

We regret that mandatory action with respect to capital exports was so long delayed. Had the capital export controls been instituted when we in the UAW first proposed them in March 1964, the cumulative payments deficit of recent years would have been much smaller and, in consequence, the Nation's international monetary reserves would today be much larger. There would therefore be less pressure for repressive fiscal and monetary policies. Moreover, the effects of capital export controls on other developed countries which have relied upon our deficits for their liquidity might have impelled them to cooperate sooner and more wholeheartedly both in reducing their payments surpluses (which are the obverse side of our deficits) and in reforming the international monetary system.

While favoring effective controls on capital exports, we find it difficult to understand some of the details of their present application. We do not see why the military dictatorship in Greece is favored with an exception from the prohibition against direct investment applicable to the rest of non-Communist Europe. We question the necessity to give the feudal oil-producing countries the same relatively liberal treatment accorded to certain developed countries with special problems such as the United Kingdom and Canada. We doubt the wisdom of a flat formula limitation on investment in the developing countries. We believe it would be sounder to establish machinery for case-by-case review of proposed investments in such countries, with approval granted for investments which would contribute to development and denied for those which are essentially exploitative. Considering the reluctance of U.S. corporations to invest in developing countries, it is (unfortunately) unlikely that the aggregate capital outflow under such a review procedure would be significantly greater than under the formula now in effect. But there would be less danger of hampering the progress of some of the recipient nations. We hope the administration will reconsider these matters.

Insofar as the deficit on tourism is concerned, we are in accord with the administration's preference for restricting spending abroad rather than restricting freedom to travel. We believe, however, that more equitable means could be applied to accomplish the desired result than the tax measures that the administration has proposed. The proposed tax on plane and ship tickets obviously would be uneven in its impact, depending upon the income of the would-be traveler. It could deter—and would most certainly restrict the extent of—travel by those with low incomes, no matter how legitimate their reasons to travel. The tax would have no effect at all upon the wealthy, no matter how frivolous the purpose of their travel.

The proposed tax on spending abroad is a form of progressive spending tax proposed later in this statement for application to the domestic economy. It is questionable, however, whether the proposed spending tax on tourists is the most equitable and effective measure to restrict tourist spending. Much has been published already about the difficulties of administering such a tax (difficulties that would not apply to the Treasury and UAW proposals outlined below); and the wealthy will more easily find the methods, and have readier access to the means, for evasion than travelers in the low- and middle-income brackets. Moreover, even the 30-percent top rate proposed would have