation of the U.S. economy.

Under the present circumstances of full employment and accelerating inflation, however, fiscal and monetary restraint are particularly appropriate for both balance-of-payments and domestic policy considerations. And this has been admitted by the Administration in its arguments for the income tax surcharge. But with the projected substantial growth of government spending for fiscal 1969 the surcharge in itself can hardly be considered a sufficient signal of our determination to meet the balance-of-payments problem.