TOURIST EXEMPTIONS

1637-9

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 8147

AN ACT TO AMEND THE TARIFF SCHEDULES OF THE UNITED STATES WITH RESPECT TO THE EXEMPTION FROM DUTY FOR RETURNING RESIDENTS, AND FOR OTHER PURPOSES

JUNE 24 AND 25, 1965

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TOURIST EXEMPTIONS

THURSDAY, JUNE 24, 1965

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2221, New Senate Office Building, Senator George A. Smathers presiding.

Present: Senators Smathers, Long, Anderson, Douglas, Gore, Talmadge, McCarthy, Hartke, Ribicoff, Williams, Carlson, Morton, and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

Senator SMATHERS. The committee will come to order.

The purpose of this hearing is to receive testimony on House Resolution 8147 relating to the exemption from duty for returning residents.

Under present law the temporary $100 limit on the duty free privilege terminates on June 30, Wednesday of next week. After that date the limit automatically reverts to the permanent limit of $500. H.R. 8147 which carries out part of the President's program to correct our balance-of-payments difficulties repeals the $500 limit. It makes the $100 limit permanent. It changes the base from wholesale value to retail value and places new limits on the importation of duty-free liquor. This hearing will be concluded, we hope, tomorrow.

Statements submitted for the record must be received by the close of the hearings tomorrow or we will not be able to include them in the printing process.

I submit for the record the text of H.R. 8147.

[H.R. 8147, 89th Cong., 1st sess.]

AN ACT To amend the Tariff Schedules of the United States with respect to the exemption from duty for returning residents, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the article description for item 813.31 (77A Stat. 413) of title I of the Tariff Act of 1930 (Tariff Schedules of the United States; 28 Fed. Reg., part II, Aug. 17, 1963; 19 U.S.C., sec. 1202) is amended by striking out all after "Articles" and inserting in lieu thereof the following: "not over $100 (or $200 in the case of persons arriving directly or indirectly from American Samoa, Guam, or the Virgin Islands of the United States, not more than $100 of which shall have been acquired elsewhere than in such insular possessions) in aggregate fair retail value in the country of acquisition, if such person arrives from the Virgin Islands of the United States or from a contiguous country which maintains a free zone or free port, or arrives from any other country after having remained beyond the territorial limits of the United States for a period of not less than 48 hours, and in either case has not claimed an exemption under this item (813.31) or under item 915.30 within the 30 days immediately preceding his arrival".

(b) Item 813.30 (77A Stat. 413) of such title I is amended by striking out "(including not more than 1 wine gallon of alcoholic beverages and not more than 100 cigars)" and inserting in lieu thereof ", including (but only in the case of an individual who has attained the age of 21) not more than 1 quart of alcoholic beverages (or 1 wine gallon of such beverages if such individual arrives directly or indirectly from American Samoa, Guam, or the Virgin Islands of the United States, not more than 1 quart of which shall have been acquired elsewhere than in such insular possessions, if the remainder is brought or shipped from such possessions) and including not more than 100 cigars,".

(c)(1) Item 813.32 (77A Stat. 413) of such title I is repealed.

(2) Item 813.40 (77A Stat. 413) of such title I is amended by striking out "or 813.32".

(3) Headnote 1(a) (77A Stat. 411) for subpart A of part 2 of schedule 8 of such title I is amended by striking out "or any article which has been exempted from duty under item 813.32".

SEC. 2. Subdivision (2) of subsection (a) of section 321 of the Tariff Act of 1930, as amended (10 U.S.C. 1321(a)(2)), is amended by striking out "value" and inserting in lieu thereof "fair retail value in the country of shipment", and by striking out "exemption from duty or tax under paragraph 1798(b)(2) or (c)(2)" and inserting in lieu thereof "exemption from duty under item 812.25 or 813.31 of title I".

SEC. 3. The amendments made by the first section of this Act shall apply with respect to persons arriving in the United States on or after July 1, 1965. The amendments made by section 2 shall apply with respect to articles arriving in the United States on or after July 1, 1965.

Passed the House of Representatives June 7, 1965.

Attest:

RALPH R. ROBERTS,
Clerk.

Senator SMATHERS. We are very honored to have as our first witness today the Secretary of the Treasury, the Honorable Henry Fowler. Mr. Fowler.

Secretary FOWLER. Thank you, Mr. Chairman and members of the committee.

Senator SMATHERS. You may proceed.

STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; ACCOMPANIED BY FRED SMITH, ACTING GENERAL COUNSEL; AND JAMES HENDRICKS, DEPUTY ASSISTANT SECRETARY OF THE TREASURY

Secretary FOWLER. Mr. Chairman, I have with me today at my left the Acting General Counsel of the Treasury, Fred Smith, and at my right Deputy Assistant Secretary of the Treasury James Hendricks.

Senator SMATHERS. We are happy to have them and we will make a note of that for the record.

Secretary FOWLER. I welcome this opportunity to appear before your committee to comment on H.R. 8147.

On May 12 I appeared before the House Ways and Means Committee to testify in support of H.R. 7368, a bill introduced at the request of the administration. That bill provided, among other things, that from July 1, 1965, until January 1, 1968, the current exemption from duty available to residents returning from foreign travel would be reduced from $100, wholesale value, to $50, fair retail value. It also provided that the exemption would be applicable only to articles accompanying returning residents. I have attached to my statement a copy of H.R. 7368, the administration bill.

In substitution for H.R. 7368, the House passed H.R. 8147 which is before you today. Instead of the $50 recommended by the administration, the bill passed by the House provides, on a permanent basis, for a tourist-free exemption of $100 retail value. Moreover, it would not, as did the legislation proposed by the administration, limit the exemption to articles accompanying the returning residents. The Treasury Department is strongly opposed to the changes made in these provisions and hopes that your committee will reject them and, at a minimum, substitute for them the provisions in the original bill which was H.R. 7368.

H.R. 8147 also contains special exemptions for residents of the United States returning from the Virgin Islands, Guam, or American Samoa, but increases them by 100 percent over the amounts provided in the administration-supported H.R. 7368. The Treasury is also opposed to these increases.

In addition to the modifications of H.R. 7368 described above, H.R. 8147 would limit to 1 quart the present 1 gallon, duty-free liquor allowance available to returning residents, and would restrict it to individuals who have attained the age of 21. The Treasury endorses this provision of the bill.

If Congress fails to act before July 1, as the chairman has noted, the tourist exemption will automatically revert to $500, a figure utterly out of keeping with our present needs and situation.

Now, as to the impact of these exemptions on the balance-of-payments program which is the heart of the matter to be considered, passage of H.R. 8147 without substantial amendment would have some implications for our balance-of-payments position which I view as quite serious.

Apart from the reduction in the estimated savings on an arithmetical basis, I fear that the American public would regard such legislation as a sign that it is now safe to relax; and that our foreign friends would regard it as a weakening in the American Government's resolve to take a step considered politically disagreeable to carry through the balance-of-payments program announced by the President on February 10. The fact is that, from a balance-of-payments standpoint, we are far from a position where it is safe to relax and, as Secretary of the Treasury, I have no alternative but to urge this committee and the Congress to avoid any action that would indicate a lack of will and determination to bring our balance of payments into equilibrium and keep it there.

In his balance-of-payments message to the Congress on February 10, 1965, the President stated, and this is background for this particular consideration:

> Foreign travel should be encouraged when we can afford it, but not while our payments position remains urgent. Today, our encouragement must be directed to travel in the United States, both by our own citizens and by our friends from abroad.
>
> I ask the tourist industry to strengthen and broaden the appeal of American vacations to foreign and domestic travelers, and I will support its efforts through the "See the U.S.A." program.

Although we are not restricting American tourist travel abroad, we feel strongly that this is certainly no time to encourage foreign travel and spending abroad. I am concerned that Senate approval of the House-approved version of H.R. 8147 would be interpreted by some as congressional encouragement of foreign travel. Instead, it is a time for the Congress to carry out fully the President's recommendation that the Congress:

Pass legislation to reduce the duty exemption on foreign purchases by U.S. citizens returning from abroad to $50, based on the price actually paid;
Limit the exemption to goods which accompany the returning travelers.

Based on the U.S. balance-of-payments situation at the present time, it is our view that official encouragement of foreign travel is inappropriate at this time for the following reasons.

First, the overall picture: Last year the deficit on the regular international transactions of the United States was $3.1 billion. While that represented some improvement over the $3.3 billion deficit in 1963 and the $3.6 billion deficit in 1962, it does not represent enough progress, or progress that is fast enough.

Second, the effect of foreign travel: The dollar outflow on account of expenditures by Americans traveling abroad is a major item in our balance-of-payments deficit. In 1964 these expenditures totaled $2.8 billion. The inflow of dollars from foreigners traveling to the United States amounted to only $1.2 billion; thus, the deficit on account of tourism was $1.6 billion in 1964. It is expected to be larger in 1965, even with a reduced tourist exemption.

Although the estimated balance-of-payments savings from the tourist free exemption provisions recommended by the administration may seem relatively small when compared with the provisions presently in effect—they would be in the range of $75 to $125 million annually—we must realize that success in eliminating our deficit is most likely to result from a many-sided program—from the combined effect of many measures which reach a large segment of our economy.

In the interests of both effectiveness and equity, the President's program calls for restraint and cooperation from all sectors of the Nation—private and public. All segments of the economy must share part of the burden, and should feel the discipline, which are necessary to meet this problem. This is so of small as well as of large affairs.

Now, for a brief résumé of activity in some of the other areas.

Balance-of-payment economies by the Government: The Government has been making strenuous efforts which have borne fruit. In a statement issued on June 17, 1965, the President indicated that the net balance-of-payments costs of Federal programs through regular transactions abroad declined 23 percent—$625 million—from fiscal year 1963 to 1965. He went on to state that, according to present plans, these costs will decline another 13 percent—$290 million—by 1967. While this achievement results from efforts in many areas, the most substantial contribution to date has resulted from a reduction in overseas payments of $720 million from 1963 to 1965. Just as an example of what is being done, the statement points out that there were 8,614 fewer civilian Federal employees overseas in December 1964 than a year earlier. We are striving to make further savings.

Now, in the private sector: the effects of the voluntary restraint by banks and businesses. Businesses and banks with foreign operations have been asked to take steps to strengthen our balance-of-payments position and the interest equalization tax has been imposed on certain types of foreign investment.

The administration believes that it is appropriate to ask also that individual citizens make a significant, even if modest, contribution as part of this program which we are pursuing on many fronts to achieve balance-of-payments savings. The provisions of H.R. 7368, the bill introduced at the request of the administration, provide for such a contribution by individuals.

Indications thus far are that the President's effort to eliminate our balance-of-payments deficit is now having success. Following substantial deficits in January and February, our overall balance of payments was in surplus in March, and apparently also in April, on the basis of partial and prelimary data.

This improvement is no basis for relaxing our efforts or failing to follow through on all aspects of the President's program. A few favorable months, while encouraging, are far from being determinative. In past years we have had examples of favorable months, and even favorable quarters, which did not sustain themselves in subsequent periods.

Overoptimism must be avoided at all costs. The Congress can demonstrate its determination by enactment of the proposals which I described to you in my introductory statement and which are contained in H.R. 7368. We must be ever mindful that it takes more than a few quarters of equilibrium to demonstrate our ability and decisiveness in this crucial area, and, I might say, diminish the cumulative impact of deficits that have stretched over the past several years.

What is called for is firm and consistent evidence that the United States is determined to face up, on all fronts, to the need for putting its balance of payments in equilibrium and keeping it there. I am concerned that Senate approval of the House-approved version of H.R. 8147 will tend to cast doubt on this determination.

The implications of failing to reduce tourist free exemptions adequately are, in my opinion, important. The thought that I found recurring among Members of the House when the bill was being considered there was that the balance-of-payments saving was so small that the bill amounted to "nit picking" by the administration. True, the estimated balance-of-payments saving from the bill we recommended is in the range of $75 to $125 million. Many have overlooked the fact that this is an annual saving.

Secondly, saving is saving, and this is how you do it: You save a little here and you save a little there, and if you are persistent about it, it all adds up to a big amount. This is what we are trying to do on every front, with regard to large items and small items.

And, as I have already emphasized, the problem is not simply one of figures and bookkeeping. National willpower and determination necessarily become involved.

Let me cite an example of the importance of what I have in mind. One of the major features of the balance-of-payments program outlined by the President last February is the appeal for voluntary action on the part of 500 or 600 of the major American corporations which carry on extensive operations abroad. These corporations are being asked to make an important contribution to the U.S. national interest by taking into account the balance-of-payments impact on their corporate decisions and actions.

Where, for instance, they require funds to finance operations overseas, they are being asked to borrow abroad for this purpose although this may entail the payment of somewhat higher interest charges.

These corporations are also being asked to take a careful look at and, if possible, defer some of their overseas investment for a period of time. They are also reexamining whether they are doing all that they can to promote their exports.

In all of these situations an element of determination is involved, a willingness to pursue the goal in small and large affairs alike and a willingness to temper business and personal interests in favor of long-term national interests. I am glad to report that we are receiving exemplary cooperation.

I am concerned that approval of the House bill as it now stands would have the effect, however unintended, of undermining that determination which President Johnson has so successfully injected into the national position on this vital problem. If the Congress is unprepared to take the mild action the administration has recommended to reduce American tourist expenditures, why should American corporations be willing to subordinate their financial interests. Voluntary cooperation can only be asked at all if it is asked of all.

There has been a great deal of comment to the effect that enactment of the administration's tourist exemption proposal would have serious consequences for our trade and trade relations with friendly foreign countries. It is interesting in the light of this contention to examine the practices of some of these countries, particularly those not suffering from balance-of-payments problems. Just to cite a few examples:

Canada allows Canadian tourists returning from the United States to import no more than $25 of merchandise duty free.

Belgium, which is not suffering from a balance-of-payments problem, allows returning Belgian nationals to import only $12 of merchandise duty free.

France, with no balance-of-payments problem, similarly allows only $12.

And West Germany, which certainly has no balance-of-payments problems, allows only $12.50.

The United Kingdom, which for years has been suffering from balance-of-payments difficulties, allows no exemptions whatsoever.

These countries, and others which might be cited, have no legitimate complaint against the measures we propose.

When this bill was being considered, many proposals were advanced. Some felt that the tourist free exemption should be eliminated altogether, at least temporarily. Some felt it should be $10 or $25. Great emphasis was given to the desirability of enacting a provision which, while making a significant contribution to our balance-of-payments problem, would provide a minimum of inconvenience to the American traveler. It was for this reason that we finally decided upon what was considered a very liberal allowance of $50. In other words, the issue of the inconvenience to the American public was fully taken into account. Possibly we should have recommended $25. Certainly a persuasive argument can be advanced in favor of temporarily reducing the tourist free exemption to $25 and establishing an exemption of $100 on a permanent basis to take effect after an equilibrium in our balance of payments has been achieved and sustained for a sufficient period to justify a conclusion that it was not a passing phase.

Now for a few comments on the "articles to follow" provision. I also hope that the Senate will provide for a discontinuance of the so-called "articles to follow" privilege which the President recommended. This privilege has allowed the returning resident to apply any unused part of his duty exemption to articles acquired on a trip abroad but shipped to him separately and not covered in his baggage.

This is a privilege which very few other countries have ever allowed for tourist purchases of their residents. Customs estimates that last year about 1.2 million baggage declarations included "articles to follow" and that elimination of the so-called "to follow" privilege would have affected articles worth about $40 million. The elimination of purchases of goods "to follow" constitutes an essential part of our program to reduce the outflow of dollars spent abroad by American tourists.

The "to follow" privilege also has led in recent years to a mail order business of substantial proportions which has become of growing concern to us. Tourists going abroad have been increasingly solicited to place mail orders which are filled in countries which they do not even visit and which result in their obtaining goods, tax and duty free, delivered to their homes, not in connection with the visit to the particular country, but in a sense as an inducement, just to travel abroad.

Tourists and those taking short business trips have been able to avoid both domestic and foreign taxes on these purchases and thus have been able to acquire goods which they could not normally buy tax free in the countries which they do visit.

They have, for example, been able to go to Canada and, by this mail order device, arrange to have French perfume sent to their homes in the United States free and clear of all duties and taxes. What is notable is that these U.S. travelers could not have walked into a store in Canada and bought the same perfume free of Canadian taxes and duties. In other words, the "to follow" privilege has been taken advantage of in a way that was never intended.

Elimination of the "articles to follow" privilege will result in a significant economy in the administration of the Customs Bureau. Complex and costly administrative procedures are now required to identify "articles to follow" and to verify exemption claims with baggage declarations in connection with the use of this privilege by an increasing number of returning tourists, even though these procedures are by no means employed on a 100-percent basis.

One important effect of eliminating this privilege would also be to accelerate the clearance of travelers by customs, primarily through extended use of the oral declaration. The advantages of the oral declaration procedure cannot be fully achieved at present because it is necessary to obtain a written listing of articles from each of the approximately 1.2 million residents who annually claim exemptions for "articles to follow."

I should also call to your attention the fact that a study by customs officials has shown widespread abuse of the "to follow" privilege. During a 2-month period in 1963, the Bureau of Customs ran a careful check on importations for which returning residents utilized the "to follow" privilege. The test disclosed that in approximately 22 percent of the cases such claims by returning residents were not valid. Unfortunately, to expose and control all false claims relating to the applicability of the "to follow" privilege on a continuing basis would require elaborate and time-consuming administrative procedures involving a considerable additional cost to the taxpayer. Moreover, the institution of such procedures could be expected to cause serious public objection since the additional documentation and inspection required would necessarily slow down the clearance of articles through customs.

There is need for urgent congressional action on these matters.

If Congress fails to enact legislation in time to become effective by July 1, the baggage exemption will automatically jump to $500 for those returning residents who have been out of the country for more than 12 days. Thus, even a very short lapse of time between the expiration of the present temporary legislation and the coming into effect of the bill now before you would have a most serious effect.

The exemption would go from $100, as at present, to $500 (or $200 in certain cases) and then down to whatever figure may be established by the Congress.

An interlude at the $500 level would not only be very bad because of its impact on the President's balance-of-payments program, but it obviously would have a very adverse public relations effect even among those not directly affected. Additionally, it would create serious administrative difficulties for customs to have to make a double change in its administrative practices, with the multiplicity of instructions, forms, and so forth, which would be required.

Further, we could anticipate serious discontent from those travelers caught at the $50, or whatever other level Congress may legislate, when just a few days earlier a rise from $100 to $500 had been allowed.

In conclusion, the legislation that will be enacted by the Congress may legislate, when just a few days earlier a rise from $100 to $500 had been allowed.

In conclusion, the legislation that will be enacted by the Congress in this regard is one of the few things that we can practically do to bring home to the public at large the effect of foreign travel on our balance of payments.

Moreover, officials of foreign governments observe our actions closely to detect any slight weakening in the American resolve to take the necessary corrective measures for redressing our foreign payments imbalance.

I earnestly request that this committee recommend a bill substantially along the lines of H.R. 7368, notably including:

(1) Elimination of the "articles to follow" privilege; and

(2) Temporary reduction of the tourist exemption to not more than the $50 retail value figure requested.

In addition I would urge:

(3) Retention of the liquor provision added by the House; and

(4) Establishment of a permanent tourist exemption at the $100 fair retail level, to become effective when our balance-of-payments difficulties have passed.

Senator SMATHERS. All right.

Senator Long?

Senator LONG. Will you tell me, Mr. Secretary—I am interested in your statement—how much you expect to improve your balance of payments with the introduction of this bill?

Secretary FOWLER. The estimate has ranged, Senator Long, from $75 to $125 million, if the administration proposals were adopted.

If you come down to a hard single figure it is the median of those, a hundred million dollars, but it can better be expressed in terms of a range rather than a strict estimate.

Senator LONG. Now, to help in our efforts with respect to balance of payments, we have told the military overseas that insofar as it is absolutely possible they will procure from U.S. sources, is that not correct?

Secretary FOWLER. That is right.

A general policy is being followed by Secretary McNamara to procure from U.S. sources, where the sources exist, even where it increases budgetary costs, because of the balance-of-payments problem.

Senator LONG. That is right.

Why then don't we stop buying foreign oil for the military and bringing it back into this country? As I understand it, that alone, the military purchase of foreign oil actually being brought back into the United States—jet fuel and things of that sort which we manufacture and produce here amounts to a rather large sum of money, somewhere between $25 and $50 million a year.

I wonder if you have considered at the executive level cutting down on those purchases that are brought into the United States.

Secretary FOWLER. I am sure they have been considered and I am sure if you ask Secretary McNamara, Secretary Hitch, the Comptroller in the Department of Defense, that you could get fairly definitive answers.

I know something is happening in this area, because I have had complaints from representatives of other governments, that the military have stopped buying their petroleum overseas and have started buying from U.S. sources. Something is going on.

How much is going on, I just don't know. But I know Secretary McNamara has been producing results in this area or we could not make the report and statement that I just made, namely, that from fiscal year 1963 to 1965 the net outflow of funds for Government expenditures abroad has declined $635 million, or 23 percent.

Senator LONG. My recollection is that we have had a constant increase in oil imports into this country. However, a reduction of about 10 percent in oil imports would save us about $250 million a year which apparently is what we save under the maximum figure used in connection with this bill.

If we want to indicate our seriousness in achieving a balance of payments——

Secretary FOWLER. Senator Long, are those imports for private consumption or for Federal use?

Senator LONG. Now, I am speaking about oil imports which come in under present quotas.

Secretary FOWLER. For private consumption?

Senator LONG. Yes.

Secretary FOWLER. Well, I think that is an entirely different matter, and raises entirely different considerations because the question of where the Government spends its money in connection with its own activities abroad is a separate question from the imposition of restrictions on trade generally in order to meet a balance-of-payments problem. It has been the clear policy of this administration to try to meet this balance-of-payments problem without curtailing or backtracking on trade policies and this policy has been consistently following over a long period of time.

Senator LONG. You know, Mr. Secretary, that the President has the power under the defense amendment to cut back on oil imports to almost any degree, which has been recommended to him by his subordinates. The power does exist.

Secretary FOWLER. I think the power is there if he thinks it threatens national security.

Senator LONG. If it threatens to undermine the financial structure of this country don't you think it impairs the national security?

Secretary FOWLER. I think you had better have Secretary Udall down here because he is the student and authority in this field. All I can tell you——

Senator LONG. Are you familiar with the fact that that defense amendment goes so far as to talk about certain economic situations such as employment conditions in particular industries?

Secretary FOWLER. Yes, Senator Long, I am quite familiar with that amendment, I made some speeches years ago advocating such an amendment.

Senator LONG. I am happy to hear that.

All I am saying, Mr. Secretary, is that I would hope that those of us who see this increase in oil imports as a real problem to the industries of our State, and also as an item detrimental to our balance of payments, might have some success in limiting the constant increase in these oil imports.

My impression is that oil is the largest single dollar import of any item and different from most of the other items that are major imports, in that oil is one where we can produce and historically have produced our requirements.

Secretary FOWLER. Senator Long, I would just like to make this general observation apart from the oil import problem, which is a very specific problem, and involves, as you indicated, very specific legislative policy and consideration.

Take the problem of trade generally. There is good reason in terms of policy, and in terms of the consistency of our policy of encouraging trade, to refrain from imposing import restrictions, as such, in connection with our balance-of-payments problem. We enjoy a very substantial trade surplus, and this trade surplus provides the sinews with which we are able to carry on in our military, political, and diplomatic activities throughout the world. If we start the practice of cutting down on imports, there will be reciprocal action. If we go down that particular road, all that is involved over the long pull is a disappearance of the present trade surplus of roughly $6 to $7 billion which really gives us the sinews to carry on the programs that we are carrying on.

Senator LONG. Isn't that just exactly what we are doing with this bill, cutting down on imports by saying that you can't bring back purchases over a certain amount duty free?

Secretary FOWLER. No; we are not.

You are following a practice here which has generally been excluded from the so-called trade area by all of the countries concerned. As I indicated earlier, in most cases even countries that don't have a balance-of-payments problem limit imports much more than we do.

Senator LONG. Thank you.

Senator SMATHERS. All right.

Senator Williams?

Senator WILLIAMS. Mr. Secretary, in answer to the Senator from Louisiana, you said that the Defense Department is doing everything possible to buy in this country even at the expense of paying more.

Secretary FOWLER. I said, Senator Williams, that they were carrying on activities which were resulting in substantial balance-of-payments savings, and that those savings sometimes resulted in paying more for U.S. source materials than they would have been required to pay if they had been purchased abroad. So there was an additional budgetary cost.

As to the extent and character of the Defense Department program in this area, I am not competent to give you a detailed report. I think you could only get that from the Defense Department. It is my impression, however, that they are pursuing a very rigorous policy in this regard.

Senator WILLIAMS. I am aware of the policy and agree with it, but I noticed in the press just a few days ago a suggestion that the Defense Department was considering placing a sizable order for some ships in the British shipyards in order to help their balance of payments.

Are you familiar with that proposal and would you care to comment on it?

Secretary FOWLER. No. I am not familiar with the proposal. The only thing I would say is I think the British are considering the purchase of planes, military planes, in this country. It is quite conceivable that this is something of a two-way street, but I am not familiar with the ship deal.

Senator WILLIAMS. Well, the ship deal is all it referred to and it was referred to as a deal being worked out to help them, and I am sure they need some help, but I just wondered if it was a two-way street or just how it could be reconciled.

Secretary FOWLER. I feel sure it must be a two-way street. There are, and have been reported in the press, and I am generally familiar wtih them, very substantial negotiations looking to procurement by the British military establishment of some very substantial plane requirements in the United States.

Senator WILLIAMS. There is just one other point here that disturbs me in this bill and that is on page 3.

You change the definition of this $100 purchase by reading, "The fair retail value in the country of shipment."

Now, wouldn't it be better to make it the actual cost? You are familiar with the fact that when you and I are abroad, we think we are buying bargains but we don't know whether we pay "fair retail value."

Most of the time you probably overpay but you like to convince yourself you bought a bargain. Why don't you have the limit on actual cost so the tourist can just show his receipt for what he has purchased?

Secretary FOWLER. I think this is because the customs people have fairly reliable information about what is fair retail value of the customary items that come in. We are all familiar, I think, with the practice of going into a shop in a given country to get a receipt for a purchase. The shopkeeper will say, "Well, now, in view of the customs problem, although it costs $50 I am going to write this up for $25."

We don't want to be compelled to accept whatever is presented to us in the way of a receipt.

Senator WILLIAMS. I am not suggesting that, but that there be some kind of certification.

Secretary FOWLER. I think there would be if we made the change you suggested. I think you have to leave some area of judgment for the customs officials to determine whether or not when a given piece of merchandise comes through, and it is said that it cost $25, whether that does, in fact, reflect what the customary charge would be for that item.

Senator WILLIAMS. I have respect for the ability of the customs officials, but I know that you have a job determining the fair retail value of all the products in this country, and I am wondering if custom officials really know the fair retail value of all the products brought back from all of the foreign countries involved.

Secretary FOWLER. Well, I think they have general measures of it. I don't think this is going to be a very major problem, Senator Williams, because most of the time they simply accept the price that the returning traveler indicates.

It is only when they see it is significantly out of line with what they know is the general pricing practice in the area that they would fail to accept the value.

Senator WILLIAMS. Do we understand it is your intention to accept in general what is actually paid?

Secretary FOWLER. That is right.

Unless it should be substantially different from what we know the facts generally to be.

Senator WILLIAMS. Well, no, but I am speaking of what is actually paid, I am not speaking of any fake receipt—I am speaking of the actual payments. It would be your understanding that would be the determining factor primarily?

Secretary FOWLER. Yes, that is correct.

Senator WILLIAMS. No further questions.

Senator SMATHERS. Mr. Secretary, I think I will ask a question or two at this point.

Do you consider this deficit in our balance of payments one of the principal problems which you as the Secretary of the Treasury are confronted with insofar as the economic stability of this Nation is concerned?

Secretary FOWLER. I have said, Senator Smathers, quite recently, and certainly I have no hesitancy in saying again, I say as of this time, it is the most important economic problem we have in the country today.

Senator SMATHERS. It is the most important?

Secretary FOWLER. Yes.

There will be differences in judgment about that, and my judgment might not be the same 6 months or a year or 2 years from now, because we do have a lot of very important economic problems. But as of this particular time, it seems to me it is the most important.

Senator SMATHERS. Are you of the very firm feeling that something serious has to be done about it quickly?

Secretary FOWLER. Well, I think we have to, this is in a sense the third set of frames we put up to try to meet the problem.

The first one was a result of the message in February 1961 which provided for a long-range program and I think a very worthwhile program. A great deal of progress was made pursuant to that program. However, while we were making a great deal of progress on certain fronts in the path of that program, certain other developments tended to cancel these out, so we had a pass at some of these other problems in 1963, which the committee may remember. Then that did not contain the situation. There were again certain other areas.

The February 10 program is, I think, the first time something really goes across the board and encompasses all of the areas concerned. Although it does not cover the travel deficit completely, the measure in front of you, and the so-called see the U.S.A. program are two efforts that are directed to holding down, or diminishing, the so-called travel deficit.

Senator SMATHERS. As I understand it, one of the principal ways of meeting the balance-of-payments deficit is by urging tourists not to travel abroad this year. The President made such a statement, did he not, in February of this year?

Secretary FOWLER. Well, the statement that he made in February is the one that is quoted in my opening statement. I am not going to try to attempt to paraphrase it. I think it speaks for itself.

Senator SMATHERS. What sort of response have you had to that statement of the President?

Secretary FOWLER. Well, I think——

Senator SMATHERS. With respect to the plans for people to travel this year?

Secretary FOWLER. First, let me say, the travel agencies, the tourist agencies, the American hotelkeepers, the people who manage resorts, under the leadership of the Vice President and with the aid of the Department of Commerce—and, indeed, many of the other departments of Government such as Interior and others—have mounted for the first time a very substantial "See the U.S.A." program. I think we are going to see some results from it both in terms of our own people and foreigners coming from abroad.

But there is no question in my mind, Senator Smathers, that there are going to be more people traveling abroad this year than last year.

Senator SMATHERS. Mr. Secretary, is it not a fact that according to the Department of Commerce figures there are more people planning to travel abroad this year than have ever traveled before?

Secretary FOWLER. Just what I said, Senator, while you were engaged——

Senator SMATHERS. So the response to the appeal that you people had made and that you have made, it looks like the American citizens' desire to see the world is overwhelming.

Secretary FOWLER. Well, the plea I have made particularly, Senator Smathers, is when they travel, and I haven't asked anybody not to travel, but when they travel, to remember that what they spend, including amounts spent for their own subsistence, has an impact on the balance of payments.

Senator SMATHERS. Do you have any information as to how much a tourist spends who travels to Europe as distinguished from how much the tourist spends who travels, let's say, to Panama or the Bahama Islands?

Secretary FOWLER. I don't know whether we can give you that precise information or not, just one second.

Senator SMATHERS. If you haven't got it, I can suggest——

Secretary FOWLER. Per capita, you mean.

Senator SMATHERS. For each individual.

Secretary FOWLER. For each individual.

Senator SMATHERS. Just the average, what do they spend when they go to Europe as compared to what they spend when they travel in this hemisphere?

Secretary FOWLER. I don't have at hand any figure.

Senator SMATHERS. Would you like for me to read what has been supplied to me by the Department of Commerce?

Secretary FOWLER. I would be delighted to have those.

Let me make just a general observation, from just general knowledge, that the per capita expenditure of those who travel to Western Europe will very substantially exceed the per capita expenditure of the person traveling in the Caribbean, the person traveling in Mexico, or the person traveling in Canada.

However, let me add that the volume, the number of people passing over the borders of the United States to visit those areas substantially exceeds the number traveling to Western Europe. Moreover, I don't think you can divide this problem and pin it all on one particular area, although there is no doubt in my mind that the proposal before this committee will have its principal impact on those who travel to Western Europe rather than those who travel to the Bahamas or the Caribbean.

Senator SMATHERS. That is right.

If there is a major leakage here of our loss of dollars and subsequently a loss of gold, the major part of it results from people who travel in Europe, is that not correct?

Secretary FOWLER. Well, I don't deal in major leakages and minor leakages, Senator Smathers. I think leakages are leakages.

Senator SMATHERS. All right.

There were $2,216 million spent abroad by tourists; $257 million was spent in South America by 107,000 people last year as best we can get from the Department of Commerce; $190 million was spent in West Indies and Central America by some 701,000 people; $815 million total was spent in Europe and Mediterranean by 1,250,000 people; $1,186 million was spent abroad exclusive of Mexico and Canada by 2,220,000 tourists.

Do you think there is any difference, for example, between the $257 million which was spent in South America by 107,000 people, and the roughly $815 million spent in Europe by 1,250,000?

Secretary FOWLER. There is a very substantial difference.

Senator SMATHERS. That is all I wanted you to say. We have to admit the substantial leakage with respect to tourists occurs in Europe.

The next question I wanted to ask you is, Are you aware of the fact that what we are also concerned about in this balance-of-payments situation is the fact we lost some gold from time to time by the demands of these countries that we exchange the dollars which they have accumulated for our gold?

That is correct, is it not?

Secretary FOWLER. That is a result. It is a related side effect from the balance-of-payments deficit.

Senator SMATHERS. Right.

Do you happen to know of any of the Bahama Islands or Bermuda or any of the countries here in the Western Hemisphere who have demanded that we exchange dollars for gold?

Secretary FOWLER. No, but I can very readily see that the proceeds from a lot of articles purchased and procured from some of the Western European countries and brought to the Bahamas to be sold to American tourists there indirectly go back to Western Europe and in that way eventually get into the same stream we are talking about.

Senator SMATHERS. It is true.

If tourists purchased Frence perfume in one of these countries, it is also true they can buy it from Garfinckels, is it not, Mr. Secretary?

Secretary FOWLER. That is correct.

Senator SMATHERS. So if they buy French perfume anywhere, whether it be this area or Caribbean area or in New York City——

Secretary FOWLER. But duty has been paid, and taxes will be paid, on the article.

Senator SMATHERS. I am just responding to your answer that the money finally gets back to the French manufacturer, does it not?

Secretary FOWLER. That is right.

Senator SMATHERS. Although not at the same price. You don't know whether they allow Garfinckels a better price on French perfume than they do some place in the Caribbean, do you?

Secretary FOWLER. I don't know about the pricing practices.

Senator SMATHERS. I would assume that it is about the same so I assume the same amount of money finally gets back to France.

Secretary FOWLER. I think if you examined this question with those who in this country handle the department store business, you would find that they don't think they play a very major role in the marketing of French perfume, or put it the other way, they think a good deal of this particular market for that particular product doesn't come to them by reason of the travel problems that we are talking about.

Senator SMATHERS. If, Mr. Secretary, the travel problem constitutes a component part in our balance-of-payments deficit and I would agree with you that it does, and if tourists spent some $2,216 million abroad last year, there is every indication they are going to spend more dollars abroad this year. Why don't we face up to the problem realistically if we want them to see America first by imposing a head tax on the people for just 1 year and solve this balance-of-payments problem?

Secretary FOWLER. Senator Smathers, I will make two comments on that: One, I was not around when the February 10 program was developed and I am not familiar in detail with the deliberations that preceded the formation of the particular proposals. Therefore, I do not know what the pros and cons exactly were or why they came in with this particular proposal rather than your head tax proposal.

All I know is that this is the proposal that is in the President's program. I feel that I have a mandate to try to get it placed on the books.

Senator SMATHERS. In other words, this is your child by adoption?

Secretary FOWLER. It is the charge that was handed to me. Whether I would come out exactly in the same position or not, I don't know. I will say this. I think that a flat head tax would certainly have a significant effect, but I think it would be quite inequitable. I think it would obviously bear very heavily on the people who have the least, the schoolteacher, the person of moderate means who has been saving up for a trip abroad. I don't think it would inhibit 1 minute the fellow who is going over and spends $4,000 or $5,000 to buy a lot of things in Western Europe.

Senator WILLIAMS. Would the Senator yield?

The head tax would be rather rough on a large number of public officials traveling back and forth.

Secretary FOWLER. I think the public would pick up that tax.

Senator WILLIAMS. That is what I say, the Government would be the loser and this puts the tax on the tourist rather than the Government.

Secretary FOWLER. That is right.

Senator SMATHERS. If the problem is as serious as every economist I talked to and you indicate it is, I don't understand why we really don't do something about it rather than taking a nitpicking approach.

Why don't we put on a meaningful head tax and stop the outflow of dollars and in turn the outflow of some gold?

Secretary FOWLER. Well, Senator Smathers, I think I should add, in addition to the inequity of the head tax approach, the denial of a citizen's right to travel is a very, very serious and drastic step to take, and——

Senator SMATHERS. We are not actually denying them that right.

Secretary FOWLER. It is a constructive denial to a lot of people, particularly the median income group to whom this tax would make a great deal of difference.

Senator SMATHERS. Can I ask you as a top quality lawyer whether you see any legal difference in denying one the right to go except that he pay certain amounts of money as a head tax or denying one the right as to how much he can spend if he goes?

Is there any constitutional difference?

Secretary FOWLER. I wouldn't see any constitutional problem with the head tax approach.

Senator SMATHERS. So there is no constitutional problem in either event.

Secretary FOWLER. I would not think so.

Senator SMATHERS. All right.

Now, Mr. Secretary, if we had country X with whom we are doing business, and our tourists are going over there and leaving a little money, and that country happens to buy from us considerably more than our tourists spend over there, does that help our balance-of-payments situation to stop our tourists from going there and leaving those dollars which are spent back here plus additional sums of money.

Does that make sense?

Secretary FOWLER. Well, Senator Smathers, it almost must be because with almost all of the countries with which we are concerned in a major way in terms of the trade balance, they buy more from us in goods and services than we buy from them. If you take this particular track and begin to treat differently those countries with which we have a favorable trade balance, you begin to include a large number of very significant countries in Western Europe, and Japan.

Senator SMATHERS. Let's take the Bahama Islands, for example, I think they state that for every dollar that is spent in the Bahama Islands $1.62 is spent back in the United States.

Secretary FOWLER. I am confronted by these kinds of figures, Senator Smathers, when I sit down with an Australian, with a Japanese, with a person from Great Britain, with a Frenchman, with a German, a Dutchman, with a Belgian, with an Italian, with so many people, they can all bring you these kinds of figures.

Senator SMATHERS. I am seeking a lesson in just simple plain ordinary economics.

How does it benefit our balance-of-payments deficit if we are making money in dealing with a country and that country doesn't take those dollars and ask for gold in return? How in the name of commonsense does it improve our balance-of-payments deficit to say to people, "You can't go over and leave dollars in that country out of which we are making 62 cents on each dollar"?

Secretary FOWLER. We are not saying to people you can't go over and leave dollars.

One of the very arguments that is always made as one of the principal reasons for opposition to this bill is the argument that our estimates of savings won't hold up, because instead of buying cameras, perfume, or some other device, tourists will spend an extra day, or have a special dinner, or in some other way spend the money for services that are supplied at the particular point in question.

We believe that to some extent that is true, and we have discounted it in our estimates of savings. In fact, we estimate that there will be a reduction of $145 million worth of dutiable goods if the Congress enacted our proposals. However, we feel that probably $45 million of that will be spent for other things, so that the net saving would only be in the neighborhood of $100 million.

Senator SMATHERS. If a foreign country needs dollars, and we would agree with you on this basic concept, countries in the Western Hemisphere, they need to get dollars in order to spend those dollars here, do they not?

Secretary FOWLER. Yes.

Senator SMATHERS. When we, in effect, limit or discourage the amount of dollars which are being spent in those countries in this hemisphere with which we have a very favorable balance of trade, then do we not in the long run actually hurt ourselves?

Secretary FOWLER. I don't think we are talking now about the short-run problem of meeting the balance of payments. What is before this committee is the proposal to bring this tourist exemption down to $50 fair retail value for the next 2 years.

Senator SMATHERS. I understand what we are trying to do, but I don't understand how it helps us.

Secretary FOWLER. Well, it helps us just in the way in which I have indicated. Let me say while we are worrying about these other countries, there are a lot more tourists going to the Caribbean and their income from tourism is rising by leaps and bounds each year. Any severe impact on their economy is just not in the picture. It is a question about how fast the rate of their tourist income increases.

Senator SMATHERS. Do you want me to tell you why that is wrong, Mr. Secretary?

Secretary FOWLER. I would like to have you do that.

Senator SMATHERS. The reason it is wrong is that you have reference to the increase of the tourist traveling in the Bahama Islands. It is rather obvious that the reason the tourists are going in greater and greater number to the Bahama Islands is because they no longer can go to Cuba.

The greatest number of tourists used to go to Cuba. When we lost Cuba to the free world, why they wanted to go somewhere else.

Now, they don't go to Santo Domingo any more, regretfully. It looks like it will be some time before they will be able to go there. They don't go to Haiti any more. We are rapidly unfortunately losing this whole area, not only to the free world, but also as a vacation spot and a tourist mecca.

If they want to have the sunshine and beach in the middle of the winter, they are going to the Bahama Islands, Mexico, and other places in the free world.

So, I don't think you can say logically and fairly that even with a restricted amount of money which they can spend for articles duty free, they are still improving their economic situation.

Secretary FOWLER. Senator Smathers, what I am saying is that any slight diminution of expenditures in the islands over the next 2 years because of the passage of an act along the lines recommended here is not going to result in a damaging blow to the economies of these areas. Over the next 2 years there is no likelihood that the past pattern of greatly increased travel from the United States to those areas is likely to change. It looks as though there is a very good prospect that that will continue.

Senator SMATHERS. So you are saying that the President's appeal for people not to travel abroad, in your judgment, is not going to be effective?

Secretary FOWLER. I see no current signs to take any great hope from that. As I read the President's statement, and it speaks for itself, and he can speak for himself, what he is saying is that foreign travel should be encouraged when we can afford it.

He is not saying, "Don't travel."

He is saying, "Let's not encourage foreign travel," and in the spirit of "let's not encourage foreign travel" we are asking that this particular legislation be enacted because it is just a slight encouragement for people to travel abroad if they can bring back $100 worth of merchandise duty free.

Senator SMATHERS. All right.

Can we not afford to travel abroad when every dollar which is left in a certain country brings back $1.50 or $2?

Secretary FOWLER. Yes; but the dollars we are talking about, a goodly portion of them are not going to come back to this country for this particular product and that country for that particular product. It won't be straw hat income.

Senator SMATHERS. That is true, that some of those dollars will go there.

Secretary FOWLER. Those are the dollars we are trying to get at.

Senator SMATHERS. When each dollar spent brings back something above that dollar in purchases made in the United States, how is it possible that that is damaging to us?

Secretary FOWLER. Well, it depends—there is a great deal more involved than economics. What you are hinting at, if more people go there and spend money for the services provided by the island in question, surely we are going to get greater income coming to the United States in the form of increased purchases of food, cement, and all that might be involved.

But what we are getting at in this legislation is the question of these articles that would be purchased in the islands and brought back, and I don't——

Senator SMATHERS. Let's look at the articles we are talking about. We are talking about perfume made in France.

Secretary FOWLER. I am not familiar with that industry.

Senator SMATHERS. If they buy French perfume at Garfinckel's, dollars go back to France, do they not?

Secretary FOWLER. Yes, Senator Smathers.

Senator SMATHERS. If you buy scotch whisky, that is made in Great Britain.

Secretary FOWLER. It goes back to Great Britain.

Senator SMATHERS. In any event?

Secretary FOWLER. Yes. But we are talking about a dutiable product. If it is bought in the United States, duty has been paid on it. If it is bought abroad we are talking about a product that is exempt from duty. That is what the whole issue is about here.

Senator SMATHERS. I agree that is a factor. I think that is a minimum factor when we look at our overall——

Secretary FOWLER. That is all that is involved. The administration isn't here asking that you put import restrictions on the purchase of goods from various countries for the very reasons that I went over with Senator Long.

We are asking here that you limit the customs-free exemption to an order of magnitude which is roughly four times as much as is being followed by most similarly situated countries in the world.

Twice as much as the Canadians will allow their tourists returning from the United States. Four times as much as the French Government will allow. Four times as much as the German Government will allow.

Senator SMATHERS. Do you think that we would be better advised to really meet this problem by imposing a head tax of $100? We could make ourselves $2 billion in 1 year.

Secretary FOWLER. I am not—as I told you before, I did not participate in the deliberations that led to this conclusion. As of now, I am not prepared to recommend to the committee that it consider such a program.

Senator SMATHERS. Senator Anderson?

Senator ANDERSON. Well, first of all, you do recognize that to follow that practice is a dangerous one?

Secretary FOWLER. Yes, sir.

Senator ANDERSON. That is one very high on your list.

Many go in a cruise ship and go into a harbor and have goods follow them and shouldn't have it at all.

Secretary FOWLER. Yes, sir.

Senator ANDERSON. You think that is a very dangerous practice.

Secretary FOWLER. Yes.

Senator ANDERSON. Secondly, you have this $50 figure; you say it is satisfactory to you. In the bill there is provision for twice that much for the Virgin Islands. Did you recommend any additional amount for the Virgin Islands?

Secretary FOWLER. No, sir. As my statement indicates, we take the position that we are against an increase to $200 in the case of the Virgin Islands and American Samoa. However, we do not oppose an increase to $100 as proposed in the administration bill.

Senator ANDERSON. When we had this up once before the people from the Virgin Islands came in and cried bitter tears and said their whole economy was going to pieces because we stopped it.

Have you had occasion to see if the economy has gone to pieces down there?

Secretary FOWLER. I have seen no indications to that effect. Most of the conversations I have had among my friends indicate that there is a very large increase.

Senator ANDERSON. So if somebody testified from the Virgin Islands that they needed to have this exemption for sustaining their economy, you might favor a hearing to find out if it was true or false?

Secretary FOWLER. I would.

Senator ANDERSON. You wouldn't delay the bill in order to find that out? You would take the things we know what we can do and should do?

Secretary FOWLER. I certainly would. I think it would be a great mistake to defer action on this until July. I would hope the committee would act promptly and I would feel, reasonably justified in saying that if we felt that the economies of these areas, for which we have some major responsibility, were going to deteriorate as a result of this particular provision, we would have recommended otherwise.

Senator ANDERSON. Your third item was retention of the liquor provision added by the House.

Does that provide for limiting it to what, 1 quart.

Secretary FOWLER. One quart, except for residents returning from the Virgin Islands. American Samoa, and Guam who would be allowed to bring back 1 gallon.

Senator ANDERSON. At one time there was a distillery across the line in Mexico from the city of El Paso that was a very substantial source of whisky at the time when there was a legal prohibition against it in our country and I imagine that distillery is still going pretty good.

That liquor which was brought in in quantities of a gallon, is that, in your opinion, fair competition to the American distiller who has to pay, I guess, the highest tax of all.

Secretary FOWLER. I am not a very good judge of fair competition in this area. But I am very thankful for the addition of the amendment in the House because I think it is going to save us some $15 to $20 million in terms of our balance of payments. Morover, I think it is quite in line with practices followed in other countries.

Senator ANDERSON. The American whisky manufacturer faces a fairly large tax, does he not, on his product in terms of his cost?

Secretary FOWLER. He certainly does.

Senator ANDERSON. The last, you want this to become effective when our balance-of-payments difficulties have passed.

Have you put language up that will indicate when that will be?

Secretary FOWLER. No, Senator Anderson——

Senator ANDERSON. Would you wait 2 or 3 years?

Secretary FOWLER. We have not. But we have some suggestions on that if the committee should be interested in it.

Senator ANDERSON. I would hope you might submit that because this language here is——

Secretary FOWLER. Too general and obviously I was hoping that someone would inquire. I think there are two approaches to it that we would suggest, that the exemption should revert to $100 fair retail value on or after a given date such as January 1, 1968, or whatever dates ties in with the interest equalization tax. We have asked that that be January 1, 1968.

Senator ANDERSON. You don't know the balance of payments are going to be in balance by 1968?

Secretary FOWLER. No, but we are perfectly prepared to take another look at that time. I hope the balance of payments would be in equilibrium long before that particular time.

Senator ANDERSON. I see.

Secretary FOWLER. But it is a question, Senator Anderson, not only of getting it into equilibrium but keeping it there for a substantial period of time so that the longer term measures of increased competitiveness, increasing our trade balance, encouraging investments in the United States and so forth can take effect. Only then can we, either selectively or altogether, remove some of these special measures without inviting another disequilibrium in the situation.

Could I just give you one other alternative, sir, on your question about some standard for the permanent exemption. One approach could be that it should revert to a $100 fair retail value on or after January 1, 1968, unless the President determines that in the national interest such exemption should be continued at the $50 amount for a specified period of time.

Senator ANDERSON. That is the testimony I wanted. You do recognize that we may not have a balance of payments equilibrium by 1968, 1966 or 1967 and you want to leave it on for a long enough time so we know it is a permanent solution which has been reached somewhere.

Secretary FOWLER. Yes. We want to achieve a balance and we want to maintain it for as far as I can see, Senator Anderson, in the long-term future. I think since the dollar is a key currency, our primary responsibility in the international monetary area today is to get into equilibrium and keep there. There may come a time 2 or 3 years later when the Congress would want to have a look at these special measures such as the interest equalization tax to determine whether or not there was a necessity that they be continued, and it was in that context that we were treating his $50 fair retail rate as a temporary measure.

Senator ANDERSON. I have no other question.

Senator SMATHERS. Senator Morton?

Senator MORTON. Mr. Secretary, there is some confusion, I think, between balance of payments and balance of trade.

Secretary FOWLER. There is.

Senator MORTON. We do have a favorable balance of trade.

Secretary FOWLER. Very favorable.

Senator MORTON. With almost all countries to which we extensively travel.

Secretary FOWLER. Precisely.

Senator MORTON. But the items that go into our favorable balance of trade and make it a negative balance of payments would include foreign economic aid, foreign military support, our Public Law 480 program, the maintenance of our own foreign military bases.

Secretary FOWLER. And primarily private capital flow.

Senator MORTON. And the outflow of private capital and, of course, tourism.

Secretary FOWLER. That is right, sir.

Senator MORTON. So it is one of many factors.

Senator FOWLER. Precisely.

Senator MORTON. That cause a favorable balance of trade to become an unfavorable——

Secretary FOWLER. Balance of payments.

Senator MORTON. Balance of payments.

Now, I am very much interested in the fact that you are supporting the so-called Watts amendment.

Secretary FOWLER. Yes, sir.

Senator MORTON. Which deals with the amount of duty-free liquor that one can bring back. The present law allows 1 gallon per person, and that can be a man and his wife and three children.

Secretary FOWLER. Yes, sir.

Senator MORTON. Can go to Europe, or Nassau, Bermuda, or Canada, Mexico, and bring back 5 gallons of liquor today.

Secretary FOWLER. That is correct, sir.

Senator MORTON. And he doesn't have to bring it with him. It can be delivered to his house.

Secretary FOWLER. Correct.

Senator MORTON. The House language permits only 1 quart and it must be a person 21 years of age.

Secretary FOWLER. Yes, sir.

Senator MORTON. Under the present law is the value of that gallon included in the $100?

Secretary FOWLER. It is.

Senator MORTON. It is.

So, this 1 quart would still be included.

Secretary FOWLER. In whatever figure the Congress arrives at.

Senator MORTON. You have furnished us a very interesting table here, to which you referred in your statement, as to what other countries permit their citizens to bring in duty free. And it is interesting to note that in many of these, alcohol is completely disallowed, and in many cases, also, tobacco products.

Secretary FOWLER. Yes, sir.

Senator MORTON. For instance, in Belgium there is no duty exemption allowed for spirits. In Bolivia it is one bottle of wine or liquor only if open. If you are sucking on the bottle when the plane lands you can bring it in, but that is all.

Alcoholic beverages in Canada prohibited, alcoholic beverages in Chile prohibited. Liquor, wine excluded from free entry privileges in Italy—and so on down the line. So I am, for one, very happy that you have supported this amendment, and I trust that in this matter, at least, the Senate will go along with the House.

That is all.

Senator SMATHERS. Senator Talmadge?

Senator TALMADGE. Mr. Secretary, you testified in your statement, I believe, that our dollar deficit last year was $3,100 million.

Secretary FOWLER. Yes, sir.

Senator TALMADGE. Do you have any estimate as to what it might be this year?

Secretary FOWLER. No, Senator Talmadge; I do not. I think it would be unwise and any estimates that I might make would be based on such fragmentary and insubstantial information that it would tend to be misleading. I believe we will have a much better picture of what this year is likely to add up to when the definitive figures on the second quarter become available about the middle of August. I have here the regular Department of Commerce release for the first quarter which indicates the detail in which this information becomes available. We see the very hard figures covering each of the areas Senator Morton referred to in considerable detail.

Senator TALMADGE. That is what I wanted to discuss for a moment.

Secretary FOWLER. Yes.

Senator TALMADGE. You do anticipate some improvement this year even though it might be relatively marginal?

Secretary FOWLER. Yes; I think we can say that the figures for March, April, and May, the preliminary of flash figures which we largely derive through advance information from the primary banking houses in the country—although there may be some variance between these figures and those finally emerging from the official Department of Commerce reports—indicate there will be a surplus, a meaningful surplus.

Senator TALMADGE. How much was our trade surplus last year?

Secretary FOWLER. I think the total was almost $7 billion or greater.

Senator TALMADGE. $7 billion. Does that include the subsidized commodities?

Secretary FOWLER. $6,669 million. Yes, sir; that includes all the elements.

Senator TALMADGE. Public Law 480 and things of that nature?

Secretary FOWLER. Yes.

Senator TALMADGE. If you excluded those on pure dollar sales, what would be our figure?

Secretary FOWLER. 3.9 billion.

Senator TALMADGE. I thought it was in the neighborhood of $4 billion.

Let us further examine the area previously dealt with by Senator Morton where we are actually losing our dollars.

How much are we losing in the area of military expenditures abroad?

Secretary FOWLER. About $2.1 billion, in terms of 1964 figures.

Senator TALMADGE. $2.1 billion. How much are we losing in the area of foreign aid?

Secretary FOWLER. Around $700 million.

Senator TALMADGE. $700 million foreign aid.

How much are we losing in the area of foreign investments over what is repatriated to this country?

Secretary FOWLER. Well, the funds that come back from our private direct foreign investment generally exceed by a meaningful margin the additional direct investment that goes out in a given period.

Senator TALMADGE. We have a surplus now in returning capital from investment in excess of foreign expenditures; is that correct?

Secretary FOWLER. That is correct, sir.

Senator TALMADGE. That contributes to the surplus then and not to the dollar deficit?

Secretary FOWLER. That is a favorable plus factor, the net between those two.

Senator TALMADGE. Then I believe you mentioned that we have a deficit of $1,600 million on tourist travel?

Secretary FOWLER. That is correct.

Senator TALMADGE. That is the excess of what our tourists spend overseas and what foreigners spend here from their visit to the United States?

Secretary FOWLER. That is correct.

Senator TALMADGE. So you have detailed here some problems which amount to in excess of $4 billion of our dollar deficit; that is, your military, $2,100 million; foreign aid, $700 million; your tourist, $1.6 billion.

Secretary FOWLER. Then there was another major factor, apart from the direct investment and the return flow of funds to American companies from their earnings abroad, and that is foreign loans, bank and nonbank, which represented a very substantial figure.

Senator TALMADGE. How much does that amount to now, particularly in view of the President's urging the banks to curtail and restrict their loans and I understand it is—it has been met with considerable favorable response.

Secretary FOWLER. It has been a very successful program up to date. Just to give you a brief measure of the success of the bank program, whereas the increase in loans in 1964 was 60 percent over loans made the previous year, the increase in loans this year over last year's loans promises to be around 5 percent.

Senator TALMADGE. Now, we are talking about a problem here that involves some $4 billion. You are testifying on the bill that amounts to $100 million.

Secretary FOWLER. Yes, sir.

Senator TALMADGE. Aren't we really trying to go lion hunting with a fly swatter with this bill instead of correcting the real problem?

Secretary FOWLER. No; we are going lion hunting and fly swatting and I think we have to do both if you really expect to meet this particular problem. You can't go out and hunt the lions, as we are, with the voluntary program dealing with banks, and the voluntary program dealing with industry, if you are unwilling to go out and swat the flies where there might be a little bit of pain involved because you are asking them to undertake measures and make decisions that otherwise they would not be inclined to make.

The other day it was reported in the press that Socony-Mobil Co. had borrowed funds to finance its development in Western Europe. It had borrowed funds in Western Europe, I think at 5⅝ percent, whereas it could have borrowed the money here for, let's say, 4.4 percent. That is an additional cost to that particular company. We are asking the 600 or 700 major companies operating abroad to take these kinds of decisions. We are asking banks who have a very profitable business in lending abroad where, as you well know interest rates are substantially higher than they are in this country, to forgo and cut back on that particular kind of business. They certainly would not be inclined to do it unless they felt that the national interests required it.

Now, I think unless the Government, and I speak of the executive branch and I have tried to address myself to this problem not only before this committee but back uptown, unless we do the very best we can to effect savings, even if they are small, sometimes this——

Senator TALMADGE. Why don't we go to the large savings instead of the minor ones? What is the objection from bringing two to three divisions back home from Western Europe?

Secretary FOWLER. That is a political and military question, Senator Talmadge, and you would be better informed——

Senator TALMADGE. How much would we save on our dollars if, say, we brought three division home from Germany?

Secretary FOWLER. You wouldn't save very much because we have a military offset agreement with Germany whereby they have undertaken and have for the last 3 years paid and bought in the U.S. military equipment dollar for dollar for the costs that we have incurred for maintaining our forces in West Germany.

So if you bring those divisions home they will cut back on their purchases here.

Senator TALMADGE. Where have the $2.2 billion been spent?

Secretary FOWLER. Unfortunately we don't have such arrangements with the French Government. We don't have such arrangements with the Japanese Government.

Senator TALMADGE. The French have particularly shown an uncooperative attitude. Why don't we get our military out of that?

Secretary FOWLER. These are military considerations which I think Secretary McNamara and his staff would have to advise you on. I am informed that we have gone as far as we can in this so-called military offset program. We have a fairly substantial program with the Italians. As I have indicated, there is some British procurement afoot. But some areas you simply can't negotiate, and I don't feel that I am in a position to advise you competently on either the efforts that have been made or the reasons why we have to accept a failure in that area.

Senator TALMADGE. One other question.

All of these relate to governmental activities that we could take as a Government without imposing burdens on private individuals, that is in the field of foreign aid.

Now, your testimony was that this program contributed $700 million annually to our dollar deficit. Why couldn't we reduce the foreign aid program and tie all of it to purchases in the United States?

Secretary FOWLER. Well, I think that the foreign aid program, the tieing policy, Senator Talmadge, has been put into effect very rigorously. I was told by Administrator Bell the other day at a meeting, and we frequently go into these things through a group that reviews what is going on in the various areas where we ask each other the same kind of difficult questions that we get here, and Mr. Bell informed me that of the aid commitments that are currently being made, about 85 percent of the amounts committed are being tied to U.S. procurement.

As a result of following this policy in recent years, a level approaching 80 percent of aid dollars being spent are reflected in purchases, U.S. goods, and services.

Senator TALMADGE. We have made substantial progress in that regard, and I applaud it. But I still don't think it has been nearly enough. Foreign aid contributions to our dollar deficit is seven times as great as the bill you are recommending here today. And I still say we are ignoring 97 percent of our problem with this bill and dealing with only 3 percent of the problem.

Secretary FOWLER. I have reported to you the figures on what has been accomplished in the last 2 years, and that amounts to net balance-of-payments costs being reduced approximately $635 million from fiscal year 1963 to 1965 or about 23 percent, and according to present plans the Director of the Budget tells me that these costs will decline another 13 percent or $290 million by 1967.

So it is, Senator Talmadge, by putting together a piece here and a piece there and a big piece there and a little piece there, that I think we really meet this problem. You are quite correct, and I think it is a healthy thing to have what is being done in these other areas examined in connection with what is being proposed here.

Senator TALMADGE. Let's pursue it a little further now.

Your testimony stated that our dollar deficit in 1962 was $3.6 billion. In 1963 it was $3.3 billion. In 1964 it was $3.1 billion.

Secretary FOWLER. Yes.

Senator TALMADGE. We have got in gold now, if my memory serves me correctly, about $14 billion, perhaps slightly in excess of that, have we not?

Secretary FOWLER. That is right.

Sentaor TALMADGE. Just this year the Congress has had to take action to remove the gold cover on deposits in Federal Reserve banks, have we not?

Secretary FOWLER. That is right.

Senator TALMADGE. How much free gold do we have at the moment?

Secretary FOWLER. I would have to supply the precise figure for the record, but the so-called free gold, referring to the difference between what we are required to keep and what we have, is around $5 to $6 billion.

Senator TALMADGE. Five to 6 billion.

So, if we continue to lose our dollars for the next 2 years like we lost them last year, you will have to come to Congress and ask us to remove the gold cover on Treasury notes, won't you?

Secretary FOWLER. No.

Let me say what happened last year, and I think this is fairly revealing. What happened last year was that even though we had a balance-of-payments deficit of 3.1 as I have indicated, we lost only $125 million in gold.

Why?

Because other countries felt that the program that had been mounted as a result of the July 1963 message, and because of the long-term vitality of the American economy that was being revealed in statistics, they were quite content to hold their dollars as part of their reserves rather than to convert them into gold.

Then there began to be some very substantial outflows of dollars primarily in private capital flows in the last quarter of last year, and this was accompanied by a disturbing situation in reference to the other key currency, the British pound, and as a result of this there was a very bad picture in the last quarter.

I think we were running a deficit at an annual rate of around $6 billion a year.

Well, the result of that is that the demands for gold this year have been very, very substantial, in the order now, I think of about $1,003 million up to now.

Senator TALMADGE. It would have been even worse last year had not Germany and France prepaid some loans, would it not?

Secretary FOWLER. I don't know whether they would have continued to hold dollars or would have held gold.

Senator TALMADGE. My recollection is that at least Germany and perhaps also France last year prepaid some loans in France.

Secretary FOWLER. I don't think the French did—I think they did it before. But you may be right.

Senator TALMADGE. What I am trying to point out, Mr. Secretary, we are dealing with peripheral problems here and not major problems. If we don't correct the spending policies in the area of major contributions in our dollar deficit it is my judgment in 4 or 5 years we won't have enough gold left in the United States to fill our teeth.

I have no further questions.

Secretary FOWLER. I would just like to say that I would have no concern about that unfortunate result coming about if the cooperation we have received in the current program is continued, and if all of those who have been called upon in that particular program, and that includes the executive branch, it includes the banks, and it includes the companies operating abroad, and it includes the legislative measures that are before this committee, if this program is carried through, I think, I do not fear the result that you indicate. If it breaks down it will break down because of a lack of will and determination on the part of the United States to carry through on that program, and that in a very minor way but a very significant way is the issue before this committee.

Senator TALMADGE. I yield to the able Senator from Connecticut.

Senator RIBICOFF. I thank you.

I just want to make a comment. It is my feeling that the series of questions just put by the most able Senator from Georgia is the most brilliant exposition of this entire problem of the balance of payments and gold flow that I have ever heard or read. I do not want to let this moment go by without complimenting the Senator from Georgia for highlighting what this problem really is all about, and I think all of us owe him a debt of gratitude.

Senator TALMADGE. I am flattered and honored indeed by the generosity of the able Senator from Connecticut.

I wished merely to point out the major problem in this area was, and I did not want to let this opportunity go by, because we are dealing with 3 percent of the problem here and ignoring 97 percent of the problem, and the people of the United States and Congress have the right to know what the problem is, and if we do not solve it, I still repeat the statement that I made, in the next 4 or 5 years we won't have enough gold left in the United States to fill our teeth.

Senator RIBICOFF. In other words, as I understand your position, one of these days, if we are going to solve this problem we are going to have to make some very courageous decisions.

Senator TALMADGE. Yes, we have to face up to where the problem lays instead of dealing with the peripheral questions.

Secretary FOWLER. May I make a statement taking exception to one statement you made that we are ignoring the major issues? We are not ignoring the major issues. The major issues are being dealt with every day pursuant to the President's February 10 program in all the particulars, in all the areas, in which you have examined, and I cannot let it pass that these problems, these major areas, are being ignored.

You would, I think, be impressed if you had Governor Robertson of the Federal Reserve Board here to tell you in great detail what is being done in terms of private loans abroad. You would be greatly impressed if Secretary Connor were here to tell you about the program, the voluntary program, in that area.

Senator TALMADGE. I am aware, of course, Mr. Secretary, that we have taken certain executive actions that have improved the problem. But let us see how much we have ignored it, how much we have aided it. The dollar deficit, you testified, in 1962 was $3.6 billion; the dollar deficit in 1963 was $3.3 billion, an improvement, $300 million; the dollar deficit in 1964 was $3.1 billion, an improvement of $200 million. So it is very, very slight indeed when we analyze the degree of improvement that we have obtained when we are dealing with the seriousness of the problem.

Secretary FOWLER. I think you should be aware of this: That over the 4-year period, 1961–64, pursuant to the program that was first announced by President Kennedy in early 1961, and the second one in July 1963, efforts were initiated that yielded results in given segments, and I will give you these segments, that totaled $3.5 billion of results addressed to a $3.9 billion range of deficit in 1961.

Increased commercial trade surpluses $900 million, reduced overseas dollars spending for foreign aid in those years, $400 million; economies in military spending abroad $200 million; increased military offset sales to foreign countries by the Defense Department $450 million; an increase in profits and interest on past foreign investments, $1.6 billion; but the significant thing is that the deficit, while that was all going on, and one could have presumably assumed that the deficit ought to be down to roughly a half billion, or in that general neighborhood, some other things were happening, and what were those other things that were happening? A great deal of increase in foreign loans being financed out of the New York capital market. So we had to come to the Congress in 1963 and ask that that particular area be closed.

Senator TALMADGE. I applaud that effort. I supported that effort, but I still say, using your own figures, when we have brought our dollar deficit from $3.6 billion in 1962 to $3.1 billion in 1964, we are moving entirely too slowly.

Secretary FOWLER. Well, Senator Talmadge, I accept that point, and I think that is the very reason that the President came in on February 10 for the first time with what really amounts to a concerted attack on all fronts dealing with this particular problem, and this we have had since February 10.

What I think everyone would consider an across-the-board attack on the problem resulted, and the results of that attack can only be measured by the results. I am not here today to forecast what those results are going to be. I will look at the figures when they are going to emerge.

Senator TALMADGE. I realize decisions are going to have to be made, policy decisions are going to have to be made, by the White House, the military, and the State Department. But as the Secretary of the Treasury, Mr. Secretary, it is your responsibility to guide and protect the dollar and gold, and I hope the highest levels of our Government would listen to some of your recommendations in these hard areas, in these hard decisions we are going to have to make, and not continue to try to correct this problem by dealing with and talking about $100 million, a $100 million solution when we are confronted with a $4 billion problem.

Secretary FOWLER. Senator Talmadge, you give me, I hope, some credit that I do not come up here and spend all of my time up here talking about a $100 million bill. I am uptown dealing with these departments and agencies and with the private persons concerned a good many hours of each day dealing with the other phases of this problem, and they are not being ignored.

Senator TALMADGE. I applauded your appointment. I think you have done an outstanding job. I have stated so to the highest authority in the land. But I would urge and implore you to let us get out the rifle and lay aside the flyswatter.

I have no further questions.

Senator SMATHERS. All right, Senator.

Senator Dirksen?

Senator DIRKSEN. Mr. Secretary, I have one collateral question. Senator Morton spoke about the confusion between trade balances and gold balances. What value do we assign to imports, the landed value or is it the foreign value?

Secretary FOWLER. It is, I am told, f.a.s., free alongside ship.

Senator DIRKSEN. Just to illustrate, say a shipload of automobiles comes in. Now, it would have one value over there in France or in Italy, but it will have another value here.

If we use that value for calculating our trade balances and fail to use the landed value, which would have to include shipping, insurance, and so forth, it would cause quite a difference in that trade balance.

Secretary FOWLER. It would; yes.

Senator DIRKSEN. Now, over there they use landed value.

Secretary FOWLER. Yes. I think we do, too, on the imports coming in.

Senator DIRKSEN. Well, that trade balance that looks so impressive on paper, I doubt very much whether it is quite that impressive, involving all the cost factors including transportation, which would make quite a difference.

Secretary FOWLER. Well, I would be reasonably sure, Senator Dirksen, that your very apt and acute observations are fully taken into account in the way in which these figures are arrived at by the Department of Commerce, because we have, I think, a very rigid and highly competent staff over there that is very alert to possibilities for loading the figures. I think what we have followed here is a fairly consistent course that has been followed all down through the years in making these calculations.

Now, in that connection, I think I should say that 2 years ago the administration did ask a group of statistical experts in this field, under the leadership of Dr. Edward Bernstein who used to be a principal economic adviser to the International Monetary Fund, people from the National Bureau of Economic Research, Dr. Hal Lary, and others, to study the statistical processes that were involved in calculating and computing the various balance-of-payments figures that are important to the balance-of-payments problem.

That committee has recently made, after a 2-year study, a very profound and expert report. That report is being examined by an interagency group headed by the Bureau of the Budget, in which all manner of questions about how these things should be counted properly in order to get the best picture have been considered. I do not know whether the particular point you raised was involved in that report or not.

Senator DIRKSEN. It is not a question of juggling figures. It is only a question of the costs that go into the figure before we see what our total balance of trade is exportwise and importwise. But if those items are not included then, of course, any overall figure on trade balances does not impress me a great deal, and I would rather think the surplus would be a good deal smaller than one that is usually uttered by the Department of Commerce. But it is a collateral matter.

Secretary FOWLER. They are treated f.a.s. both ways, I am told, but the transportation is included in the computations.

Senator DIRKSEN. I have no further questions.

Senator SMATHERS. Senator McCarthy?

Senator MCCARTHY. Isn't it a fact that we have had a balance-of-payments problem ever since the end of World War II?

Secretary FOWLER. It was not thought to be a problem.

Senator MCCARTHY. It was though, was it not?

Secretary FOWLER. Until 1958.

Senator MCCARTHY. It is a problem whichever way it is out of balance, it is a problem.

Secretary FOWLER. That is right. We have had deficits since 1950, as I recall it, Senator McCarthy, but the order of magnitude of those deficits—in the early fifties those deficits were viewed as beneficial deficits because they tended to fill in what was called the dollar gap.

Senator McCARTHY. That is right. The fact is that there was a surplus in the balance-of-payments problem until that time.

Secretary FOWLER. That is right.

Senator McCARTHY. There is a problem not only when you have a deficit but you can have a balance-of-payments problem when you have a surplus.

Secretary FOWLER. That is right.

Senator McCARTHY. What you would like to have is——

Secretary FOWLER. Equilibrium.

Senator McCARTHY. What do you have now?

Secretary FOWLER. We have a deficit. Are we talking about 1964?

Senator McCARTHY. We are talking about 1964. What about 1965?

Secretary FOWLER. Well, it is too early to tell, although I think for the last 3 months, Senator McCarthy, we have had what I would call a very satisfactory approach to equilibrium.

Senator McCARTHY. That is right.

Secretary FOWLER. Taking into account the deficit for the months of January and February.

Senator McCARTHY. So it appears as though, insofar as you know, although we never have this problem fully solved, but that we have it under control right now?

Secretary FOWLER. The outlook is good for that.

Senator McCARTHY. That is right.

Secretary FOWLER. As I have said before, I am not going to be very certain about it until I see the second-quarter figures, because there was so much of a reflex action in the March and April figures on factors, nonrecurring factors, such as the dock strike in January, such as the fact that a good deal of money went overseas in the last quarter of last year, and the first months of this year, and a good deal of that came back after the President's program was announced, so I do not think the March or April figures will be, the early figures, definitive enough for me to make a judgment, a hard judgment, that we have the problem completely in hand.

Senator McCARTHY. Well, I think it is important to make it clear to the public that the balance-of-payments problem is one with which the Treasury of this country is going to have to deal for a long time.

Secretary FOWLER. No question about it.

Senator McCARTHY. We do not expect it to go away unless we withdraw from international trade and international finance.

Secretary FOWLER. As a most important trading country, as the country which has the key currency which, together with gold, provides the principal sinews and bases for trade and development, I think we have a special responsibility that other countries might not have, not only to ourselves but to the free world economy in general, to get into equilibrium and stay there.

Senator McCARTHY. It is a good responsibility to have, is it not?

Secretary FOWLER. It is worthwhile in terms, I think, of not only our own interest but all of us.

Senator McCARTHY. We do not want to be rid of it, do we?

Secretary FOWLER. Sir?

Senator McCARTHY. We do not want to be rid of it.

Secretary FOWLER. No, sir.

Senator McCARTHY. It is next to importance to the problems of the Federal Reserve. Don't you think we have a continuing problem with reference to interest rates and Federal Reserve policy in America, too?

Secretary FOWLER. I do not think it is a grave problem to date.

Senator MCCARTHY. I think it is a most serious problem as to what the policy is in the Federal Reserve System.

Secretary FOWLER. Well, it is a serious problem as to what you do about taxes.

Senator MCCARTHY. Right.

Secretary FOWLER. Continuously serious.

Unemployment, adequate rate of growth, the question of the budget, the balance of payments, these are all serious problems that we have to stay with constantly, and at any given time, any one of them may be more serious than the other. I just happen to think that the balance-of-payments problem is the most serious one that we now have to contend with.

Senator MCCARTHY. You say it is most serious because of its essential character or because of the current situation?

Secretary FOWLER. Well, because we have for the last 5 years, as my colloquy with Senator Talmadge indicated, we have had some very substantial deficits, and they have produced loss of reserves, and it is time that we arrested this situation and proved that we have the will and determination and capacity to bring ourselves back into equilibrium.

Senator MCCARTHY. We have done that though, haven't we?

Secretary FOWLER. Well, as I say, I think we are well on the way to doing it, but I want to be sure of these second quarter figures before I go too far out in forecasting.

Senator MCCARTHY. We are very close, and we have not used the big power we still have, which would be compulsory restraint on overseas investments.

Secretary FOWLER. That is right.

Senator MCCARTHY. So we have the big stick which is still unused.

Secretary FOWLER. Still left.

Senator MCCARTHY. Right.

Thank you very much.

Senator SMATHERS. Senator Hartke?

Senator HARTKE. By the time it gets to me it is always noon. If anyone is hungry he can go ahead and eat. [Laughter.]

Mr. Secretary, I think it is very commendable that you should be concerned about these little items as well as the big ones. I just wish we could have Senator Talmadge indicate the same amount of spirit behind the big problems that we seem to have, and the drive as we have, behind the little problems. Is that possible?

Secretary FOWLER. You do not see me in some of the very tough conferences.

Senator HARTKE. This is exactly what I want to get into. Is it the position of the Secretary that he does have the responsibility to make recommendations in monetary matters and this matter of the balance of payments and balance of trade and items which affect the Federal Treasury?

Secretary FOWLER. Oh, yes.

Senator HARTKE. And is it your position that when you see a situation which aggravates the condition or causes alarm or concern, that it is not enough to do the best you can to call attention to it but to also give whatever advice you think would be necessary to correct the situation?

Secretary FOWLER. Well, private or public, whether it is in the private sector or whether it is in the public sector.

Senator HARTKE. We talked about these things, but before I go into that, my colleague from Connecticut asked me whether I would propound one question to you, and this question is, Do you really believe if you reduced the amount that a person can bring in under this program, will not those people who travel overseas, in fact, spend the same amount of money overseas because they cannot buy an item to bring back home tax-free?

Secretary FOWLER. We believe, they will not spend as much. We base that not only on judgment but on the experience we had with the amount of dutiable merchandise that was brought in per capita after the change from the $500 to the $100; that the per capita expenditures abroad when the exemption was previously changed, give us some substantial substance for believing that as the exemption moves down, according to the recommendations here, there will be in the range of from $75 million to $125 million less goods purchased abroad and brought back with returning travelers. The change from free to dutiable under the bill we propose would be about $145 million worth of merchandise. As I have indicated, we think the resulting savings would not be $145 million, but between $75 and $125 million.

Senator HARTKE. Let us come back to one of those bigger problems. It is true that the voluntary program affects not alone the foreign investment but also export credit, isn't that true?

Secretary FOWLER. Well, in the voluntary program as applied to the banks, the so-called guidelines on restraining bank lending prescribed very definitely that a preference and a priority will be given to new commitments which are related to exports, and to those that are related to the less developed countries. So that the principal impact of this program would be on pulling back and restraining loans that are made to the developed countries that are unrelated to exports.

Senator HARTKE. Now, in relation to that, the reason for the 105 percent determination is that according to Mr. Robertson of the Federal Reserve Board they do not anticipate we can have over a 5 percent increase in our foreign exports this year; is that true?

Secretary FOWLER. I did not realize that there was that connection or that relationship.

Senator HARTKE. Well, let us go back. What is happening in relation to our trade balance this year?

Secretary FOWLER. I cannot tell you, Senator Hartke. I would not be able to tell you until we get the second quarter figures in.

Senator HARTKE. Well, what has happened until the figures which have been released?

Secretary FOWLER. The first quarter figures were very disappointing because there was the dock strike which came into the picture. I think we lost a good deal as a result of that dock strike, and I think our trade surplus for the first quarter was seriously affected as a result of it.

Senator HARTKE. And, as a result also, ordinarily—the dock strike was settled in February, right—under normal circumstances the month afterwards you would have an increase.

Secretary FOWLER. That is right.

Senator HARTKE. You would have the decrease during the dock strike.

Secretary FOWLER. That is right.

Senator HARTKE. But you would normally anticipate, and the economists would normally anticipate, that by April that would have rectified itself.

Secretary FOWLER. I do not think you ever rectify it, if you want my own opinion. I do not think interruptions in business encourage people who are buying from the United States to continue buying from the United States.

Senator HARTKE. But the truth of it is, if you want to consider the dock strike or whatever other things—I want to attribute it to something else—we have had a remarkable decline in our balance-of-trade position; isn't that true? In other words, our trade balance has declined remarkably in the first 4 months of this year.

Secretary FOWLER. Well, I have only official figures for the first 3 months, and I am not prepared to discuss today what happened in 1 month. I think these 1-month figures can be very insubstantial as a basis for judgment.

Senator HARTKE. I agree with you except that at this moment this is what we do have, and I would like to point out, that our trade balance is off 14 percent over last year on an annual rate in the first 4 months, that it is off 7 percent in the last decade, that we have had a trade balance loss in the first 4 months of $2.5 billion. Where there was during the first 4 months $23.8 billion in exports, there was an increase in the imports——

Secretary FOWLER. Are you using annual rate now?

Senator HARTKE. Annual rates now, the first 4 months on annual rates is what I am speaking about. The annual rate of imports was $19.5 billion, so instead of having close to a $7 billion or $6.5 billion surplus, we are now down to close to a $4.3 billion surplus in our balance of trade for the first 4 months of this year.

Secretary FOWLER. I do not know why anybody is greatly surprised at that. If you have the kind of interruptions to business that you had out of the ports of this country for a substantial period in the first quarter——

Senator HARTKE. But there has been one other significant factor. The truth of it is, there has been a restraint on export credit, has there not?

Secretary FOWLER. There has not, in my judgment, been a restraint on export credit, and I believe if you had a conversation with Governor Robertson, who is administering this program at the Federal Reserve Board, he would tell you that he has tried his best to get specific cases and to run those specific cases down. In a report made to me not more than a week or 10 days ago, he said he had not been able to find and run to ground specific instances where we got the word from certain New York banks that they were worried about the impact of this program on exports.

Senator HARTKE. Well, let me say that the Federal Reserve Board at this moment does not stand very high in this Senator's estimation, I want you to know that because they are not only following a course of action here at home, which is a tight money policy, but they are also pursuing internationally a tight money policy which can have two complicating effects—not alone can we create a depression in other countries, but we can create one here at home by their action.

I might point out here that in spirt of everything else we saw a drop in the stock market of 5 points, and the Dow-Jones industrials as of 12 o'clock noon today are off 6.25, and the Federal Reserve Board's policy, negative policy, with regard to the free reserves is being continued and has not been alleviated; isn't that true?

Secretary FOWLER. I understand the net Federal Reserve figures last week were in line with the past months.

Senator HARTKE. In a negative position.

Secretary FOWLER. That is right.

Senator HARTKE. Now, we have here on top of that, we have at least——

Secretary FOWLER. I might say, Senator Hartke, I have checked, and I have not been able to find much opinion in New York that that fact is related to the market situation.

Senator HARTKE. Let me say to you that for whatever reason the stock market is falling, one factor seems to be quite positive, a tight money policy, and there is something happening someplace.

In regard to the export and credit restraints, whether you are finding it or not, I say to you again that the small exporter, according to our own Commerce Department, is finding it very difficult to obtain credit.

Secretary FOWLER. I brought together the Secretary of Commerce and Governor Robertson, and I will keep bringing them together to pursue their common problem. There is ready access, to whoever it is in the Department of Commerce who may be concerned about this, to Governor Robertson to bring in specific cases wherever they can be found.

Undoubtedly, a situation does arise where a given exporter goes to a given bank and that bank says, "We are up to our quota, our commitment. We cannot go beyond what we get with our 105 percent figure."

He may have to go to another bank, but the credit is there and available to exports.

Senator HARTKE. Let me say this to you, and I am not going to belabor this point, but I do want to call attention to it, that no matter to what you want to attribute the cause, the truth is that we have now a substantial decline in our trade balance. This is the one major factor which has kept the balance of payments from being worse than they were before, isn't that true?

Secretary FOWLER. I am not worried about that one whit because as long as we stay competitive in the fashion we have over the last 3 to 4 years, and as long as we can keep the ships moving and the docks operating and avoid these serious interruptions to commerce, I believe our trade surplus is going to continue to measure up to what it has in recent years.

Senator HARTKE. I hope you are right. But let me say to you, sir, if you are not right by another couple of months I hope that the Secretary would not feel so fixed in his position and rigid that he could not take some appropriate action.

Secretary FOWLER. We have some troubles there now. I mean, ships are being held up.

Senator HARTKE. Let me ask another question with respect to what Senator Long brought to your attention in regard to the so-called importation of oil. I would like to give these figures to the Secretary just for his consideration.

The average annual deficit in oil alone for the last 7 years comes to $1.5 billion each year. That is 40 percent of the present imbalance. The military is buying light petroleum products, not including residual oil and bunker oil, at a rate of 200,000 barrels a day. The annual spending for these foreign products is $250 million. Purchases of these products from foreign sources, unless it is changed this year, and I have no indication that it has, have grown in the last 10 years from 15 percent of the needs to 35 percent.

Our Military Establishment is importing about 35,000 barrels a day of light petroleum products, chiefly jet fuel, despite the fact that these things are readily available in the States.

The fact is, the American refineries today are operating at 85 percent of their capacity, and I would hope that the Secretary would call this to the attention of the Secretary of Defense and see whether or not he could rectify this situation, which would have a major effect upon our balance-of-payments problem.

Secretary FOWLER. I will certainly do so, Senator Hartke.

Senator HARTKE. Those are all the questions I have.

Senator SMATHERS. Senator Douglas, do you have any questions?

Senator DOUGLAS. No questions.

Senator SMATHERS. Senator Williams?

Senator WILLIAMS. Mr. Secretary, I just want to raise one question in connection with your discussion about recommending that we utilize American ships and American airlines to the fullest extent possible when traveling abroad.

I have had called to my attention a report of the Comptroller General issued under the date of April 15 where he is rather critical of the State Department for the fact that it is not doing what you have just recommended that the tourists do. I will quote from this report.

Secretary FOWLER. I have made no recommendation along that line, Senator.

Senator WILLIAMS. I know, but I understand it has been suggested that if we used American airlines and American-flag ships in going abroad to the fullest extent possible that it would save our dollars; is that not correct?

Secretary FOWLER. This is currently much talked about; yes.

Senator WILLIAMS. Yes. That is a recommendation, is it not, sir?

Secretary FOWLER. Of whom?

Senator WILLIAMS. Of the administration.

Secretary FOWLER. The administration is not recommending to private people what they do. The administration is following a policy, as I understand it, of having its employees utilize American instrumentalities in foreign travel.

Senator WILLIAMS. I will quote from this Comptroller General's report, which is dated April 15 this year:

The U.S. agencies are or have been unnecessarily expending dollars in an amount that we estimate at about $2.3 million annually to buy air tickets for official travel to and from eight countries, instead of utilizing the excess foreign currencies which the United States owns in these countries.

Then I will quote from a letter of the Air Transport Association submitted to the Comptroller General on this same subject. They said, and I quote:

Considerable U.S.-financed travel has been diverted to foreign airlines for lack of an effective agreement between the United States and other countries which would permit U.S.-flag airlines to accept or utilize U.S.-owned foreign currencies offered in payment for international transportation.

Now, in view of the policy statement which you have just outlined, I wonder if it would not be well for someone to call that to the attention of the State Department as to what the policy of the administration is, and ask them if they won't follow their own teachings.

Secretary FOWLER. I will certainly do so, Senator.

Senator WILLIAMS. I would appreciate it if you would. Thank you.

Secretary FOWLER. Yes.

Senator DOUGLAS. May I ask one question?

Senator SMATHERS. Yes, indeed, Senator Douglas?

Senator DOUGLAS. Mr. Secretary, I am sorry I was not here when you testified. We were marking up the housing bill and I was tied up upstairs.

Secretary FOWLER. Oh, yes, sir.

Senator DOUGLAS. Let me ask you, How is tourist travel abroad moving this year? The President suggested that citizens should not go abroad or diminish their travel abroad. Has there been an increase in the number of passports issued?

Secretary FOWLER. I think tourist travel, the forecasts of the Department of Commerce and those concerned, indicate there will be a larger number of people traveling abroad in 1965 than there were in 1964.

Senator DOUGLAS. In other words, this injunction has not been followed?

Secretary FOWLER. There is some confusion about this injunction. The President's injunction, which I included in my statement, and you can interpret it the way you will and, perhaps, there might be some differences, but what he said precisely was:

Foreign travel should be encouraged when we can afford it, but not while our payments position remains urgent. Today our encouragement——

Senator DOUGLAS. Our payments position is urgent, is it not, Mr. Secretary?

Secretary FOWLER. Well, he is saying we should not encourage people to travel. He is not saying we should tell people not to travel.

Senator DOUGLAS. If we do not encourage it, should we be neutral toward travel or should we discourage it?

Secretary FOWLER. I think you will have to interpret the statement as you will, and I will have to as I will.

Senator DOUGLAS. The common interpretation was that travel was to be discouraged.

Secretary FOWLER. The way he put it, it was not to be encouraged. [Laughter.]

Senator DOUGLAS. In any event, it is increasing?

Secretary FOWLER. Yes, sir.

Senator DOUGLAS. Do you regard this as serious?

Secretary FOWLER. If Americans traveling abroad spend substantially increased amounts for travel, it has a very serious impact on our balance of payments.

Senator DOUGLAS. Payments per individual will not diminish, will they?

Secretary FOWLER. Sir?

Senator DOUGLAS. The payments abroad per individual will not diminish?

Secretary FOWLER. I do not think they will if the Congress fails to adopt this proposal we have in front of us.

Senator DOUGLAS. I refer to expenditures abroad, not purchases of goods brought back. Those purchases probably, those expenditures abroad probably will not diminish. If you have more people, the multiplier increasing and the multiplicand remaining the same, the product will increase, will it not? That is the elemental fact of multiplication.

Secretary FOWLER. It is quite likely to. This is about the only thing you can do to remind people, Senator Douglas, that when they are traveling and spending, it does have an impact on the U.S. balance of payments. This is the only avenue I see for the Congress, and I would hope it would take advantage of it.

Senator DOUGLAS. You do not favor limiting the amount which people can spend abroad, which Great Britain did after the war when she was in exchange difficulties?

Secretary FOWLER. I said earlier, Senator Douglas——

Senator DOUGLAS. I am sorry.

Secretary FOWLER. I said earlier, before you were here, that I was not involved in the processes that led to this particular recommendation and excluded other recommendations on limitations of expenditures, or head taxes as Senator Smathers was asking me about, and, therefore, I cannot relate to you the precise reasons why this was chosen rather than the other courses that might have been suggested. Although I did see something in the press to the effect that the head tax and limitation of expenditures were considered at the time, and for reasons not currently known to me, they were not pressed.

Senator DOUGLAS. Do you think that this will be necessary if the balance-of-payments situation does not improve?

Secretary FOWLER. I would think a lot depends on what happens. I think it is something that we certainly cannot put off to one side and forget, and I would hope that our progress in coming to equilibrium in our balance of payments is such that when the year is out we can be content to stay with and carry forward the present program.

If that present program proves to be ineffective or inadequate, certainly additional measures, whatever they may be, will have to be considered.

Senator DOUGLAS. I hope you will forgive me if I rethresh old straw, but did you make a statement as to whether the decline in commodity exports had offset the decline in the purchase of foreign securities or in bank loans and investments by American companies abroad?

Secretary FOWLER. I said that in terms of this year—I take it your question goes to the question of the current situation?

Senator DOUGLAS. Yes; that is right.

Secretary FOWLER. We have had surpluses based on preliminary figures that we discussed last time, preliminary reports from banking institutions rather than the hard figures that are eventually processed by the Department of Commerce. It does appear that we have had a surplus in March, April, and May, taking everything into account.

Senator DOUGLAS. And you are still going to tell me whether this offsets the unfavorable balance in January and February? That report is coming?

Secretary FOWLER. That report is coming. But——

Senator DOUGLAS. How long before it comes?

Secretary FOWLER. I have tried my best to get it faster, but you know the statisticians——

Senator DOUGLAS. The early months ought to be less difficult than the later months.

Secretary FOWLER. August will give us the second quarter report and, as you know, the report for the first quarter showed about a $750 million deficit, seasonally adjusted, and what the second quarter figure will be, seasonally adjusted, I just simply cannot forecast today, Senator.

Senator DOUGLAS. I have had some complaint from concerns importing whisky that this reduction from a gallon to a quart in the amount of whisky that can be brought in or later sent in duty free, is going to hit them very hard. Did you make a comment on that?

Secretary FOWLER. Yes. Senator Morton was here, and we discussed it a little bit. I have said that in addition to the modifications that we originally requested, the House bill would limit to 1 quart the present 1 gallon, duty-free liquor allowance available to returning residents, and would restrict it to individuals who have attained the age of 21. The Treasury endorses this provision of the bill.

Senator DOUGLAS. That is the reduction from a gallon to a quart.

Secretary FOWLER. Yes.

Senator DOUGLAS. I am sure this would be favored by domestic whisky producers.

Secretary FOWLER. I think this is quite true. It does amount, according to our estimate, Senator Douglas, in terms of a balance-of-payments savings to around $20 million, and the only other observation that was made in the exchange with Senator Morton was he asked questions having to do with what is the practice of other countries in this regard, and we did put in the record a good deal of information about the practices of other countries on duty-free treatment of spirits.

Senator DOUGLAS. I am sorry I was not here earlier. It is hard to be two places at the same time.

Senator SMATHERS. Mr. Secretary, are you aware as to how much, for example, the Government of Bermuda and the Government of the Bahamas make out of the sale of whisky to American tourists?

Secretary FOWLER. No, I am not, Senator Smathers.

Senator SMATHERS. Are you aware how many people there are in the Bahama Islands?

Secretary FOWLER. No, Senator Smathers. I have not made a detailed study of the Bahama Islands because I have been convinced and persuaded, as I have indicated to you, that there are going to be enough more people traveling to the Bahamas that I do not think this measure is going to arrest the very commendable economic progress that has characterized those islands in recent years.

Senator SMATHERS. I want to ask you some of these questions because you are not going to be able, as the committee is, to have the benefit of testimony of some of these people who will come later and testify, tomorrow, hopefully, from these areas. In the Bahama Islands there are only 133,000 people, 97 percent of whom are colored. Bermuda has a total population of about that same number. Are you aware that 66 percent of all the purchases that are made by the Bermudans are made in the United States?

Secretary FOWLER. No, but it would not surprise me.

Senator SMATHERS. Does it concern you at all, the fact that if they have a reduction in the tourist dollars by virtue of this bill they would have to reduce their purchases in the United States?

Secretary FOWLER. It does not concern me because I am aware of the fact that accompanying any slight reduction in the amount that is spent per capita by tourists because of the change in the law proposed here, that the 20-percent increase in the number of U.S. tourists to the West Indies expected for 1965, on top of a 24-percent increase from 1963 to 1964, will more than compensate for any reduction in merchandise spending because of the lowering of the duty-free exemption.

Senator SMATHERS. Are you aware of the fact that Bermuda has no foreign aid program from the United States,

Secretary FOWLER. I have enjoyed several trips to that particular country, and in view of the wonderful area and the splendid set of arrangements, I have no worries about the future of the colony of Bermuda.

Senator SMATHERS. Are you aware of the fact that they run a major space effort there for the United States, and I think free of any charge to the United States?

Secretary FOWLER. I was not. I have not been there recently, and I am not aware of it.

Senator SMATHERS. When I say free, I am not certain what they are charging, but I think it is free. Of course, the land is free.

Are you aware that in the Bahama Islands there are some 152 combination defense and space installations for which they make no charge?

Secretary FOWLER. I am not aware of it. I would suggest the fact that maybe we ought to have some kind of an offsetting program though because I would expect that the local interests are profiting very substantially as a result of it.

Senator SMATHERS. That is what they are concerned with, an offsetting program. Apparently the Government makes money on the sale of scotch whisky, and this is where they derive their money from.

Secretary FOWLER. Nothing in this bill would prevent them from selling scotch whisky to people who are stationed there for use in consumption while stationed there.

Senator SMATHERS. Well, I should think——

Secretary FOWLER. I should think they would be very grateful for that.

Senator SMATHERS (continuing). The average stay of a visit there is for a period averaging 48 hours, and even with a great reputation for consuming whisky that some people have, they cannot drink a whole lot in that time. In any event, are you aware that some 70 percent of all the purchases made by the Government, the Government and the people of the Bahamas, are made in the United States.

Secretary FOWLER. But I would expect that to be the case. I think I have information that reflects that.

Senator SMATHERS. Inasmuch as this whole matter only involves $20 million, as you say, does it not look like to you that just by the simple method of addition you end up losing more money with this type of amendment?

Secretary FOWLER. I think whatever happens in terms of budget revenues that we will improve, however slightly, our balance-of-payments picture with this proposal.

Senator SMATHERS. You have adopted this baby and you are going to stick with it all the way.

Secretary FOWLER. I am going to stick with it, right, all the way through.

Senator SMATHERS. Mr. Secretary, thank you very much for your testimony.

Secretary FOWLER. Thank you.

(See end of hearings for letter dated June 26, 1965, from Secretary Fowler to Senator Smathers.)

Senator SMATHERS. We have a list of witnesses here which includes Sir Stafford L. Sands, Minister for Finance and Tourism, Government of the Bahamas; Claude Caron, Virgin Islands Gift Shop Association; Robert L. L. McCormick, Chamber of Commerce of Americas; Henry Veesey, Bermuda Trade Development Board; and Arthur Witty, St. Thomas Chamber of Commerce.

Gentlemen, we brought you a long way. The problem is very briefly this: We have a scheduled vote, which is to occur sometime within the next 25 minutes. It is obvious that there will be no other Senators here to hear this testimony, other than the Senator who is now temporarily presiding as chairman.

I would respectfully suggest that your testimony would be more effective tomorrow when we come in at 9 o'clock in the morning. I think you will have better attendance. You will have more opportunity for making your case. I recognize there are some of you who would like to return from whence you came. I would recommend that we recess until tomorrow morning at 9 o'clock.

(Whereupon, at 12:35 p.m. the committee was in recess, to reconvene on Friday, June 25, 1965, at 9 a.m.)

TOURIST EXEMPTIONS

FRIDAY, JUNE 25, 1965

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 9 a.m., in room 2221, New Senate Office Building, Senator Herman E. Talmadge presiding.

Present: Senators Smathers, Long, Anderson, Douglas, Gore, Talmadge, McCarthy, Bennett, Morton, and Dirksen.

Also present: Elizabeth Springer, chief clerk.

Senator TALMADGE. The committee will please come to order.

Because of the large number of witnesses, I regret that it will be necessary to limit the presentation of each witness to 10 minutes. As much material within reason as you desire may be submitted for the record. Any statement for the record must be submitted during the day because the record will be closed during the day.

The first witness is Sir Stafford L. Sands, Minister for Finance and Tourism, Government of the Bahamas.

Sir Stafford, we are happy to have you with us, sir, and you may proceed at your pleasure.

STATEMENT OF SIR STAFFORD L. SANDS, MINISTER FOR FINANCE AND TOURISM, THE BAHAMAS

Sir STAFFORD. I am Stafford L. Sands, Minister for Finance and Tourism for the Bahamas. There is more than coincidence in the fact that I hold the portfolios for both finance and tourism, for ours is a tourist economy. Over 90 percent of our labor force is engaged in tourist-related trades, businesses, or construction. Sunshine and services are our only commodity that we sell, and any threat to our ability to market them is a threat to virtually every family, to every business enterprise, to the social advancement of the Bahamian people and to the very finances of the Government it is my privilege to represent before you this morning.

Like your country, the Bahamas were discovered by Columbus. From that day to this our common ties have bound us evermore inseparably.

We are virtually contiguous to the United States. It is farther from Washington, D.C., to Baltimore, Md., than from Bahamian shores to the United States. If you are better at the sport than I, you literally can water ski from Nassau to Miami.

As your closest offshore neighbor and the buffer territory between you and Cuba, the Bahamas form an integral part of the United States first line of defense. The United States has without charge 150 defense installations and four guided missile stations on Bahamian shores. We are also host to the site for the Atlantic Underseas Testing and Evaluation Center which is used by the United States and British Navies for deepwater testing programs. The Bahamas maintain a regular air patrol of the portions of its island chain which are within sight of Cuba.

Importantly, its efforts toward achieving an increase in the standard of living for all of its citizens have made it possible for the Bahamas to remain firm in the face of the constant pressure of Castroism.

With no natural resources other than sunshine and services, we are proud of the bootstrap operation by which we have brought stability to our Government and a measure of prosperity to our people.

The Bahamas have never participated in any program of foreign assistance from either the United States or the United Kingdom. While other parts of the world were turning to foreign aid to balance their budgets, we approached our problem on a businesslike basis. In 15 years we have increased the number of our annual tourists from 32,000 in 1949 to 605,000 last year. This accomplishment has been the result of hard work and businesslike promotion.

The Bahamas Ministry of Tourism this year alone will spend more than $3 million in the United States in advertising, sales promotion, and direct selling campaigns. Significantly, this means we are spending as much in the United States to promote tourism to the Bahamas as you in the United States spend worldwide to encourage tourists to come to the United States.

As a result of its successful application of the free enterprise system, the Bahamas have provided a deterrent to Castro in the Caribbean. With Cuba lost to communism and the Dominican Republic and Haiti in most uncertain status, the Bahamas emerge as the only Caribbean location in close proximity to the United States which retains freedom and political tranquility and where the traveling American can take a safe side trip.

As an elected member of Parliament in a self-governing colony closely tied to and identified with this great Nation in many ways, I have listened with sympathetic interest to the remarks of Secretary Fowler yesterday. I appreciate and share his concern and yours for the U.S. imbalance of payments.

As Finance Minister for the Bahamas, I am privy to statistical information which bears directly on your problem of dollar drain. Its relevance to your deliberations gives me the courage to submit that unless contemplated legislation specifically exempts the Bahamas and Bermuda, which make a net return of dollars to the States, then in those areas enactment of the proposed legislation can only worsen the situation it is designed to remedy.

Many things bring Bahamians to this country. Particularly, we come to purchase. For, while our islands are blessed with a friendly people and benevolent climate, as I have said we have little in the way of raw materials. Consequently our colony is forced to be a net importer. Over the past half-dozen years the dollar value of imports has been 10 times as great as the value of our exports.

During 1964 the United States was the source for 65 percent of all imports to the Bahamas of such basic commodities as food, beverages, raw material, and many kinds of manufactured products. By contrast, the next largest supplier was the United Kingdom, with 14 percent of the imports. Third largest was Canada, with slightly more than 7 percent.

Our islands draw tourists from all over the world, and your country is by far the biggest supplier of the goods we serve them all. To supply the needs of our tourists and our native population we even purchase ice cream in the United States.

Moreover, the greatest preponderance of other foreign spending by the Bahamas is done in the United States. You receive the lion's share of our spending for foreign travel, $8.3 million last year, for education, for medical services, for dividends on business investments, for advertising, and all those dollar expenditures that are not ordinarily considered exports.

Bahamian expenditures of all kinds in the United States average over a quarter of a million dollars a day.

In the 4 years since the start of the present decade, the total of Bahamian expenditures of all kinds in the United States has exceeded $320 million. Dollar income from tourism in these same years totals $197.6 million.

The rate of growth of Bahamian spending in the United States is perhaps more significant than the dollar figures, for it indicates how sizable our trade with the United States can become in the future. Bahamian dollar expenditures in 1960 reached a then-record high volume of $44.5 million. In 1964, only 4 years later, the equivalent expenditure had more than doubled to $93.5 million.

In response to the testimony given by Secretary Fowler yesterday, I would like to insert here a few comments additional to those in the papers before you that were submitted yesterday.

Senator TALMADGE. Without objection it will be admitted in the record.

Sir STAFFORD. I beg your pardon?

Senator TALMADGE. Did you desire to insert them?

Sir STAFFORD. Yes, sir.

Senator TALMADGE. Without objection they will be inserted.

Sir STAFFORD. In his testimony, the testimony guesstimated sir, that a reduction in the tourist allowance would be offset by an increase in the number of tourists coming to the Caribbean.

The Secretary forecast a 20-percent increase in the Caribbean area which he felt would cushion the blow of his legislative proposals.

With all due respect to my great American counterpart, sir, I wished it worked as easily as Secretary Fowler imagines. In fact, our yearly increase is running closer to 10 percent than the figure he chose. Except for 1960, the year after Castro came to power, and many would-be Cuban tourists had to turn to the Bahamas, and except in those years when we have budgeted extravagantly for the promotion, up to the point where we reach an uneconomic return, somewhere in the neighborhood of the 10 percent has been our normal increase.

We have found that, as in most other fields, in the business of tourism there comes a point of diminishing returns, where the additional tourist travel generated does not pay for the added costs of promotion. This will be even more so in the future if those tourists are very limited in what they can spend and if a governmental admonition to stay home has built up a resistance to our advertising.

It is significant that the one thing growing faster than Bahamian tourism is the Bahamian population. Today our population is 182,000. By 1980 we project it will be over 250,000. Thus by 1980, our Government will have twice the population to educate, to provide with health care, to serve in all other ways demanded of modern government.

With no consideration for the need to make progress, we need, even as your Government seems to need, a bigger and bigger budget every year just to hold our own.

Yesterday, in explaining a slowdown in U.S. trade following a prolonged dock strike, Mr. Secretary Fowler said that it was hard, perhaps impossible, ever to make up economic ground lost through such a circumstance.

Thus he fairly phrased the aspect of his proposals which give us the most concern. We have never fully recovered our projected momentum from the last U.S. slash in duty-free allowances. With full respect to the fine job being done by Secretary Fowler, I submit that Secretary Fowler's greatest oversight in his testimony before this committee was his failure to recognize the error in his generalizations when applied to nations which have a balance-of-payments position favorable to the United States and for which tourist income and gross national product are synonymous.

Our Finance Ministry forecasts that the Fowler proposals to lower the duty-free allowance to $50 and limit alcoholic beverages to 1 quart will reduce our Government revenues by 12 percent. Such a reduction in tourist dollars might not be serious, sir, in a large Western European country, but to a country whose sole revenue is tourism, the result is disastrous.

A 12-percent reduction in our gross national product will have precisely the same lasting effect on our economy and on our budgeted Government programs that such a catastrophe would have in this country, sir.

I think even you and the able Senators of your committee, sir, would find serious problems if you had to face a 12-percent drop in your gross national product and in your Government income in a single year, sir.

Total Bahamian expenditures in the United States rose from $37 million in 1950.

If the tourist business continues to grow, Bahamian purchases in the United States will continue to grow at the same pace.

For the Bahamian Government and its people the United States is an enormous shopping mart. Bahamian expenditures in the United States far exceed dollar income from tourists.

Last year the Bahamas spent $720 in the United States for each man, woman, and child in the country. This can be contrasted with U.S. per capita spending in the Bahamas for all purposes, including tourism, of approximately 55 cents.

We extend a $200 duty-free extension to all Bahamians returning from any country, including the United States, and they can bring as much of that $200 in duty-free liquor as they choose to.

Each tourist dollar spent in the Bahamas returns to the United States with 60 cents interest.

The Bahamas receive dollar exchange from a number of sources, including income from exports, dividends on stock in American corporations, earnings by Bahamian registered ships, and others. By far the largest single producer of dollar income is tourism. The volume of tourism determines the volume of funds spent in the United States. The direct correlation between the growth of tourist dollar income and spending by the Bahamans in the United States is illustrated in the chart before you.

Total Bahamian expenditures in the United States rose from $37 million in 1959 to $93.5 million in 1964. During the same period total U.S. tourist receipts in the Bahamas rose from $23.5 to $53 million. The chart in the papers before you indicates the figures in each of the years and also shows cumulative totals wherein $136.8 million more was spent in the United States by Bahamians than was received by our colony in tourist dolars.

Bahamas Islands: Dollar expenditures, dollar tourist receipts

[Dollar amounts in millions]

	1959	1960	1961	1962	1963	1964	6-year total
Total Bahamas expenditures in the United States	$37.0	$44.5	$52	$55.9	$75.0	$93.5	$357.9
Total U.S. tourist receipts in Bahamas	23.5	28.5	33	35.2	48.9	53.0	221.1
Excess of expenditures over receipts	13.5	16.0	19	20.7	26.1	40.5	136.8
Excess of expenditures over receipts as a percentage	57	56	57	58	53	76	62

This tabulation demonstrates the healthy impact U.S. tourism has had on the economies of both countries. As the number of travelers to the Bahamas has increased, so has spending by the Bahamas in the United States, by an almost fixed relationship.

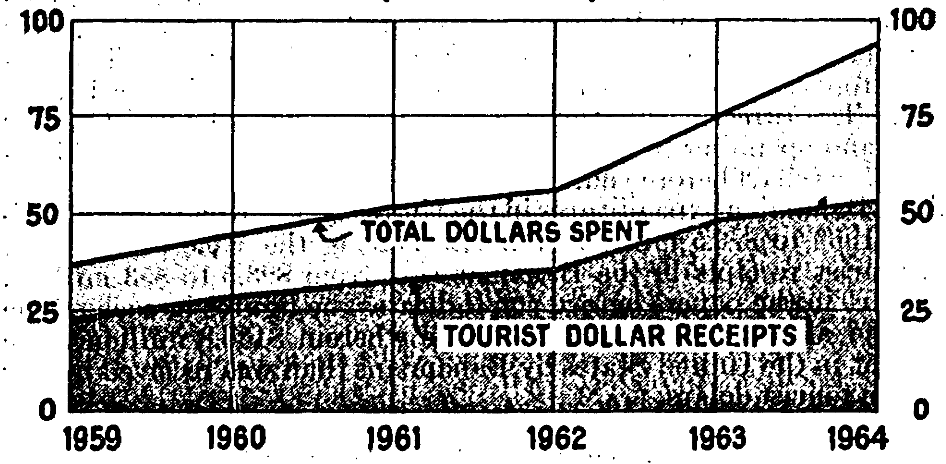
From these statistics it is evident that a cut in tourist volume to the Bahamas or a cut in the amount of tourist spending within our shores will adversely affect U.S. balance of payments, will disrupt our efforts to achieve a satisfactory living standard for our people without outside assistance, and will depress the economy of a friendly neighbor committed to the United States by geography, by several hundred years of commerce and by espousal of a democratic form of government.

I submit, sir, that special treatment is justified in the cases of the Bahamas and Bermuda. Such treatment will serve as a reassurance to patriotic Americans that they can travel to our islands with clear consciences.

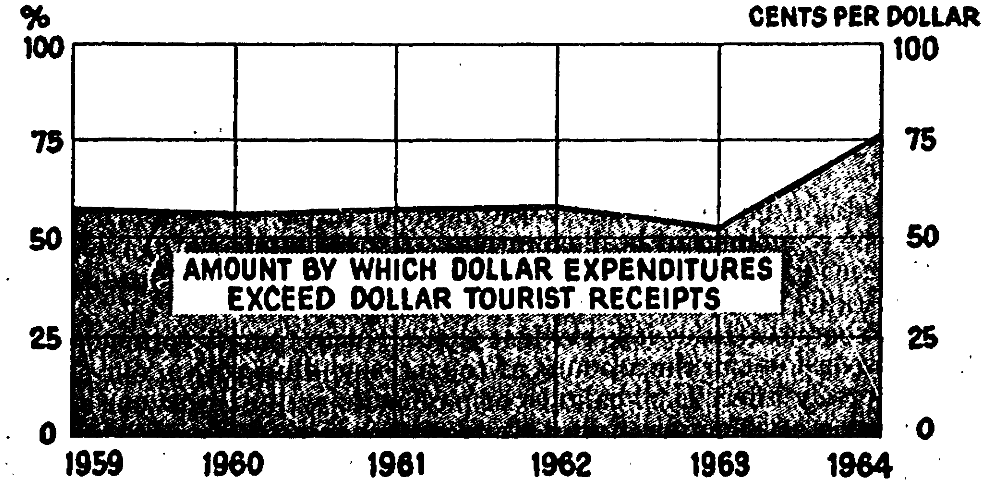
Senator TALMADGE. Sir Stafford, thank you very much.

(The charts referred to follow:)

DOLLAR SPENDING BY THE BAHAMAS GREATLY EXCEEDS DOLLAR TOURIST INCOME
(IN MILLIONS)

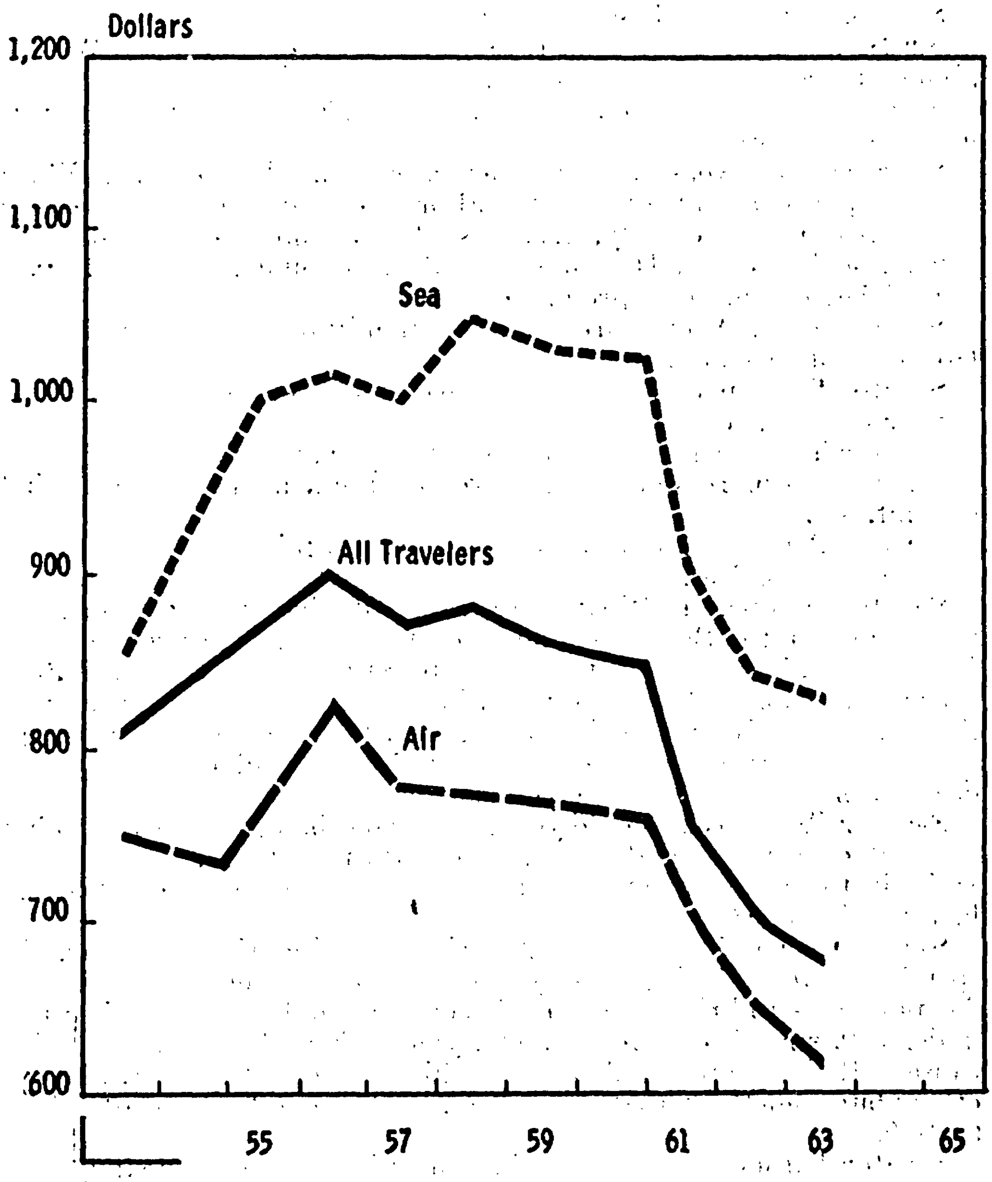


EACH TOURIST DOLLAR SPENT IN THE BAHAMAS RETURNS TO THE U.S. WITH AN AVERAGE 62 CENTS INTEREST



APPENDIX D

AVERAGE EXPENDITURES OF U. S. TRAVELERS IN THE EUROPEAN AND MEDITERRANEAN AREA



Source: Survey of Current Business, June 1964

Senator TALMADGE. Did I understand you to say that if the Congress reduces the duty-free import to $50 and 1 quart of liquor, that it would reduce your gross national 12 percent or your revenue of your Government 12 percent?

Sir STAFFORD. Both, sir.

Senator TALMADGE. How would it be both?

Sir STAFFORD. Because our revenue is based on imports. We tax all imports coming into the colonies.

Senator TALMADGE. Your revenue wouldn't be the same as your gross national product, would it?

Sir STAFFORD. No, sir; but the reduction would be the same. When they are put on a chart gross national product and revenue follow each other up and down exactly, sir, and so do the number of tourists.

Senator TALMADGE. How much would it amount to if it is 12 percent of the gross national product?

Sir STAFFORD. About three and a half million dollars, sir, for the Government revenues.

Senator TALMADGE. That is your Government revenues?

Sir STAFFORD. Yes, sir.

Senator TALMADGE. How about your gross national product?

Sir STAFFORD. It would be, I would think, about 10 times that amount, sir.

Senator TALMADGE. In other words, about $35 million.

Sir STAFFORD. Yes, sir.

Senator TALMADGE. What percentage of the average American tourist visit in the Bahamas is spent on food and services while in the Bahamas, and what is spent on goods to return to the United States?

Sir STAFFORD. Unfortunately, sir, I cannot give you exactly accurate figures, I can give you estimated figures, because the U.S. Customs preclears Americans at our airport in Nassau and does it by oral declaration so we cannot give you exact statistics.

Senator TALMADGE. Would you give us your best estimate as to what is spent on services and food and entertainment and such as that while in the Bahamas and the percentage that is spent on goods to bring back home?

Sir STAFFORD. The average American visiting the Bahamas, sir, spends $200 total during his stay there. And his average expenditure for purchases to bring back to this country would be something just under $50, sir. But unfortunately, you can't go by the average because half the people don't buy anything to come back, sir, and the others buy something that costs more, in the neighborhood of a $100 to $150.

Senator TALMADGE. Your best judgment is then approximately $150 would be spent on lodging, food, beverage, entertainment for consumption in the Bahamas and about 25 percent of $50 would be spent on goods to bring back to the United States?

Sir STAFFORD. Yes. I realize that statement damages my own case but it actually works as I say——

Senator TALMADGE. I understand you are talking about averages and not each individual case.

Sir STAFFORD. That is right, sir.

Senator TALMADGE. Now, how fast is your tourist business growing annually in the Bahamas as a result of Americans and other non-Bahamians visiting there?

Sir STAFFORD. Our tourist business has been growing at the rate of about 10 percent per annum, sir.

Following the accession of Castro in Cuba in 1959 we showed a very big jump in 1960 because many Americans who formerly went to Cuba had nowhere else to come near Florida but to the Bahamas.

Following the cut in the duty in 1961, sir, we very substantially increased our tourist promotion. In fact, which got to the point where we were spending more than we should for tourists, and we had a substantial increase in 1963 resulting from that expenditure.

Senator TALMADGE. I see in your direct testimony here that the number of tourists visiting the Bahamas has increased from 32,000 in 1949 to 605,000 last year.

What percentage of that 605,000 were American tourists?

Sir STAFFORD. About 80 percent, sir, a little better than 80 percent, sir.

Senator TALMADGE. You made reference to a number of military installations which are operating in the Bahamas free of all costs and I presume a great many servicemen in the U.S. Government visit the Bahamas annually, do they not?

Sir STAFFORD. They do not come into the communities. These guided missile bases are isolated, sir. They are served from Cape Kennedy. They spend very little money in our economy because they are permitted under our law to import all of the supplies duty free, sir, and, under your policies of spending American money for American goods, even the Coca-Cola is flown down each day from Cape Kennedy to supply the bases.

Senator TALMADGE. There are no restrictions on imports then for American service personnel?

Sir STAFFORD. No, sir; they have their own PX's where they buy their duty-free goods for their own consumption, sir.

Senator TALMADGE. Thank you very much.

Senator Douglas?

Senator DOUGLAS. Sir Stafford, the Bahamas are wholly part of the British Empire or British Commonwealth; can you tell me what the allowances of the United Kingdom are on residents bringing back into the United Kingdom goods from abroad?

Sir STAFFORD. I cannot, sir. But I think they are very small. They may even be nonexistent. I believe that going into United States——

Senator DOUGLAS. I believe your surmise is correct; my information is that there is nothing allowed British citizens to bring back except limited quantities of tobacco, spirits, and perfume.

Now, Great Britain is in balance of payments difficulties. She is a loyal ally. We respect her; we want to help her. She has felt the—felt it necessary to do this, should we be asked to—let me word this carefully. Should we be expected to have standards vastly more liberal than Great Britain?

Sir STAFFORD. Well, sir, we can't control what Britain does. I can only tell you that we permit Bahamians returning to the United States to bring $200 in duty free, sir.

Senator DOUGLAS. Yes, but you are British dominions, loyal dominions. You want to continue so; we want you to continue so. We don't want to treat you as a political or economical or economic empire any more than we do with Canada. But the United Kingdom has prohibited, prohibits people bringing back goods duty free; why should you object except on ground of self-interest, which is a perfectly good ground, if we cut our figure down from $100 to $50, because we are in trouble, too.

Great Britain is in serious trouble and we are in trouble, and these are the two key currency countries. We are struggling against the weaknesses of gold exchange standard which permits countries holding foreign exchange against the dollar and the pound to raid us.

Great Britain barely survived in November. It faces another crucial test. We had over a billion dollars in gold withdrawn in the first 3 months of this year.

While it is true our reserves are ample, if the Swiss and the French should gang up on us we would be in real difficulty. You probably read the article in the current Atlantic Monthly which says the Swiss hold $40 billion in stocks of the United States which if they could sell and demand gold in return and Switzerland is the center of the international bankers, the international bankers start a run on the United States or on the pound for political reasons, we would be in real trouble. We are trying to trim the sails in the face of a possible storm. We are glad to welcome you here, but I think you should realize our position, too. Uncle Sam is no longer the cornucopia of plenty, at least not from the standpoint of international finance.

Sir STAFFORD. We have never considered that the United States was the cornucopia, sir, because we have never received or asked for aid from either the United States or the United Kingdom. It has been our pride that as a small place we have always been able to pay our own way, sir.

Senator DOUGLAS. You do that—you do have certain tax advantages, I believe. People who live in Bahamas are exempt from taxes in the United Kingdom, is that right?

Sir STAFFORD. No, sir, if we hold United Kingdom securities we pay taxes on them.

Senator DOUGLAS. You pay taxes equal to the rates charged for residents of Great Britain.

Sir STAFFORD. I think on investments, sir, it is the usual practice of all the great countries to have a withholding tax on foreign investments.

The United States, I believe, deducts 30 percent on dividends from abroad, the United Kingdom deducts the regular income tax rate, sir.

Senator DOUGLAS. Where did Sir Harry Oaks go to in the Bahamas, Nassau then?

Sir STAFFORD. I am unable to answer that, sir.

Senator DOUGLAS. Isn't it generally understood that he went to Nassau to evade taxation?

Sir STAFFORD. I am unable to say what reason, I would have liked to say that he came to the Bahamas because he found the climate attractive.

Senator DOUGLAS. Did you refer to taxation of income or taxation of investments?

Sir STAFFORD. Taxation of income flowing from the United States on American investments. There is a 30-percent tax deducted by the U.S. Government from source on income flowing abroad, I believe, sir, and there is, I think it is 8 and 6 of the pound deducted by the United Kingdom.

Senator DOUGLAS. Senator Gore and I had something to do with trying to get at these tax havens so far as American citizens residing abroad are concerned, and we have reduced the number of tax havens.

We have not eliminated them by any means, and the popularity of Nassau as a center for American operations and for American—wealthy Americans—from the tax standpoint is still real.

Sir STAFFORD. I don't believe, Senator, that an American who simply lives in Nassau gains any benefits because I believe it is the principle of your system of taxation that you tax your citizens, sir, wherever they are residents.

Senator DOUGLAS. You know U.S. citizens living in the Bahamas have a $25,000 personal exemption?

Sir STAFFORD. If they are employed.

Senator DOUGLAS. Whereas they only have a $600 exemption if living in the United States.

Sir STAFFORD. That is on salary, isn't it, Senator?

Senator DOUGLAS. Yes; but you can have a corporation which receives dividends and then the corporation can pay you a salary. You know—you use the corporation as a funnel to transform corporate income into personal income.

Sir STAFFORD. I know that as a result of the legislation passed, I think it was 2 years ago in this country, sir, there were a number of offshore companies operating in the Bahamas that have closed down and moved.

Senator DOUGLAS. What I am trying to say, sir, is this: we have been in the past extraordinarily generous in the treatment which we give to foreign countries and indeed to the offshore islands under the British Crown, but we are in trouble, we are in real trouble.

There is no use disguising it. The world doesn't believe that we are in trouble. They still think that we have unbounded resources. We have great economic strength but we are vulnerable from the standpoint of the gold exchange standard. We probably have at least $25 billion in claims outstanding against us. We have got $14 billion in gold with which to meet this. If France or the Swiss were to decide to pull us down they could sell the securities which they hold in this country, and this would become claims that Swiss citizens or French citizens would have against us, these would be deposited in Swiss banks or French banks. These in turn could deposit them in the central banks and the central banks could then claim gold.

So, that we are vulnerable.

Now, there is no economic reason why this should be done because we are strong but there might be a political reason, and we have to guard, we have to protect ourselves, and if you are in rough weather, you have to take down some of your sails, and if you are hard pressed you have to reduce your expenses, and you can't be quite as generous as you would like to be or as you have been in the past.

It is very hard to convince anybody that Uncle Sam can be in trouble, but we are.

Sir STAFFORD. I recognize the balance-of-payments problem, sir, and I can understand the possibility of foreign countries through this central banks calling on gold for their dollar holdings. I am not as fully familiar or aware of the problem as you would be, Senator.

Senator DOUGLAS. I am sure you would be aware of it.

Sir STAFFORD. What I am merely saying, sir, is that we in the Bahamas spend more in the United States than we take from tourism, sir. That we fully recognize the right of every great country to regulate its affairs to suit its own needs, sir. We merely ask that in regulating those affairs that you consider the peculiar economic situation of these close offshore islands, sir, where trouble has already been expensive to your Government, sir, in both Cuba and the Dominican Republic, that the overall saving which Mr. Secretary Fowler expected to make by this reduction was between $75 million and $125 million.

If one took the midfigure of $100 million which would be expected to be saved, sir, the amount that could be attributed to the Bahamas and Bermuda out there would be quite small, sir. The effect of such a reduction in the duty-free allowance on the economy of a large Western nation like France or Germany would be infinitesimal, sir. On our economy, it would be disastrous, sir, and the decision, I think, sir, really is whether your country would feel it advisable or desirable to make some exception to those offshore and neighboring islands which have assisted in the U.S. defense effort substantially and considerably assisted, sir, and which from the point of view of the United States it is very desirable that they should remain stable and democratic, sir.

I am not saying for 1 minute that we will necessarily change our democratic form of government or have any disaster overtake us from totalitarian countries, sir. But I think it is well recognized worldwide, sir, that unemployed and hungry people are more easy of exploitation than people——

Senator DOUGLAS. That is a problem, of course, all through the Caribbean. The great contrast between riches and poverty, this is true of the Bahamas, the Dutch island, the French islands.

Senator SMATHERS. You do what?

Senator DOUGLAS. To grant exemption. I think there is—are still some Danish islands.

Sir STAFFORD. No, I think not. I think you own the former Danish island, sir.

Senator DOUGLAS. What about the Swedish island?

Sir STAFFORD. I beg your pardon?

Senator DOUGLAS. Swedish island.

Sir STAFFORD. I think not. I think France and Holland are the only European countries.

Senator DOUGLAS. I was down to Martinique last winter and I flew by an island that I thought had an attachment with Scandinavian countries. Just for curiosity, I wonder if we could get an atlas?

Sir STAFFORD. I am not positive, sir.

Senator DOUGLAS. Well, I mean, each individual case makes an appeal to our sympathies, but we are in trouble and I think we have a right, not only a right, but I think we have a right to ask for understanding as we do this, not be reproached for being hardheaded. I would like to remind you, you said that since 1949 the number of tourists have increased from, what was it? 80,000?

Sir STAFFORD. 32,000.

Senator DOUGLAS. To 600,000?

Sir STAFFORD. 600,000.

Senator DOUGLAS. And 85 percent of this comes from the United States.

You certainly have profited much more from the increase in the number of tourists than you would lose through the decrease in the amount of goods which people could take back in.

If we should have a depression in this country, believe me, you would lose through the volume, through a decrease in the volume of tourist traffic, and in going over the history of the 1927–29, 1929–33 period, we find that withdrawals of gold by France, one of the factors which caused the British to raise the interest rate and depress employment, that caused the Federal Reserve Board in the summer of 1931 when the depression was almost at its depth to raise the interest rate and plunge it down still further because they were afraid of a further exodus of gold in this country, these are things which people don't talk about, but the instability in the gold exchange standard when you have more claims outstanding against you than you have gold with which to meet them, as long as nobody asks for the gold or asks only for the gold in small quantities you are safe.

But if they call, ask, for gold and you don't have the wherewithal to meet them, you go off the gold standard and this touches off a whole wave.

So, we are trimming sails.

Senator SMATHERS. Senator Bennett.

Senator BENNETT. No questions.

Senator SMATHERS. Senator Talmadge.

Senator TALMADGE. No questions.

Senator SMATHERS. Mr. Sands, may I ask a couple of questions? As I recollect yesterday from the testimony of the Secretary of the Treasury, I think the testimony was that we had a balance-of-payments deficit originally of $3,600 million. It had worked down the previous year to $3,400 million. It was now down to three billion and about 200 million. The Senator from Georgia may remember that correctly.

Senator TALMADGE. It is approximately correct. I believe it improved some $400 million in the last 3 years.

Senator SMATHERS. That is what our balance-of-payments deficit is and that is the big problem with which the United States is concerned. How much of that problem are we talking about when we talk about your particular problem in Nassau and the Bahama Islands?

Sir STAFFORD. Senator, we take in, we took in last year total $105 million. That was $53 million of that came from our tourists, and the remaining $52 million came from all other sources combined, sir. A small amount from our exports to the United States, a very small amount from farm labor which has been a diminishing program and I think ends this year, sir. A small amount from the earnings of ships, sir, a substantial amount from income on American investments held in the Bahamas, sir, where we, as a colony get the credit for the conversion of the dollar income into pounds. We don't necessarily keep the resulting pound.

Senator SMATHERS. For the purposes of this bill, which has to do, as I understand it only with taxation of the limitation of that amount of goods which a tourist can bring back, say from the Bahama Islands, we are talking about $53 million; is that correct?

Sir STAFFORD. Is what the tourists spent last year in our colony, sir.

Senator SMATHERS. It looks like even though we might insofar as the Bahama Islands and Bermuda are concerned we could close off the whole thing and we would include the— improve the U.S. balance-of-payments deficit which involves some $3,400 million, we might improve it by $53 million; is that the fact?

Sir STAFFORD. In the case of the Bahamas.

SENATOR SMATHERS. If we stopped all traffic.

Sir STAFFORD. Yes; if you prohibited Americans visiting the Bahamas you would have $53 million.

Senator SMATHERS. Of course; do you thinks that all the tourists would stop, I might say I don't—how much then, if we diminish, if we subtract the amount of the money which the tourist would actually go and spend but which would be lessened because of the adoption of this bill, then what are we talking about?

Sir STAFFORD. We estimate, sir, that if this proposal of Secretary Fowler's yesterday, the $50 limit, sir, and the one bottle of liquor, we estimate that would affect our gross national product by about 10 percent, sir.

Senattor SMATHERS. How much is that in dollars?

Sir STAFFORD. Probably $5 million, sir.

Senator SMATHER. $5 million?

Sir STAFFORD. Yes.

Senator SMATHERS. So then——

Sir STAFFORD. $5 or $6 million.

Senator SMATHERS. Then what we are talking about, I gather, is $5 million?

Sir STAFFORD. In the net figure.

Senator SMATHERS. In the net.

Sir STAFFORD. I am sorry, sir, I said gross national product, I mean our revenues, our Government revenues would be affected by, I think around $3.6 million, $3.7 million, sir. Our gross national product would be affected by a much larger figure, sir, by 10 times that.

Senator SMATHERS. I was not here, I regret, to hear your statement. What sort of business do you have over in the Bahama Islands aside from tourism?

Sir STAFFORD. None, sir. We have very small exports of crawfish to Florida, where it becomes lobster on the Florida menu.

Senator SMATHERS. We have lobster in Florida, too.

Sir STAFFORD. We contribute to the supply, sir. We sell salt to Japan and to the United States, sir, and we sell pulpwood to the United States and some winter vegetables.

Senator SMATHERS. You don't grow any, have any export of any foods or fibers or things of that kind?

Sir STAFFORD. No, sir. We buy our goods from the United States.

Senator SMATHERS. How much of the money which you make on this tourist business do you spend back there in the United States?

Sir STAFFORD. We took $53 million from the tourist trade last year and we spent $93½ million back in the United States for goods and services, sir.

Senator SMATHERS. So you get $53 million from tourists and you spent back $93 million in the United States?

Sir STAFFORD. Yes, sir.

Senator SMATHERS. Can you conceive of any way if we stopped the $53 million tourist trade that it might have an effect in reducing that amount of money which you are able to spend in the United States?

Sir STAFFORD. We would automatically have to reduce it, sir, because the United Kingdom cannot meet a dollar deficit for us; they have their own problems.

Senator SMATHERS. As a matter of fact, it is much easier and much more normal and much regular for you people to make your purchases in the United States than it is anywhere else?

Sir STAFFORD. It is the only sensible economic thing for us to do, sir. When in the immediate postwar years the dollar situation was extremely tight, we had to import beef from Australia instead of from the United States, we had to import canned goods from northern Europe and South Africa when now, with the easier exchange position we buy all of those supplies from this country, sir.

Senator SMATHERS. All those supplies from the United States.

Sir STAFFORD. Yes, sir, from the United States.

Senator SMATHERS. How many NASA installations and defense installations do you have, that is of the United States when I speak of defense, how many of those do you have located in the Bahama Islands?

Sir STAFFORD. Over 150 separate installations, sir. We have four large guided missile bases, sir and we have the large AUTEC base which was built by the United States but is also used by the British Navy, sir.

Senator SMATHERS. Is there any, do you know of any plans that are now underway with respect to the Navy installing a new, as you put it, an underwater-type operation off Andros Island?

Sir STAFFORD. Yes, sir; that is the abbreviation, is AUTEC, it is the Atlantic Undersea Testing and Evaluation Center, sir, I believe your government is spending in excess of $100 million on it, most of it in scientific equipment, sir, all of those supplies, everything for that base, and including even the PX's are permitted duty free into our country, sir.

Senator SMATHERS. Permitted duty free in your country?

Sir STAFFORD. Yes, sir; we make no charge against the guided missile bases.

Senator SMATHERS. With respect to that underwater operation there is no charge. How about these other—installations?

Sir STAFFORD. I might clarify, sir, that we get 150 pounds a year. The British Government pays that to the United States and the United States hands that on to us in connection with the guided missile base, with the AUTEC base.

Senator SMATHERS. So then with the exception of $150,000 a year.

Sir STAFFORD. Pounds.

Senator SMATHERS. Pounds. How much is that in dollars?

Sir STAFFORD. $420,000.

Senator SMATHERS. $420,000. How many bases do we have in installations?

Sir STAFFORD. You have five major bases, sir, and over 150 individual sites.

Senator SMATHERS. How much, how many times has the Bahama Government, if ever, presented cash for gold asking for exchange in gold?

Sir STAFFORD. Never, sir, because we turn any surplus dollars we have, sir, in to the London sterling dollar pool, sir, and if we run short of dollars London supplies us with the difference.

Senator SMATHERS. So there never had—if there was any outflow of gold between Bahamas and the United States it has never resulted in outflow of gold so far as you can see?

Sir STAFFORD. None as far as our Government or our banks are concerned.

Senator SMATHERS. Do you attribute the fact that there has been considerable increase in the amount of tourists who travel in the Bahama Islands, do you attribute any of that to the fact that they no longer can travel to Cuba, they no longer travel to the Dominican Republic. They no longer travel in large numbers to Haiti. Do you think you have been the beneficiary of the fact that these countries have become unavailable to tourists?

Sir STAFFORD. Certainly sir. Cuba, the year after Castro came to power in Cuba, we had our largest single jump in the tourist trade, sir.

Senator SMATHERS. What is the political situation in the Bahama Islands with respect to which way they are going politically. Could you give us some little benefit of your judgment on that.

Sir STAFFORD. We believe, sir, that we are a stable democratic country. We have universal suffrage, sir, elections are taken extremely seriously in the Bahamas. The registered voter total is almost the entire potential, sir, and over 90 percent vote in every election. We at the moment are stable and although we are aware that there are some efforts being made from Cuba to disturb our tranquility, sir, they have not been successful. If we can maintain a reasonable level of employment, a reasonable degree of prosperity, I would not anticipate any serious change in our tranquility and stability, sir.

Senator SMATHERS. What percentage of the people of Bahama Islands are of colored origin?

Sir STAFFORD. Seven to one is the ratio, sir.

Senator SMATHERS. How many political parties do they have?

Sir STAFFORD. We have two political parties, sir, three, there is a labor party with a single member in our parliament of 33. There is the progressive liberal party with eight members, sir, and there is my party, the united Bahamian party which I think you would term the more conservative party, sir, with 23 members.

Senator SMATHERS. With respect to this amount of alcohol, whisky, which could be, which has been brought out, I think it is about a gallon for every person traveling and now it is recommended by the House that it be limited to one quart, what effect would that have, if any, on the economy of the Bahama Islands?

Sir STAFFORD. We sell about 322,000 gallons to tourists, and if the reduction is to one bottle, we feel that that will be in effect a complete cancellation because the average tourist will take the trouble to bring back five bottles of his fifth rate Scotch so he is not going to be bothered to bring back a single bottle and that will cost our Government over a million dollars in revenue that comes from that source alone because we don't sell anything out of the bottle.

I would like to say here for the record that I am perhaps unwittingly an expert witness in this line because I am a small shareholder in a small liquor concern so I do have a dual interest here.

Senator SMATHERS. How much of this revenue that you get, run that by me again. How much of that does the Government, does the Bahamian Government itself, what do you do, tax that whisky first when you first get it from Great Britain?

Sir STAFFORD. Yes, sir, we collect our customs duty on it, sir, when it first comes in. In 1964, we took 600,000 pounds in revenue from liquor imported in bottles. This year it should be in excess of 700,000 pounds or $2 million of Government revenue from liquor that is imported in bottles.

Of that half or a little more than half is brought back to this country by returning tourists. So that if that is eliminated my finance ministry is minus about 3 percent of its total revenue for a year, sir.

Senator SMATHERS. You lose 3 percent. Do you know how much, do you know what the domestic U.S. consumption of whisky is a year?

Sir STAFFORD. I believe, sir, I am guessing because I am not positive of the figure but I think it is 275 million gallons, sir, some figure like that, sir.

Senator SMATHERS. I have almost that same figure from your Department of Commerce, 275 million gallons, and we are talking about now 322,000 gallons, is that right?

Sir STAFFORD. Yes, sir.

Senator SMATHERS. What does that make it—about one-eighth of 1 percent of the total we are talking about?

Sir STAFFORD. I think that, yes, sir; yes, sir, I think a little less than one-eighth, sir.

Senator SMATHERS. I would like for you to educate me and then I will let you go on this one point, and this I don't really understand, and anybody else can educate me, I need a lot of educating in a lot of this stuff, I don't understand how it hurts the United States if we have a favorable balance of payments, balance of trade and balance of payments with a country, how it hurts us to continue to do business with them, that is the first point I don't understand.

Second, I don't understand like from the case of the Bahama Islands, if for every dollar that our tourists spend in the Bahama Islands the people of the Bahama Islands spend back a dollar and 60 cents, I don't understand how it hurts us in that kind of an operation.

I don't quite understand why it is not totally in our own benefit and why, as a matter of fact, we increase our deficit to cut it off rather than to improve our deficit.

Sir STAFFORD. Well, as we understand the situation——

Senator SMATHERS. I am no economist.

Sir STAFFORD. We understand it the same way, sir. Because if you stopped all Americans visiting the Bahamas, sir, our ships would still continue to earn their dollar freights, our American investments would still continue to receive dividends and interest checks, sir, and you would have then a net loss because you would be getting no trading from us.

Now we spend back with you more than you spend with us in tourism, and we spend back with you nearly all that we take in. Last year, sir, our total surplus in the dollar ratio was $9 million, sir, and that surplus we turned in to the United Kingdom pool, sir.

Senator SMATHERS. Is it a fact that, am I correct or am I oversimplifying that every dollar you people—that is spent by American tourists in the Bahama Islands that you people spend back a dollar and 60 cents in the United States,

Sir STAFFORD. The totals for the last 6 years show we have spent a dollar and 60 cents back in the United States for goods and services for each dollar that the U.S. tourist has spent in the Bahamas.

Last year we spent more than that.

We spent a dollar and 70 cents, because we had a lot of building construction going on, and we had to pay for the goods because we buy all of our electrical equipment, all of our plumbing, nearly all of our building materials come from the United States, sir.

Senator SMATHERS. All right, sir, thank you very much for your statement.

Our next witness.

Sir STAFFORD. Thank you for hearing me, sir.

Senator SMATHERS. Our next witness is Mr. Claude Caron, Virgin Islands Gift Shop Association.

STATEMENT OF CLAUDE CARON, PRESIDENT OF THE VIRGIN ISLANDS GIFT & FASHION SHOP ASSOCIATION

Mr. CARON. Mr. Chairman and members of the committee, I am Claude Caron, president of the Virgin Islands Gift & Fashion Shop Association.

Our association is comprised of 31 retail stores serving the tourist and local trade in the U.S. Virgin Islands. We have over 500 employees and an annual payroll of a million and a half dollars.

We support enactment of the bill before you.

It provides for a customs exemption of $100 for U.S. residents returning from foreign countries and $200 for those returning from the U.S. possessions, Virgin Islands, Guam, and American Samoa. The $200 exemption for Virgin Islands purchases in terms of gold outflow is in reality no more than an exemption of $100 for foreign countries.

This is true because about 50 cents out of every dollar spent by tourists on foreign goods in the Virgin Islands constitutes taxes, rent, salaries, overhead and profit, all of which stay in the United States. This means that the $200 exemption for the Virgin Islands represents no practical difference in terms of gold outflow. The United States has not given up, or lost, anything by it.

Senator BENNETT. Mr. Caron, may I interrupt at this point. If the Virgin Islands is part of the United States then is there any technical gold outflow no matter how this thing is set? Don't we consider trade between the Virgin Islands and the United States as interior trade?

Mr. CARON. It is, certainly, and the only thing that is of concern there is the foreign purchases made by our tourists. But all the commerce between the Virgin Islands and the United States is all made in dollars, all interior, domestic.

Senator BENNETT. You may not be the man to whom I should address that question, but it seems to me that technically there is no difference between trade of American citizens coming to the Virgin Islands and trade of the citizens of New York going to Chicago.

Senator SMATHERS. There is no way for you to convert that money into gold, is there?

Mr. CARON. No, no, certainly not.

Senator BENNETT. You have no balance-of-payments problem for or against the United States, do you?

Mr. CARON. No, but the United States has a favorable trade with us. In other words——

Senator BENNETT. Aren't you a part of the United States?

Mr. CARON. We are a part of the United States.

Senator BENNETT. Do you vote for the President of the United States?

Mr. CARON. No, we are a possession, not a State, and we have no vote in presidential elections.

Senator BENNETT. It seems to me you send up representatives for our political conventions. I can remember some interesting experiences.

That is all.

Mr. CARON. We would like very much to have a vote.

Senator BENNETT. I will pursue this question with the staff to determine the extent to which technically trade with the Virgin Islands is considered to be foreign trade.

Mr. CARON. The question in there is that tourists returning from the Virgin Islands have to declare their purchases made in the Virgin Islands just as they do for purchases made in foreign countries, and that is why we are concerned with this legislation.

Senator BENNETT. Fine. You may go ahead with your statement.

Mr. CARON. By permitting an allowance of $200 for U.S. possessions, the tourist is attracted to U.S. areas and not foreign countries, and this benefits the gold control program because the great bulk of the tourist expenditure—transportation, hotels, entertainment, and food bills—will be spent in the United States.

The study submitted to this committee in March 1964, by the U.S. Department of Interior, shows that out of every dollar spent by the U.S. tourist in the Virgin Islands, only 16 cents results in any outflow of dollars to a foreign country. Whereas, if the tourist is attracted to a foreign island, 100 cents out of every dollar he spends there, represents gold outflow.

We believe keeping the tourist in the U.S. possessions by the inducement of a little more shopping privileges will more than pay for itself. In addition, it benefits the U.S. economy because it keeps local business going and provides taxes.

We are faced with strong competition in the Caribbean area because foreign governments are making strenuous economic efforts to secure tourist trade for their Caribbean Islands. In St. Martin, only 90 miles from St. Thomas, the Netherlands has invested millions of dollars in a new deepwater pier for tour boats, a luxury hotel, and a jet airstrip.

Foreign governments provide capital at low interest rates for private hotels and tourist attractions, or build them as a government enterprise.

An additional inducement offered in foreign islands is the 20-percent discount given for U.S. exchange which makes the tourist's dollar go farther.

The United States also has assisted the development of tourism in the British West Indies. The conversion of the Antigua airport to accommodate jets was done with AID funds, as was the initial planning for a deepwater harbor for that island. These projects cost the United States in excess of $500,000. In Trinidad, AID has provided more than $200,000 to landscape a beach, provide recreational facilities thereon, and assist in the construction of a road to the area. In addition, another $30 million has been committed to Trinidad and Tobago to be used for any developmental purpose that the local government sees fit, including tourism.

Thus, the $200 exemption for the Virgin Islands serves as an equalizer to permit U.S. possessions to compete with foreign islands on a more equitable basis, does not represent any additional gold outflow, and it serves to keep U.S. dollars in the United States.

In addition, the bill originally provided that the tourist shall not be permitted to mail his purchases home even though this is the present practice and has been for years. Many items are bulky or heavy and the tourist does not wish to be bothered or encumbered with them on his travels, particularly if traveling by air. It seems only logical that the benefit which has been granted him by way of customs exemption should permit him to ship his packages for convenience as he does today. This also benefits U.S. shipping business. To deny the privilege of mailing purchases already exempt would discriminate against the air traveler in favor of the ship traveler and against the seller of heavier goods such as china and crystal.

We do suggest, however, that this privilege of forwarding purchases be tightened up and restricted to those items which are purchased during physical presence in the U.S. Virgin Islands and which are shipped from the U.S. Virgin Islands. The Governor of the Virgin Islands submitted a plan to continue this privilege in the Virgin Islands, with the changes I have suggested, to the Secretary of the Interior, which I am sure will be available to this committee. The cost of this plan will be borne by the Virgin Islands.

I do not believe that I need dwell further on the fact that if any merchant loses the opportunity to do 50 percent of his business in 1 year as the original bill would provide, and the opportunity to provide "delivery" services to his customers, his future is indeed bleak. The bill as passed by the House corrects these inequities.

We are a U.S. possession. We are U.S. citizens. We have a U.S. economy, and we appear here because that economy, our U.S. standards, and our businesses will be seriously penalized if the bill in its present form is not enacted.

The principal business of the Virgin Islands is now the tourist trade. It has permitted us to emerge from dreadful poverty to be a showcase for the American way of life in the Caribbean. Although we are known as a free port under the treaty of acquisition with Denmark, that is not really the case, for all foreign imports do pay a 6-percent duty collected by U.S. customs agents. In addition, we pay all Virgin Islands excise taxes and gross receipts taxes. In order to maintain U.S. standard we pay social security taxes; we have a Federal minimum wage; and pay wages 4 to 5 times higher than in neighboring foreign islands; we pay unemployment compensation insurance and U.S. income taxes.

The Virgin Islands imported only $8 million worth of foreign tourist goods in 1964, but it bought $69 million worth of goods in the United States last year. The U.S. goods all came in duty free to the Virgin Islands. The dollars with which we bought U.S. goods came from our tourist trade which the bill before you will benefit.

You have a $45 million favorable trade balance with us. If our tourist economy is encouraged we can buy more from the United States; already we spend more than $8 in the United States for every $1 we spend abroad for foreign tourist goods.

We know from the experience we had since 1961 when the Virgin Islands customs exemptions were allowed to remain as they were, tourism soared dramatically in comparison with other Caribbean Islands—even exceeding Puerto Rico. We, therefore, most respectfully ask that you restore us to the position we had up to April 1, 1964, for it will advance tourism, create U.S. business, keep the big share of the U.S. tourist dollar at home, and maintain U.S. standards in the Caribbean at their present high level.

Thank you.

Senator SMATHERS. Senator Douglas?

Senator DOUGLAS. I am a little confused by this last paragraph. You say "restore us to the position we had up to April 1, 1964." You mean you should have a $500 exemption?

Mr. CARON. No, Senator; what we mean is at that time we had an extension, an exemption higher than for the rest of the world. The exemption in 1961 was reduced from $500 to $100, but with an exception for the Virgin Islands where it was $200, and that is the time when we had that equalizing effect.

Senator DOUGLAS. Would that be eliminated by the administration bill?

Mr. CARON. It was eliminated on the 1st of April.

Senator DOUGLAS. Of this year?

Mr. CARON. Of 1964, and it would be restored by the bill now, the bill that was passed.

Senator DOUGLAS. Would it be $50 under the present bill?

Mr. CARON. I am talking about the bill presented by the Ways and Means Committee.

Senator DOUGLAS. That is the bill before us.

Mr. CARON. The price for $100 in the rest of the world and $200 for the Virgin Islands and other territories, other possessions.

Senator SMATHERS. You want to go back to $200?

Mr. CARON. $200 at retail as is presently.

Senator SMATHERS. That is what the House bill provides.

Mr. CARON. As the House provided.

Senator SMATHERS. The House bill provided for it.

Senator DOUGLAS. In other words, you want a quadruple preference. You are not opposed to the $50 exemption limit for other countries, but you want $200 for the Virgin Islands instead of $100?

Mr. CARON. We wouldn't go that far. The bill——

Senator DOUGLAS. Excuse me if I turn cross-examiner. Do you want a $200 exemption limit for the Virgin Islands?

Mr. CARON. That is right.

Senator DOUGLAS. And you don't object to a $50 lowering the exemption limit from $100 to $50 for areas outside the Virgin Islands?

Mr. CARON. Well, we——

Senator Douglas. I don't want to badger you in prosecuting attorney fashion, but if you would answer yes or no it would greatly help us.

Mr. CARON. I don't want to look too hoggish.

Senator DOUGLAS. It is just a question of——

Senator BENNETT. When you are through——

Senator DOUGLAS. Do you want a $50 for other countries?

Mr. CARON. That we really feel we leave it up to the Senate.

Senator DOUGLAS. You would not make a life and death stand.

Mr. CARON. No; certainly not.

Senator DOUGLAS. So that even though the figure comes down to $50 for other countries, you want $200 for the Virgin Islands. That would be four times, and you would not object to that?

Mr. CARON. We would not object, but I don't think we could ask for that; that would be too much.

Senator DOUGLAS. Well, you see, we are proposing, as I understand it, to give you twice the exemption of other countries.

Mr. CARON. But we believe that the exemption such as provided by the first bill, the administration bill, $50 and $100 is too low.

Senator DOUGLAS. I know, but you want the $50 up to $100.

Mr. CARON. We would like to see $100 and $200, that is what we would really like to see.

Senator DOUGLAS. So you are defending the Bahamas, Bermuda, the Dutch islands, the French islands, the English islands?

Mr. CARON. To a point, to a point; yes.

Senator DOUGLAS. Well, I don't think you can ask for quadruple protection.

Mr. CARON. No; that is my point.

Senator DOUGLAS. Excuse me.

Senator SMATHERS. Senator Bennett?

Senator BENNETT. The matter that disturbed me has been cleared up. He is not asking for quadruple protection, but he would prefer it at the higher level rather than at the lower.

Mr. CARON. Exactly.

Senator DOUGLAS. I think Bermuda ought to be very grateful to you for your spirited defense of them.

Senator SMATHERS. As I understand it, Mr. Caron, you are not talking against anybody; you are just talking for the Virgin Islands.

Mr. CARON. Quite true, Mr. Chairman.

Senator DOUGLAS. I think he is talking for Bermuda, the Bahamas, the Dutch islands, the French islands, the British islands. I thought I was going to find a Scandinavian island, but it is Dutch.

Mr. CARON. Dutch.

Senator SMATHERS. Senator Bennett?

Senator MORTON. I am sorry I was late.

What has happened to the price of real estate in the Virigin Islands recently?

Mr. CARON. Well, I am not a specialist, but I do know that the prices have been going up quite a bit. It is in fact the only English-speaking U.S. possession in the Caribbean, and the surface is very limited.

There are more and more people who like the climate, who like the scenery, who like the water, and, of course, like to buy some land and retire or have a place for vacation.

Senator MORTON. Yes. I think that the motivation for going there, and it is a wonderful country, isn't so much a question of bringing a bottle of whisky as it is having a pleasant week or 2 weeks or if you are retired maybe 6 months out of the year in a perfectly beautiful place with wonderful climate. What is the per capita income down there compared to, let's say, Honduras or some place like that?

Mr. CARON. I don't know that of Honduras, but I can tell you the per capita income of the Virgin Islands is the highest by far in the Caribbean, it is even higher than in Puerto Rico, and a very good spread. It is not only in a few hands.

Senator MORTON. I commend you. When the good citizens of Kentucky retire me I will come down there if your real estate isn't too high.

Mr. CARON. We would be glad to welcome you, Senator.

Senator BENNETT. They will be glad to sell you some now as a hedge against that far distant day.

Senator SMATHERS. You had better take some of that Kentucky bourbon with you because they don't have it down there; it is English scotch.

Senator MORTON. They have a lot of good coffee.

Senator DOUGLAS. Before the witness leaves I want to ask a question. We noticed some years ago that the Virgin Islands was a very popular place for people in advanced years. They wanted to go down there and they preferred to die in the Virgin Islands than in any other place.

Senator Williams and I became very curious about this, and we decided that it was not due entirely to the beauties of scenery or the salubriousness of the climate, but there were also tax advantages for dying and, therefore, it was popular for the children to ship their father and mother down there; if they had to die they should die in such beautiful surroundings, and not pay as much taxes as they would here. And we devoted ourselves for some years in trying to find out the various tax dodges and tax favors which the Virgin Islands enjoy. We plugged some of them. I am going to ask a very naive question which shows how unsophisticated I am.

Do you still have left any of these tax dodges?

Mr. CARON. No, Senator, you have been successful because we don't have this inheritance holiday tax.

Senator DOUGLAS. You once did.

Mr. CARON. Yes. It did exist.

Senator DOUGLAS. That is a manly admission because for a long time it was denied that you had any of these taxes. This is a manly admission, that you once did.

Senator Williams and I were denounced at striking a blow at prosperity of the Virgin Islands by trying to plug these loopholes.

Now, you say—you have reformed or, rather, we reformed you.

Mr. CARON. We have now the same inheritance tax as in the States.

Senator DOUGLAS. What about corporation tax?

Mr. CARON. The same.

Senator DOUGLAS. And personal income tax?

Mr. CARON. The same as in the States.

Senator DOUGLAS. I congratulate you that we have made you honest men and women, and you enjoy it much more now than you did before with this lushing sense of sin, isn't that true?

Senator SMATHERS. I would like to say in all good humor that the able Senator from Illinois has been the flagbearer in all of these matters in many respects, but it takes a majority of the committee and a majority of the Members of the Congress in each instance to finally vote for these.

Senator DOUGLAS. Why, I don't pretend we have a monopoly on virtue.

Senator SMATHERS. It takes all of us to vote for it, is all I wanted to say.

Our next witness is Robert L. McCormick, who is of the Chamber of Commerce of the Americas.

Thank you, Mr. Caron.

STATEMENT OF ROBERT L. L. McCORMICK, McCORMICK ASSOCIATES, FOR THE CHAMBER OF COMMERCE OF THE AMERICAS, MIAMI, FLA.

Mr. McCORMICK. Mr. Chairman, if it would be agreeable, I would like to insert my statement for the record and also some economic facts from my House statement that might be helpful to the committee.

Senator SMATHERS. All right, sir, we will be glad to make that a part of the record, if there is no objection. You go right ahead sir.

(Mr. McCormick's statement in full follows:)

STATEMENT OF ROBERT L. L. McCORMICK, McCORMICK ASSOCIATES, FOR THE CHAMBER OF COMMERCE OF THE AMERICAS, MIAMI, FLA.

The Chamber of Commerce of the Americas, based in Miami, Fla., is an organization devoted to the promotion of trade and tourism between Florida and the Caribbean region. It has commercial affiliations with similar organizations in the Caribbean region.

The presentation of views and recommendations to the Congress on H.R. 8147 is made on behalf of U.S. members of the Chamber of Commerce of the Americas who have commercial interests in trade and tourism with the areas of the Caribbean region (Cuba excepted).

At the outset, may we insert for the record the attached telegram of authorization from Mr. Arthur L. Denchfield, Jr., executive vice president of the Chamber of Commerce of the Americas?

The Chamber of Commerce of the Americas believes that H.R. 8147 should be amended to permit exemption of the Caribbean areas:

H.R. 8147—SUGGESTED AMENDMENT

"That H.R. 8147 be amended to provide that the President may, at his discretion, exempt from the provisions of the proposed legislation the purchases of goods made by returning residents in the island and other areas of the Caribbean region, where the President finds that the effects of such dollar expenditures on the U.S. balance of international payments are minimal or nonexistent, but important to the economies of such areas."

May we respectfully also request that your committee embody this intent in your report to the Senate?

Overall comment—The U.S. balance of payments

This measure was originally suggested in the President's message on the balance of payments as one tangible step for improving our situation. Since then, the U.S. balance-of-payments situation has improved. Also, the House's revisions in the bill would reduce its very modest impact on the balance of payments by around one-half—reducing our deficit by a hopeful $40 to $50 million overall.

This amount of reduction is miniscule, as will be discussed in some detail below. Applied to the Caribbean, such a tiny reduction defies the microscope.

Another reason for the measure may be customs administration. And that is probably the only valid reason why it ought to be logically discussed at all today by the Congress.

Why we think H.R. 8147 should be amended

Our reasons for proposing the Caribbean amendment and report to the Senate are:

1. The U.S. balance of payments with the Caribbean is approximately in balance, according to the latest available U.S. Government figures. Why take an action—based on concern with other areas' payments balances—which may hurt a balance-of-payments relationship favorable to the United States?

2. Our tourists' expenditures support a very substantial U.S. export trade with the Caribbean area. Why endanger this export trade?

3. Tourist dollar expenditures for the purchase of goods in the Caribbean area are an insignificant, if not nonexistent, factor in the U.S. balance-of-payments accounts. Why swat at a fly, when the target is an elephant?

4. By far the largest aggregate number of American tourists travel to Western Europe, Canada, and Mexico. Why penalize these small friendly Caribbean countries when their impact on the whole is so insignificant?

5. The average tourist trip to the Caribbean area is of shorter duration and involves less total expenditure per capita than travel to Western Europe and other distant areas. Why should we penalize thousands of Americans of modest incomes who travel to the Caribbean because they cannot afford the more expensive sea and air travel to other foreign areas, and their expenditures don't seriously affect our balance of payments?

6. The proposed reduction in tariff exemption for returning U.S. residents is a protectionist restriction on import trade, contrary to our national policy of expanding two-way trade with the free world. Why hit the Caribbean with neoprotectionism?

Such protectionism is unfortunate, out of date, and contrary to the stated views of Presidents Kennedy and Johnson.

How we think H.R. 8147 should be amended

Our chamber also recommends that the measure passed by the House should be amended in the following respects, with or without the Caribbean amendment we suggested at the outset of our testimony:

1. Set the duty-free allowance for returning U.S. tourists at $100, wholesale price

The duty-free limit of $100 retail price specified by the House should be changed back again to $100 wholesale price as it is under the present law. So far as we know, the use under present law of the wholesale price for customs appraisals has not caused administrative problems; nor would such a change in the present valuation base have any real impact on the U.S. bi nace of payments, as we will show in detail below.

2. Admit small gifts duty free if worth less than $10 wholesale

We see no valid reason why the duty-free entry of bona fide gifts worth $10 or less should have been changed by the House from "wholesale" value to "retail" value. This change by the House is a distinction without a difference. While the House action would have no really discernible effect on the U.S. balance of payments, it would have a modest adverse effect on some Caribbean islands struggling for economic existence. To them these amounts of money, small to the United States, are important.

3. Do not reduce the present privilege in law permitting tourists to bring back 1 gallon of alcoholic beverages

The present tourists' privilege of bringing back 1 gallon of alcoholic beverages should be reinstated in the bill. We see no particular benefit to the U.S. balance of payments or to the efficiency of customs administration in reducing the amount entailed in this generation-old privilege to 1 quart of alcoholic beverages; for the impact of this action on the balance of payments would be precious little. It takes just as much work for the Customs Bureau to process a quart as a gallon. The few tens of thousands of these gift packages brought back by American tourists tax free will have only a minor impact on liquor excise taxes, a key source of domestic public revenue.

4. *Permit the present privilege of "merchandise to follow" tourists to continue*

The House-deleted provisions of present law extending the $100 privilege to "merchandise to follow" the tourists should be placed back in the law in a modified form as we will specify below.

With respect to this "merchandise to follow," we fully comprehend one element in the House committee's reasoning. It obviously does not make much sense to permit somebody briefly touring in Canada to order merchandise from Timbuktu and have it enter the United States duty free.

In another respect, we think the House action was unwise—involving countless actual cases which are not abuses by any stretch of the imagination. Doubtless many members of your committee have personal experiences of the types of situations to which we refer below:

(1) *Tailors' alterations.*—One instance of merchandise to follow would be a dress purchased by a tourist but requiring alterations; or perhaps slacks to be cuffed. If a ship stops at the port for only 1 day and the garment purchased by a tourist needs some alterations, as many do, we see no reason why any such bona fide purchase of merchandise cannot be sent along home after the tourist's ship has left.

(2) *Bulky packages.*—A second example of merchandise to follow would be a box of chinaware. Chinaware frequently comes in fairly large wooden crates which are practically impossible to get on an airplane and usually quite difficult to handle on a cruise ship. It is customary to ship this type of merchandise separately. Placing a new U.S. duty on this type of item would cut very deeply into sales in the islands. The same is true of fine glassware and a good many other somewhat bulky commodities.

(3) *Airlines' weight limitations.*—A third instance of merchandise to follow involves airline weight limitations. If an American tourist brings his golf clubs to the islands, he almost surely is right up to the weight limitation when he arrives.

If a tourist buys anything at all heavy in the islands, he either has to pay a heavy surcharge for exceeding the airlines' weight limit, or else has to ship the purchase as "merchandise to follow." Under the House-approved bill, he could bring the item home duty free, if he paid the surcharge; but he would have to pay duty if it were sent to him by air or sea freight, or if he shipped it to himself. This new prohibition would be a nuisance; and its effect upon the U.S. balance of payments would be virtually nil.

It should be no difficult legal drafting task to change H.R. 8147 to reflect the viewpoint on merchandise to follow which we express here. If the goods were purchased in a port which the tourist actually visited, they could follow duty free. If the goods were purchased in someplace which he didn't visit, they could not follow duty free.

While our chamber does not profess expertise in customs administration, we feel that a reasonable "merchandise to follow" provision like the one suggested above would not mean any additional volume on the Customs Bureau.

We recognize that over the years a few very minor abuses have developed in the administration of this customs law as they have in the administration of practically every other customs law. However, we do not think that underdeveloped areas like the Caribbean, struggling for their place in the sun, should be hit by stray bullets and thereby impeded in their efforts for economic viability.

The Caribbean and the U.S. balance of payments.

The Caribbean, an excellent customer of the United States, has a balance of payments that is somewhat favorable to the United States. We see no reason why this area should be penalized grievously, because the United States is suffering from a balance-of-payments deficiency to which the Caribbean does not contribute.

While the Secretary of the Treasury argued forcefully on behalf of not exempting the Caribbean from the purview of this law, we do not quite see the logic of his position. If a merchant is having problems with one category of customer, he would be rather shortsighted if he instituted a policy which injured his goodwill with some of his best customers—those who had nothing to do with causing his problem.

We have analyzed the Treasury's testimony before the House committee, and we are somewhat confused by certain balance-of-payments aspects.

The measure was recommended in the President's message to ease the U.S. balance-of-payments situation. The Treasury estimated "hopefully an additional $75 to $125 million as a result of these changes here." Then later in the House hearing the Treasury said the following:

Mr. BETTS. I was just assuming what the balance-of-payments savings would be if the present law were simply changed with the exemption to read $100 retail instead of $100 wholesale.

"Secretary FOWLER. Instead of saving from $75 to $125 million [from the U.S. gold and dollar outflow], we would deduct two-thirds of $55 million from the $75 to $125 million figure."

Thus, if the savings from this measure were $75 million in dollar outflow and we were to deduct two-thirds of $55 million from that figure, we would end up with a U.S. balance-of-payments saving in the neighborhood of $38 million to $39 million from this measure.

And we question the logic and arithmetic by which the Treasury arrived at even this figure. We think that the House's action in raising the duty-free figure in the administration's bill from $50 retail to $100 retail would have a much greater impact than two-thirds of $55 million. In fact, we believe that the House action would almost nullify the measure's balance-of-payments impact. To change the $100 retail to $100 wholesale—where it is under existing law—would, therefore, have very little effect at all on dollar outflow.

We believe this, because the vast bulk of purchases made from our members in the islands are under $100 retail per person or $200 retail for husband and wife combined.

If you were to change the $100 retail back to $100 wholesale, we think it would have practically no impact on our balance of payments, but would be of considerable importance in the efforts of several of the islands to reach economic viability.

In all of this, we trust that the committee will remember that the cost of a couple of beach motels can be very important to an island that doesn't have them—and that this kind of money would be a flyspeck in an annual dollar outflow of over $30 billion.

So as to avoid redundancy, we have not repeated our House testimony today. May we, therefore, respectfully request that excerpts from that be included in your record.

TEXT OF TELEGRAM TO MCCORMICK ASSOCIATES, INC., WASHINGTON, D.C., FROM ARTHUR L. DENCHFIELD, EXECUTIVE VICE PRESIDENT, CHAMBER OF COMMERCE OF THE AMERICAS, MIAMI, FLA.

We authorize you * * * represent our chamber Senate finance hearing considering impossibility undersigned or Frank Gatteri visit Washington at this time due to oncoming Chamber Commerce of the Americas 15th Annual Convention * * * Keep us posted immediately since all members * * * interested and greatly concerned regarding this unfair punitive and discriminatory legislation. Kindly request permission read this telegram at hearing and urge our able and responsible legislators to exempt from impact of this bill those friendly tourist-minded nations of this hemisphere which have not contributed to our country's imbalance of international payments. On behalf of Chamber of Commerce of the Americas representing membership of over 250,000 chamber members from 17 different countries, Latin America, the Caribbean and Florida, we respectfully urge Caribbean amendment.

Cordially,

ARTHUR L. DENCHFIELD, Jr.,
Executive Vice President.

Mr. MCCORMICK. I will attempt to summarize my statement.

The Chamber of Commerce of the Americas, based in Miami, is devoted to the promotion of trade and tourism between Florida and the Caribbean. We believe——

Senator SMATHERS. May I ask a question right at the outset. You call it Chamber of Commerce of Tourism Between Florida and the Caribbean. Are you limited primarily to having people from Florida?

Mr. McCORMICK. It is an affiliate of Dade County Chamber of Commerce for promotional purposes.

Senator SMATHERS. We have no objection in Florida if they want to go up to Georgia or even as far away as Chicago, Ill., do we?

Mr. McCORMICK. No. Mobile, Houston, and New Orleans.

Senator BENNETT. You will receive a telegram today from the Salt Lake Chamber of Commerce.

Senator SMATHERS. All the way to Salt Lake and all the way to Louisville. All right, sir, go right ahead.

Mr. McCORMICK. Our chamber believes there should be an amendment which would provide that the President may, at his discretion, exempt from the provisions of the proposed legislation purchases of goods made by returning residents from the islands and other areas of the Caribbean where the President finds that the effect of such dollar expenditures on the U.S. balance of payments are minimal or nonexistent but important to the economies of such areas.

I might give our response for this. The measure was originally suggested in the President's balance-of-payments message as a tangible step for improving the U.S. balance of payments. Since then the balance of payments has improved. In addition the revisions will be made by the House which would reduce the rather modest impact of this measure on the balance of payments by around a half. It would reduce the U.S. deficit overall by perhaps $40 to $55 million a year, according to our calculations, that is as the bill passed the House.

This amount is very small. If you take the pro rata share for the Caribbean, such a small reduction in the balance of payments is practically something you would need a microscope to find.

Our response for proposing this, I will summarize: First the balance of payments with the Caribbean is approxmately in balance. As a matter of fact there is a slight favorable balance to the United States and we do not see why action should be taken which is based on other areas' problems than balance of payments for the United States which would hurt the balance which is favorable to the United States.

Second and obviously our tourist expenditures support a very substantial U.S. export trade.

Third, the total amount of these tourist expenditures is almost a nonexistent factor in the U.S. balance of payments. We figured it out at something three one-thousandths of 1 percent. So we are swatting at a fly here when it is not—we really shouldn't be a target.

In addition, or alternatively, we think that if the committee does not exempt the Caribbean underdeveloped areas we think essentially the bill should be permitted to revert to present law with a few changes.

First, we believe that the duty-free allowance for returning U.S. tourists should be set at $100 wholesale as opposed to $100 retail in the present bill. In effect that would make each tourist able to bring back something like $150 to $166 without paying duty.

Second, we don't see why small gifts, less than $10, should be retail as opposed to wholesale. It is an insignificant item and we don't know why the Treasury went to the bother to change it from wholesale to retail, and we think it should stay as it is in present law.

Third, we do not see why the allowance of 1 gallon of alcoholic beverages should be reduced, and fourth, and this is the most important suggestion we have to make we believe, that merchandise to follow tourists should be permitted to come in duty free.

Now, our reasons for this are very simple and practical ones. The first one is tailor's alterations. If you come in on a 1-day cruise and you get a dress or slacks or something like that changed we don't see why if the tailor or the seamstress can make the boat with the stuff you don't pay a duty and if they don't make the boat with the stuff you do have to pay a duty. We don't think this makes much sense.

Second, a lot of these packages are rather bulky and particularly for air travelers it is virtually impossible to bring them back such as chinaware in a wooden crate.

Third, there are airline limitations and in our State we use the example of a fellow who buys golf clubs. If he buys his golf clubs with a 44-pound limit he has to pay a surcharge, whereas if he mailed them to himself, or some service down there to ship them up to him after he bought them we don't see anything wrong with this.

If he brought it in duty free, the airline surcharge would be equivalent practically to the duty which we think is unfair and we see no reason why the goods shouldn't follow him.

Now, we know perfectly well that it is not a good idea for somebody to go to, say, Curacao or Martinique, one of those islands, we don't think it is in the public interest for them to go there and make out some mail order and buy something in Timbuctoo and be able to bring that in duty free. We think on this privilege of goods to follow it should only apply to goods that are actually bought in a place visited.

On the balance of payments, I have quite a bit of discussion of it. I think Mr. Fowler yesterday several several times addressed himself to the balance of trade in an area of Western Europe where our balance of trade was favorable that he felt this measure, we wouldn't have anything left of the measure if we exempted areas where the balance of trade was favorable.

In this case, however, the Caribbean, the overall balance of payments is favorable and we don't see any reason for rocking what is more or less a successful ship. We don't believe this area should be penalized for a problem they don't have anything to do in creating and that pretty much summarizes my statement, Mr. Chairman.

Senator SMATHERS. All right, thank you, Mr. McCormick.

Senator Douglas?

Senator DOUGLAS. I take it, sir, one of your objections to the administration proposal is the sums would be saved would be infinitesimal?

Mr. MCCORMICK. Yes, sir, they estimated $75 to $125 million for this measure. We think the $125 million is kind of high. By the House action in increasing the duty-free allowance from $50 to $100, that would wipe out over half of the savings we think they are talking about so it would be practically nothing and if we took the Caribbean percentage——

Senator DOUGLAS. Supposing you went to the administration proposal, you would save $75 to $125 million?

Mr. MCCORMICK. Yes, sir, but as it passed the House it would probably be more in the nature of $50 million.

Senator DOUGLAS. And your statement is in comparison with the total deficit; it is infinitesimal?

Mr. MCCORMICK. Yes, sir.

Senator DOUGLAS. Have you ever heard of the mick-a-mickle makes a muckle?

Mr. McCORMICK. Yes, sir, but——

Senator DOUGLAS. Then the idiomatic translation of that is every little bit added to what you have got makes just a little bit more.

Mr. McCORMICK. Yes, sir.

Senator DOUGLAS. Do you deny the truth of these two popular axioms?

Mr. McCORMICK. I think that in this case, I don't want to get my scotch mixed up, but it seems to me that there are no mickles creating any muckle in the case of the Caribbean.

Senator DOUGLAS. Let's take the American version, every little bit added to what you have got adds a little more of everything, little bit subtracted from the debt you already owe makes your debt still larger.

Mr. McCORMICK. Yes, sir, but we are not attacking the bill overall, we just feel——

Senator DOUGLAS. You certainly are, if you are proposing to turn down all the administration's proposals. Don't regard this House bill as necessarily the floor or the ceiling, I will put it that way.

We can go back to the administration bill.

Mr. McCORMICK. Yes, sir.

Senator DOUGLAS. We are in trouble.

Senator SMATHERS. Let me ask you this question to see if I understand what you are saying.

With respect to this bill that we have before us, as it applies to the Caribbean area.

Mr. McCORMICK. Yes, sir.

Senator SMATHERS. As it applies to the Caribbean area, is there any benefit to be realized from applying these lower exemptions to the United States into the Caribbean area?

Mr. McCORMICK. We see none, sir. We have got a favorable balance of payments with the Caribbean, why do anything that would rock the boat.

Senator SMATHERS. It is obvious they have to get dollars in order to purchase goods from us, is that not correct?

Mr. McCORMICK. Yes, sir.

Senator SMATHERS. If we make it very difficult for them to get dollars do we not worsen the balance-of-payments situation in the United States rather than help it?

Mr. McCORMICK. I should think so. But, of course, it is hard to predict.

Senator SMATHERS. I am talking about the balance of trade. We don't have a balance-of-payments problem with these people. We have a balance-of-payments problem all over the world.

If the tourist buys French perfume in the Caribbean area or whatever it may be, of course it is true a certain amount of money finally gets back to France, is that not true? It is equally true whether they buy that at Garfinckel's or Burdine's or Neiman-Marcus in Dallas, is it not?

Mr. McCORMICK. Yes, sir. I think the only way—the handling cost, the manufacturer's cost wouldn't be much different, the handling cost wouldn't be much different, I think the only difference would be the U.S. customs duty.

Senator SMATHERS. All right.

I have no further questions.

Senator Bennett, do you have any questions?

Senator Anderson?

Senator ANDERSON. When you said what you did about perfume you say the manufacturer still gets his price. That applies to automobiles, too. Have we taken off the duty on automobiles?

Mr. McCORMACK. I beg your pardon, sir.

Senator ANDERSON. Are you for taking off any import duties on automobiles?

Mr. McCORMICK. Well, that wouldn't affect our measure here, sir.

Senator ANDERSON. I know it doesn't, but it does affect the principle, doesn't it?

Mr. McCORMICK. Certainly, I should think it would bring the price down, yes.

Senator ANDERSON. Are you in favor of taking that off?

Mr. McCORMICK. Yes, sir.

Senator ANDERSON. You don't want to protect American automobile industry?

Mr. McCORMICK. This is not the chamber, though, this is me personally. I want to buy a new car.

Senator ANDERSON. You don't care what happens to the American manufacturers?

Mr. McCORMICK. The American manufacturer has done quite a good job of taking care of himself.

Senator ANDERSON. He wouldn't have done as good a job if he didn't have import duties on foreign automobiles, would he?

Mr. McCORMICK. I am afraid I am getting in over my head. I don't purport to be an expert on that.

Senator ANDERSON. You are opposed to $10 limitation on gifts?

Mr. McCORMICK. What, sir?

Senator ANDERSON. You are opposed to the $10 limit on gifts?

Mr. McCORMICK. We believe there should be a present ability to bring in $10 worth of stuff duty free; yes, sir.

Senator ANDERSON. No matter how many times he brings it in.

Mr. McCORMICK. That is an administrative matter. I think that is—has got to be controlled by the customs or perhaps by legislation. I am not too familiar with how it works, sir.

Senator ANDERSON. How many packages of gifts can a man send a day from abroad?

Mr. McCORMICK. I don't know.

Senator ANDERSON. Don't you think it would be nice to find out before you testify on it?

Mr. McCORMICK. Perhaps, I should have known that.

Senator ANDERSON. Now, the alcohol beverage you think a gallon of that should come in duty free.

Mr. McCORMICK. If the person buys it in the islands or in Honduras or whatnot, sir.

Senator ANDERSON. Is there an American distilling industry?

Mr. McCORMICK. Yes, sir.

Senator ANDERSON. Does it have any rights?

Mr. McCORMICK. Certainly.

Senator ANDERSON. Is it pretty highly taxed?

Mr. McCORMICK. Yes, sir.

Senator ANDERSON. Is it probably the most heavily taxed of all industries?

Mr. McCORMICK. I think so, sir.

Senator ANDERSON. But you don't think it needs any protection?

Mr. McCORMICK. I think in the case of alcohol this is an awfully minor item and also they purchase a great deal of our alcoholic beverages down there, sir.

Senator ANDERSON. Well, if it is a minor item why worry about it?

Mr. McCORMICK. Well, if you are in an island with a 20- to 30-percent unemployment ratio, every nickel helps. As I said at the end of my statement here, sir, what is very small to us may mean a couple of motels to, beach motels to an island that doesn't have it and it may be very important to them, sir.

Senator ANDERSON. I only heard part of your statement unfortunately, but you say "We question the logic and arithmetic by which the Treasury arrives at its figure," have you got some logic and arithmetic to your own?

Mr. McCORMICK. Yes, sir; What they are saying there—the figures Mr. Fowler was using yesterday were a little complex and confusing—but what they are saying is, by increasing the duty-free amount from $50 to $100 you would save less by that than by increasing it than the difference between $100 and $150, sir, and we think practically all the purchases are small purchases made in the neighborhood of no dollars, $1–$100.

Senator ANDERSON. The Secretary of the Treasury has a staff of experts, has he not?

Mr. McCORMICK. Yes, sir.

Senator ANDERSON. He has a man who handled the balance of payments, does he not?

Mr. McCORMICK. Yes, sir.

Senator ANDERSON. Who in your organization is an expert on the balance of payments?

Mr. McCORMICK. Well, my associate, Mr. McCoy, was concerned with that for many years in the Commerce Department.

Senator ANDERSON. McCoy?

Mr. McCORMICK. Yes.

Senator ANDERSON. Horace McCoy?

Well now, and he is more familiar with it now than the Treasury Department, you think.

Mr. McCORMICK. No, sir; but he is familiar with it. We can't purport to be experts in custom administration or in balance of payments.

Senator ANDERSON. Well, you are questioning the arithmetic, why do you question it if you don't have any other figures?

Mr. McCORMICK. Well, I had awful trouble, Senator, trying to figure out this thing, but I might read what I said. We think that the House action in raising the duty-free figure in the administration bill from $50 retail to $100 retail would have a much greater impact than two-thirds of $55 million, which is what Mr. Fowler said before the House.

In fact, we believe that the House action would almost nullify the measure's balance of payments impact. We believe this because the vast bulk of purchases made from our members in the islands are under $100 or $200 for a couple.

In other words, the fellows who go down to buy something for his store, sir, where the larger amount is involved they are not very numerous. There are a thousand times more tourists than fellows who buy something for commercial purposes.

Senator ANDERSON. What I don't like about your language is just what you read, "We think the House's action" shouldn't you have some figures to say, "We know the House's action or we believe it on the basis of figures."

Mr. McCORMICK. No, sir; because we don't have the figures.

Senator ANDERSON. They do, and they testified, and if they have figures and you don't, why do you say you think their figures are wrong?

Mr. McCORMICK. Well, they said, sir, they were approximations and we think their approximations were high.

Senator ANDERSON. That is all.

Senator SMATHERS. Mr. McCormick, do you think all of the seat of intelligence knowledge is located here in Washington?

Mr. McCORMICK. I can't answer that one, sir.

Senator SMATHERS. Well I don't. I don't think many other people do either. You are entitled to have your opinion, are you not?

Mr. McCORMICK. This is our opinion; sir, yes.

Senator SMATHERS. And it might differ. Don't you think you as a citizen have the right to have a difference of opinion from somebody here in Washington and it should have equal respect and weight even though the individual might be an official in Government in Washington?

Mr. McCORMICK. Yes, sir; we went over and talked to the Customs Bureau about these figures, and while they weren't pulled off the chandelier——

Senator SMATHERS. Do you have a feeling you are about as patriotic and interested in the welfare of this country as anybody sitting up here.

Mr. McCORMICK. Yes, sir.

Senator SMATHERS. Let me ask you this question, Mr. McCormick. I notice you make a statement that the people who travel in the Caribbean or in the Western Hemisphere, for that matter, are less well to do financially than are the citizens who travel to Europe. Obviously it costs more money to go to Europe. Do you have any statistical information on that particular point?

Mr. McCORMICK. No sir; we do not. We, of course, have—some of the islands have very good statistics on the types of people who come in particularly the Dutch islands, others have very poor statistics. This is just a general impression of the merchants and people in those countries.

Senator SMATHERS. Is that the general impression of merchants and people?

Mr. McCORMICK. Yes, sir.

Senator SMATHERS. All right. Let me ask you one other question: Are you at all familiar with the alcohol industry in the United States?

Mr. McCORMICK. Beg your pardon, sir.

Senator SMATHERS. Are you at all familiar with the distilleries and liquor business in the United States?

Mr. McCORMICK. Not very much, sir.

Senator SMATHERS. You don't know how well they are doing financially?

Mr. McCORMICK. No, sir.

Senator SMATHERS. Have you observed that the liquor industry, as such, is in need of greater protection and help other than that which it is now so effectively getting?

Mr. McCORMICK. No sir; I haven't followed it but I think the amounts being brought in are awfully small.

Senator SMATHERS. It is an infinitesimal amount compared to the overall amount which is consumed in the United States. Would that not be the case?

Mr. McCORMICK. Yes, sir; and I think because of the closeness of the Bahamas that is probably about half for the entire Caribbean area, sir.

Senator SMATHERS. I might state that yesterday I said something to the Secretary of the Treasury that I thought if he wanted to meet the balance-of-payments problem he ought to put a head tax on everybody who travels abroad and let's stop foreign travel everywhere for one year. If every person traveling abroad spent in the neighborhood of $1,000 we could keep 2 million people this year at home and save $2 billion, it would do an awful lot of good and I think I am going to give the members of the committee an opportunity to vote on it. If they want to face up to the balance-of-payments problem this is one way to really do it.

Senator MORTON. That will really put the Caribbean out of business.

Senator SMATHERS. All of them, for 1 year, which would solve our problem. If we mean business, let's go at it. Let's don't go at it with a fly swatter.

Senator MORTON. I think it would be a good thing to do we might all support that.

Senator SMATHERS. The Senator from Georgia said we were hunting lions with a peashooter.

Senator Dirksen?

Thank you very much.

Senator MORTON. I just want to point out, Mr. Chairman, that 322,000 gallons from the Bahamas in relation to the total may be very small. We cut the excise taxes around here the other day. We did not take off the Korean tax on alcoholic beverages, we left it there. The tax on 322,000 gallons is 3 million, but $3,600,000 that the Federal Government gets so that you could cut the tax on these other things, which I approved and voted for but I don't think $3 million to the Federal Treasury, it may be peanuts to you but it is big money to the Government.

Senator SMATHERS. It is big money to them I would venture to say. We don't have a foreign aid program in some of these areas. Perhaps we will end up having a $3 million aid program in these areas.

Senator MORTON. Do you think somebody really takes a trip to the Bahamas or to Antigua or to St. Lucia or Martinique because they can bring back a gallon of whisky?

Senator SMATHERS. No.

All right, our next witness—thank you, Mr. McCormick.

Our next witness is Henry Vesey of the Bermuda Trade Development Board.

STATEMENT OF N. HENRY P. VESEY, CHAIRMAN, BERMUDA TRADE DEVELOPMENT BOARD, MEMBER, HOUSE OF ASSEMBLY

Mr. VESEY. Mr. Chairman, may I ask your permission for Mr. William Ragan to sit here with me.

Senator SMATHERS. Without objection we would be delighted to have him, sir.

You may proceed, Mr. Vesey.

Mr. VESEY. Mr. Chairman, my name is Henry Vesey. I am chairman of the Bermuda Trade Development Board and a member of the House of Assembly. On behalf of the people of Bermuda, I wish to say that we appreciate very much the opportunity you have afforded us to appear here today. We, in Bermuda, are sympathetic to the problems that this great country faces with respect to the gold outflow. We do have a sincere appreciation of your balance-of-payment problem, and my appearance here today should not be construed as in any way evidencing our lack of concern for this problem.

I would like briefly to address my remarks to the legislation before you in two phases: the first phase dealing with the proposed reduction of the personal customs exemption; and, the second phase, dealing with the proposed reduction of the amount of alcoholic spirits that can be brought into the United States by returning tourists.

In dealing with the proposed reduction of personal customs exemption, I would like, first, to point out a few salient facts concerning Bermuda. As you are undoubtedly aware, Bermuda is a very small land mass, just 90 minutes off the east coast of the United States. In fact, Bermuda is the closest ocean beach to the District of Columbia, timewise. The islands, themselves, consist of 20 square miles, and have a population slightly in excess of 48,000, plus American service personnel and their dependents. We are, in fact, one of the most highly populated areas of the world, and we have absolutely no natural resources whatsoever.

Bermuda is almost entirely dependent on the tourist trade, and 85 percent of the tourists coming to Bermuda come from the United States.

In 1963, Bermuda's income from American tourists was $33,500,000. In 1964, this amount was $34,500,000. In 1963, Bermuda expended in the United States $46,900,000, and in 1964, $47,200,000; creating a balance deficit favorable to the United States in the amount of $13,400,000 in 1963, and $12,700,000 in 1964. In 1964, of the total amount of $47 million of expenditures in the United States, $29,800,000 was for U.S. goods. This averages to $662 worth of tangible U.S. imports per Bermudian.

Our statistics indicate that 25 cents out of every tourist dollar spent in Bermuda is for merchandise that the tourist intends to take home with him to the United States. In 1963, this figure would represent approximately $7,200,000. In 1964, the figure would be approximately $7,250,000. Thus it can be seen that in this small area, with a very favorable balance of trade to the United States, the duty-free customs allowance reduction can have a very serious effect on the economy of Bermuda.

We are aware that there have been some statements made by advocates of this legislation indicating that this proposed reduction—even to $50—would have little effect on areas such as Bermuda; but we would like to point out to you that while the reducation from $500 to $100 had little effect, this was because, statistically, we are in a position to show that the average purchase in Bermuda, by our visitors, is between $50 and $100, and not between $100 to $500. Thus, this proposed reduction now cuts into an area that is economically vital. Also, we understand that there has been some thought that while the tourist coming to Bermuda may only spend $50 on purchases, he would, perhaps stay an extra day and spend the other $50 on hotel accommodations. This, of course, Mr. Chairman, is conjecture and cannot be substantiated by fact.

It is, of course, impossible to predict with any certainty the actual impact in dollars on Bermuda as a result of the proposed reduction. However, again using 1963 figures, 113,800 visitors came to our shores from the United States, and if these people had purchased exactly their $50 worth of merchandise, it would have amounted to a drop in excess of $1,500,000 of revenue in our small area—revenue upon which we are entirely dependent.

It has been clearly stated by those advocating the proposal, that the reduction in the duty-free exemption would have a de minimis effect on the balance-of-payments problem. Based upon the testimony before the Ways and Means Committee of the House of Representatives, when this particular proposal was under consideration, the Secretary of the Treasury indicated that the reduction from $100 wholesale to $100 retail, as presently in the bill, a reduction of $66 from the current maximum, would result in a total saving in dollar outflow on the balance of payments of but $36,500,000. This—out of a total of $3.1 billion imbalance—is a saving of just slightly above 1 percent. I might point out, also, that based upon the Treasury figures, should the reduction to $50 be obtained, this would have been a saving of only an additional $23,500,000, or a total approximate saving of 1.6 percent of the imbalance.

Mr. Chairman, I use these figures, not to be argumentative or in any way to indicate a lack of our respect for the Secretary of Treasury's position and the problems that he has to face, but I do, in the most respectful way, suggest that since this approach has been admitted to be more for psychological reasons and is of a de minimis nature on the basic problem, and since the same thing can be accomplished without causing economic chaos for areas such as Bermuda and the Bahamas, may we respectfully suggest alternatives which will not result in harm to areas that are actually contributing favorably to the U.S. balance-of-payments problem.

For example, Bermuda and the Bahamas might be given the special status quite properly granted to American territories such as the Virgin Islands. While Bermuda and the Bahamas are, unlike those areas, politically parts of the United Kingdom, our economics, culture, to some extent, heritage, and certainly our defense considerations are equally alined with the United States as are those territories. Another suggested alternative is that the bill could be amended to provide that where it is determined by the Secretary of Treasury that a favorable balance of trade does exist with a particular area, he could exempt the area from the reduction and leave it on the same basis as American possessions such as the Virgin Islands. In any event, Mr.

Chairman, we urge, with all of the sincerity we can marshal, that this committee not retreat from the $100 retail base as presently passed by the House of Representatives.

I most sincerely entreat and repeat that while this matter may be considered de minimus from a viewpoint of the overall problems of the United States, its impact on our people will be not de minimis, but devastating.

With regard to the second phase of the bill; namely, that portion dealing with the amendment to prohibit the importation of more than 1 quart of alcoholic spirits by the returning tourist, we feel—and again I say this most respectfully—that this particular legislation is not directed to the balance-of-payments problem. I am advised by counsel that this bill was not submitted as part of the administration's proposal, and is not part of the administration's balance-of-payment considerations.

It is my understanding that the total amount of alcoholic beverages imported by returning tourists constitutes less than 1 percent of the total amount of alcoholic beverages consumed, each year, in the United States. We have many people employed in Bermuda in our beverage stores and in the business of importation of beverages. Obviously, these people will suffer greatly as a result of the proposal, and it can be pointed out again—purely from the viewpoint of Bermuda—that at least 75 percent of the spirits purchased are produced in areas that have a balance-of-payments deficit favorable to the United States—most particularly, Great Britain and Canada.

I am advised that this particular provision, allowing the duty-free importation of 1 gallon of alcoholic beverages has been in effect since 1936.

I should point out that in Bermuda the alcoholic beverage purchase always accompanies the traveler. The purchase is made at the stores and the goods are in bond until delivered to the buyer as he gets off his airplane in the United States. It is part of the overall customs exemption, and in Bermuda averages slightly below $18 per purchase. Mr. Chairman, based upon the assumption of $19 per visitor, and using a round figure of 113,000 visitors, and assuming that the purchases were reduced from a gallon to a quart; three-fourths, we can reasonably estimate that this would be an additional loss to Bermuda of over $1,500,000.

May we also respectfully suggest that the duty on alcoholic beverages ranges between $1 to $5 a gallon. It would seem that the potential revenue from this proposal will be far exceeded by the costs of collection and bookkeeping.

Mr. Chairman, again may I repeat, on behalf of the people of Bermuda, that we sincerely appreciate the opportunity of appearing before you today, and in closing, would like to submit a memorandum concerning the U.S. balance of payments, dated March 15, 1965. We would also like to submit, if we may, copies of editorials from the Wall Street Journal, the Washington Post, the Journal of Commerce, and the Evening Star, four newspapers with usually divergent views, but all of which have taken exception to the proposal of reducing the personal customs exemption to $50.

Again, we appreciate the opportunity of appearing here today.

Mr. Chairman, these enclosures are already in your hands, I believe. And I would like to thank you very much indeed for affording us this opportunity.

Senator SMATHERS. Thank you, Mr. Vesey. We are very pleased to have you. The copies of the newspaper articles will be inserted in the record. The more lengthy memorandum on the U.S. balance of payments will be incorporated in the Committee files.

(The newspaper clippings follow:)

[From the Washington (D.C.) Evening Star, May 25, 1965]

BALANCE UP—NOT DOWN

The travel editor of Esquire magazine spoke in appropriately salty fashion in his House Ways and Means Committee testimony on pending legislation to reduce custom-free allowances for American tourist purchases abroad.

The editor, one Richard Joseph, wasn't buying the tightrope-walking explanation that the administration-backed plan is not intended to discourage Americans from traveling, but only to discourage them from spending. It is hard to do the first without doing the second, and it is a pretty piece of Alice-in-Wonderland thinking that Americans—ugly or otherwise—should be held in check at our water's edge.

There is good reason to believe that the administration was testing reaction months ago in the flurry of sudden and inspired speculation that the dollar-problem might necessitate travel restrictions. The response was quick and clear enough. Americans do not like barbed-wired fences or redtape curtains.

For his part, Mr. Joseph quite rightly thinks the concentration should be on selling travel to the United States—not on inhibiting travel out of it.

More might be said about balancing tourist accounts—up, not down—but a Harry Gogarty of the Irish Tourist Office offers a good reminder to our dollar planners: "We don't paper our walls with these tourist dollars, we use them to buy jet airplanes in Seattle and diesel locomotives in Detroit."

WHEN THE POST AND THE JOURNAL EDITORIALLY AGREE ON AN ECONOMIC ISSUE, THAT'S NEWS

[From the Washington (D.C.) Post, May 14, 1965]

NITPICKING

In its understandable concern over the balance-of-payments deficit, the administration advanced a proposal to reduce to $50 the amount of duty-free goods that tourists can bring from abroad—which is likely to do more harm than good.

By reducing the duty-free tourists' limit and switching from a wholesale to a "fair retail value" basis in appraising goods at customs, the administration hopes to reduce the deficit by about $100 million. But there is not much ground for hope that the savings will in fact be realized. The average American allocates a fixed sum for his vacation tour. And if the levying of tariffs deters him from purchasing a Swiss watch or French perfume, he is likely to spend more on food, extra travel or the "sophisticated debauchery" that Senator Fulbright deplores.

The possibility that the duty-free limitation may not significantly reduce the tourist gap led one member of the Ways and Means Committee to characterize it as a "nitpicking" measure. But if passed, it is likely to result in mischief and positive harm.

Switching the basis of custom valuation from wholesale to "fair retail" value is not so simple as it might seem. A somewhat-less-than-scrupulous European merchant would be sorely tempted to write down the invoices that he issues to his American customers, and unless the officials are particularly alert, the gap between dollar expenditures and customs declarations will be greatly widened.

The measure will also serve to embolden the protectionists who are ever ready to declare war on all imports. It is hardly an accident that the provision of the bill reducing the whisky allowance from 1 gallon to 1 quart per person was sponsored by Representative John C. Watts, of Kentucky. The gain that bourbon is likely to make at the expense of Scotch is small. But the measure may very well hurt important manufacturing industries in Mexico and other less developed countries in the Caribbean area.

The administration has been loath to ask banks and corporations to forgo the profits on overseas loans and investments without demanding a comparable sacrifice by tourists. But the gains to be made by reducing the duty-free allowances are small in relation to the very real harm that the measure can inflict. The best interests of the country would be served if it were defeated.

[From the Wall Street Journal, May 17, 1965]

AN INDIGESTIBLE REMEDY

It is to the credit of the Ways and Means Committee that it found another cut in the tourists' customs allowance rather hard to swallow. But swallow it the committee did, if only after some force feeding by the administration.

Under the new bill, which is supposed to help remedy the balance-of-payments deficit, American tourists would be allowed to bring home, duty free, no more than $50 worth of foreign trinkets, compared with the present limit of $100. Before Congress first cracked down on tourists in 1961, the figure was $500.

There was plenty of reason why the committee should have found the customs crackdown unpalatable. As politicians they must have been a bit queasy about resting the heaviest part of the burden on the many thousands of schoolteachers and other Americans who may go overseas once in a lifetime. The reductions in the allowance plainly are much less troublesome to the smaller number of more prosperous and heavier spending travelers.

Moreover, the legislators surely were aware that the 1961 cut in the allowance brought no reduction either in the number of Americans traveling abroad or the amounts they spent; to the contrary, both figures have risen sharply. Perhaps tourists spent more in Parisian night clubs and less on souvenirs, but the result was no more helpful to the balance of payments. And if a $400 cut accomplished nothing in 1961, is there any good reason to hope that a $50 slash will do more in 1965?

Yet such doubts seemingly were swept away by forceful sales talks from officials of the administration. All we need to do, the officials' argument runs, is to clamp down on tourists and, of course, continue those "voluntary" restrictions on private lending and investing overseas; foreign bankers will be impressed with our determination and the payments deficit will forever vanish.

However persuasive this argument may have seemed to the Congressmen, there's evidence many foreign bankers can't digest it. A number of them insist the dollar's standing will continue to sink so long as our Government keeps running it down with high spending, big budget deficits and artificially easy money. They may sound old-fashioned to people in Washington, but they have a lot of unhappy history to back them up.

Perhaps, as an administration spokesman piously avers, another cut in the customs allowance will influence some tourists not to splurge abroad. Unquestionably the proposal stands as further evidence of the Government's fetish for controlling the citizens while refusing to curb its own appetite for luxurious living.

[From the New York (N.Y.) Journal of Commerce and Commercial, May 19, 1965]

TO GO TO SO MUCH—

Most responsible sources, including this newspaper, have tended to support the main lines of the administration's program for rectification of the Nation's payments deficits, even though there are grounds for reasonable doubts concerning some phases of it. For example, it is quite possible that the voluntary restraints on the outflow of capital have alleviated the gold drain now only at the price of cutting down on the return flow of capital such investments would generate at a future date.

Exports, too, may suffer somewhat from this disruption in a procedure that normally generates them. However, we recognize that at times the needs of the moment transcend the needs of the future. The President had to do something. He could have done something else, as we have pointed out in this space, but his decision to back the concept of voluntary restraints has a certain element of common sense about it. And save for the fact that some leakage has apparently developed from sources not normally engaged in this type of business, it seems to be working.

But the same justification cannot possibly be advanced for the proposal to reduce from $100 to $50 the value of duty-free goods that tourists are currently allowed to bring hime from foreign countries—a proposal that was approved—Lord knows why—by the House Committee on Ways and Means last Tuesday.

This, to us, is straining at gnats. It merely supports another nuisance, like some of the excise taxes. And because it ignores the realities of tourism, it is virtually bound to fail of its mission.

The assumption motivating supporters of this type of "attack" on the balance of-payments deficit is pure foolishness. It is based, we take it, on what Mr. and Mrs. Smith will do with the perhaps $500, $800, or $1,200 they will have to spend on a brief trip through Europe (or it could be Latin America or the Middle East) over and above their ship or plane fare.

As Democrats on the Ways and Means Committee view things, the Smiths would normally spend $100 (perhaps a little more, perhaps a little less) on items they would purchase abroad and bring back with them (or have shipped for later delivery). Now, if this duty-free limit is reduced by half, the Smiths will bring back only half as much and save the $50. Or if they do bring back more, they will have to pay duty upon the overage, a factor that will put a brake on their enthusiasm for foreign souvenirs and the like.

Surely enough Congressmen and their wives have junketed in foreign areas (too often at the Government's expense) to know how false this assumption is. The Smiths are, after all, Americans. If they have budgeted $800 for their holiday, and have the travelers checks or dollars left, they will spend $800. If a lowering of the duty-free limit cuts the amount they would normally spend on items to be brought back home by $50, then they will spend this rather trifling sum on something else—something else consumable on the spot. Maybe on some fancy meals. Maybe on a trip up Mount Blanc. But spent it they almost invariably will.

So where is the gain? Dollars spent abroad are dollars spent abroad, whether for travel, eating, drinking, sightseeing or for acquiring odd items to bring home as gifts or as mementos of the tourists' trip. Even if the plan worked as its sponsors hope it will work, the cut to be achieved in the dollar outflow would be picayune.

But if there is no gain from this, measurable in terms of the U.S. balance-of-payments deficit, there certainly will be a great deal of vexation and some disruption. There are a good many duty-free shops at airports and ports of entry around the world that stand to suffer from this, much as foreign restaurateurs, cafe owners and other purveyors of consumable items may gain from it.

And those who invest in the sale of duty-free goods abroad may ponder the adhesive qualities of American excise taxes and wonder just how long it will be before the duty-free limit is raised again, assuming Congress does agree to lower it.

Actually, things are somewhat worse than portrayed above. The Ways and Means Committee also voted that the duty-free purchases should be based on retail rather than wholesale values. This means that what the American tourist can spend on such items would be reduced not just by a half, but by two-thirds, or even more, in relation to the value of what he brings home.

We are not very enthusiastic, either, about the committee's decision to cut from one gallon to one quart the amount of liquor each tourist can bring home, and to limit this quota to adults. Is this designed to ease the U.S. balance-of-payemnts deficit? Or is it designed for the comfort and convenience of liquor producers in the Kentucky constituency of Representative John C. Watts, who proposed this odd addition to the measure?

Perhaps we should all take a more generous view of any and all efforts to plug the holes through which American dollars find their way abroad. We hope this bill will die a quiet death. But whether it does or not the epitaph it deserves is already plain: "To go to so much to come to so little."

Senator SMATHERS. Senator Anderson do you have any questions?

Senator ANDERSON. I think not. It is a good statement.

Mr. VESEY. Pardon?

Senator ANDERSON. I think that is a very reasoned statement.

Mr. VESEY. Thank you.

Senator SMATHERS. Senator Bennett.

Senator BENNETT. No questions.

Senator SMATHERS. Senator Douglas.

Senator DOUGLAS. I wish to join Senator Anderson in complimenting the gentleman on a very practical statement. As I remember, Bermuda was probably the island where Shakespeare located the last play of his, the "Tempest."

Mr. VESEY. That is right, Senator Douglas.

Senator DOUGLAS. And as I remember it also the Bishop Markley the famous theologian, philosopher, and logician came to Bermuda one period of his life.

Mr. VESEY. You are correct, Senator.

Senator DOUGLAS. And you have been very closely tied to Great Britain by emotional and historic ties which still continue.

Mr. VESEY. That is correct.

Senator DOUGLAS. I was somewhat startled by your proposal in your statement that Bermuda and the Bahamas might be given the special status quite properly guaranteed to American territory such as the Virgin Islands. You are not proposing, are you, to haul down the Union Jack and put up the Stars and Stripes.

We don't wish to coerce you to do that. You don't propose that, do you?

Mr. VESEY. No sir; but the Stars and Stripes——

Senator DOUGLAS. If you don't propose to haul down the Union Jack and raise the Stars and Stripes, why do you think we should give you the special status which we grant to American territories such as the Virgin Islands which we purchased from Denmark.

Mr. VESEY. Senator Douglas, you probably are aware that the Stars and Stripes already fly over 10 percent of Bermuda.

Senator DOUGLAS. Well, I know, but are you proposing, are you proposing that the sovereignty of Bermuda should be transferred to the United States?

Mr. VESEY. No; certainly not.

Senator DOUGLAS. I thought not.

Mr. VESEY. No.

Senator DOUGLAS. Why should we grant you the same status as the Virgin Islands?

Mr. VESEY. Well, we are assisting in this balance-of-payments problem as you will note from my statement, Senator. Very materially for a small place.

Senator DOUGLAS. Balance of trade or balance of payments.

Mr. VESEY. Balance of trade which helps the balance of payments.

Senator DOUGLAS. Don't we have to view this as a whole, the whole balance-of-payments situation, if we did diminish certain items it doesn't matter what the particular relationship is to a given country.

Mr. VESEY. Well, we are actually helping in the problem because we are spending over $12 million more with the United States.

Senator DOUGLAS. So you would help us a little more by helping us purchase more liquor and buy more goods in Bermuda, this would help our balance of payments by accepting more money abroad?

Mr. VESEY. We are suggesting——

Senator DOUGLAS. This is topsy-turvy economics, I would suggest.

Mr. VESEY. We are really helping.

Senator DOUGLAS. You are a very gentlemanly man but this is a somewhat strange argument.

Mr. VESEY. Well, thank you very much, Senator.

Senator DOUGLAS. Wait a minute, I am not done with you.

[Laughter.]

Senator DOUGLAS. Your mother country is in great financial difficulties. She is one of the two key currencies of the world, trying to defend the pound at $2.40, there may be an international conspiracy against the pound. We want to help Great Britain. There may be an international conspiracy against the dollar. The two countries stand together. Can't we protect ourselves?

Mr. VESEY. I hope we can. We should certainly work together, Great Britain and the United States.

Senator DOUGLAS. Well, all right, you see the volume of tourist traffic is increasing in Bermuda. Doesn't this more than compensate for any diminution in the amounts which people can bring home? So that the net effect of helping our relations between the United States and Bermuda, favorable to Bermuda, must we be asked to go not only the second, but third and fourth mile, isn't one mile enough?

Mr. VESEY. There is something I think I would have to give some consideration to, Senator.

Senator DOUGLAS. Have you located Prospero's Cave?

Mr. VESEY. If you will pay us a visit I will be very pleased to show it to you.

Senator DOUGLAS. It actually exists?

Mr. VESEY. Yes, it exists.

Senator DOUGLAS. And does the Magic Book of Prospero, is that still there where he had all the secrets?

Mr. VESEY. I don't know that I can answer that one.

Senator ANDERSON. I just want you to know I got the worst sunburn I ever got in my life one afternoon in Bermuda and I was careful ever after that.

Mr. VESEY. We hope you will come back.

Senator SMATHERS. Senator Morton.

Senator MORTON. If we come down to a choice in this committee of adopting the House bill and the administration's proposal, on the one hand, as opposed to Senator Smathers' head tax on the other hand, which would you prefer?

Mr. VESEY. The House bill.

Senator MORTON. As against the head tax.

Mr. VESEY. As against the head tax, yes.

Senator MORTON. In your statement you say that in connection with this purchase of liquor purchases made at stores the goods are in bond until delivered to the buyer as he gets off his airplane in the United States. Most of this accompanies the traveler?

Mr. VESEY. This all accompanies the traveler which is shipped out that way, yes. As a matter of fact, practically all of the liquor shipped from Bermuda accompanies the traveler. There is very little that goes otherwise.

Senator MORTON. So Bermuda is not the beneficiary of this mail-order business that has developed where we get a post card——

Mr. VESEY. No; as a matter of fact we don't encourage it or like it either.

Senator MORTON. You have a requirement yourself in your own island that you cannot bring any liquor in unless it accompanies the traveler.

Mr. VESEY. That is correct. We have, as a matter of fact, this may interest you, on the last occasion when I appeared before this committee, Senator Douglas suggested that there should be some reciprocity, and upon my return to Bermuda following that appearance I influenced the legislature there to pass legislation providing for a duty-free compensation for Bermudians returning from abroad of $100. There is no limitation in that allowance as to the quantity of liquor which they, returning Bermudian may bring in with him on a duty-free basis.

Senator DOUGLAS. I am glad my advice had some effect.

Mr. VESEY. You remember, Senator Douglas, I gave you that undertaking and carried that undertaking out.

Senator DOUGLAS. Thank you.

Senator MORTON. I don't imagine many Bermudians would come here and pay the $10.50 tax per proof gallon at the warehouse.

Mr. VESEY. Well, I believe they can buy it——

Senator MORTON. And then pay the retail taxes and the State taxes that we have and then carry any sizable quantity of distilled spirits to Bermuda when they can buy it there at retail at less than the tax alone.

Mr. VESEY. Well I understand that you can buy it at the airport here duty free to take back to Bermuda; yes.

Senator MORTON. Well the duty——

Senator MCCARTHY. Tax free.

Senator MORTON. The duty is only a part of the tax.

Mr. VESEY. But bourbon, you see doesn't pay any duty.

Senator ANDERSON. Which airport is that?

Mr. VESEY. Kennedy Airport.

Senator MORTON. But you do prefer, if we have to take a bill, a hundred dollar limitation or $200, what ever it is, you would prefer that to a hundred dollar head tax on Americans leaving this country, wouldn't you?

Mr. VESEY. Yes; by all means.

Senator MORTON. That is all.

Senator SMATHERS. Senator McCarthy.

Senator MCCARTHY. No questions.

Senator DOUGLAS. One political question I would like to clear up: Are you part of the Government of Bahamas or a separate government?

Mr. VESEY. We are entirely separate.

Senator DOUGLAS. Do you have a Governor General?

Mr. VESEY. We have a Governor General.

Senator DOUGLAS. Was the Duke of Windsor your Governor during the war?

Mr. VESEY. No, sir.

Senator DOUGLAS. His control was confined to the Bahamas?

Mr. VESEY. Yes.

Senator DOUGLAS. Who is your present Governor?

Mr. VESEY. Lord Martonmere, he was a member of Parliament. He was very active in the Commonwealth Parliamentary Association and in meetings which have taken place, even formal meetings within the United States, our Houses of Congress.

Senator SMATHERS. Mr. Vesey, just two questions.

First, do we have any, does the United States have any military or space installations on Bermuda?

Mr. VESEY. There are two bases in Bermuda, the naval base, U.S. Naval Base, and Kindley Air Force Base.

Senator SMATHERS. And an Air Force base.

Mr. VESEY. And a NASA tracking station.

Senator ANDERSON. Space.

Mr. VESEY. Yes. They were established in 1940.

Senator SMATHERS. I am not much of an economist, which is very evident from the questions I ask, but I would like to ask you this question because it seems to continue to escape me. If Bermudians spend more in the United States than our tourists spend in Bermuda which is the case; is that not correct?

Mr. VESEY. Yes.

Senator SMATHERS. How does it help the U.S. balance of payments to make it more difficult for the Bermudians to trade with us? How does it help our overall balance-of-payments problem? I don't understand it.

Mr. VESEY. It wouldn't help your balance of payments because we would have less dollars to spend here if restrictions are imposed.

Senator SMATHERS. That is what I don't understand. I would like some economist to straighten me out on that point.

Mr. VESEY. I am not an economist either.

Senator ANDERSON. You buy from the United States something besides liquor. You buy foodstuffs.

Mr. VESEY. We buy a considerable amount of foodstuffs.

Senator McCARTHY. Bermuda onions are purchased from New Jersey.

[Laughter.]

Senator SMATHERS. If Bermudians spend more in dollars in the United States than we trade with them, how it helps out overall balance-of-payments problem by making it more difficult for them to do business with us, I don't understand.

Mr. VESEY. I am afraid I don't understand it either.

Senator SMATHERS. All right, sir.

Senator MORTON. May I ask one more question.

You referred to the fact that 10 percent, I believe of Bermuda was under the Stars and Stripes. I assume you refer to these military bases?

Mr. VESEY. Yes, that is correct. They occupy 10 percent of the total land area.

Senator MORTON. And you say that you spend in dollars in this country substantially more than American tourists spend in Bermuda?

Mr. VESEY. Yes.

Senator MORTON. But have you given any account of what is spent in Bermuda by these military forces?

Mr. VESEY. I haven't taken that into account but that would not account for a difference. These bases are very largely self-contained. Practically everything used on them is imported. There are no customs duties. The post exchanges are on the bases so there is no reason for personnel connected with the bases making any local purchases at all because they can buy duty free whether they live on base or off base.

Senator MORTON. The fact of it is that our oversea military operations of our own military and space operations, is the reason we are in this jam, the biggest reason we are in this jam on this balance of payments, because our balance of trade is favorable. So surely indirect expenditures, household help, local labor that may be employed, and so forth, this is a big factor in our problem that we face.

Mr. VESEY. May I say we welcome the two bases in Bermuda. We are only a short distance from the United States, and I know they are of considerable defense value to the United States.

Senator MORTON. My first job of navigation in the Navy was to find Bermuda.

I had to pick up a crippled freighter out some latitude and longitude to take it in there and it was very encouraging to me to learn navigation by running an outboard motor on the Ohio River to see that we were on course.

Senator SMATHERS. All right, sir, thank you very much.

Our next witness.

Mr. VESEY. Thank you very much indeed.

Senator SMATHERS. Our next witness is Mr. Arthur Witty, of St. Thomas Chamber of Commerce.

The next witness thereafter is Mr. Chapman and then Mr. Porter and so on.

We have six more to go.

Thank you, Mr. Witty.

You may proceed here.

STATEMENT OF ARTHUR WITTY, ST. THOMAS CHAMBER OF COMMERCE

Mr. WITTY. Mr. Chairman and members of the committee, I am Arthur L. Witty, president of the St. Thomas United States Virgin Islands.

Senator ANDERSON. Do we have a copy of your statement?

Senator SMATHERS. Do you have copies of your statement?

Mr. WITTY. Mr. Chairman, I only have one copy here with me.

Senator SMATHERS. All right, sir, you go ahead.

Mr. WITTY. Thank you, sir. I am Arthur L. Witty, president of the St. Thomas United States Virgin Islands Chamber of Commerce. I wish to make a statement of less than 10 minutes as I understand we are limited to that time.

The St. Thomas Chamber of Commerce, representing 205 businesses in St. Thomas, and on behalf of all the residents of Charlotte Amalie, St. Thomas, V.I., urge that bill H.R. 8147 approved by the House Ways and Means Committee and passed by the House of Representatives be given your most favorable consideration. As you will note in our presentation before the House Ways and Means Committee, the Virgin Islands delegation was comprised of representatives from the following organizations: The Virgin Islands Legislature, the Virgin Islands Labor Union, the Gift Shop Association, the St. Thomas Taxicab Association, the West Indian Co., the chambers of commerce, the Women's League, the Business & Professional Women's Organization and a representative from the Republican and Democratic Parties. This communitywide representation is intended to prove that the matter under consideration by your committee affects the welfare of every man, woman, and child in the Virgin Islands of the United States and is not a special group or special interest problem.

We are Americans. We are citizens of the United States by act of Congress of the United States. We have come from the Virgin Islands of the United States to urge you to preserve, and not to destroy inadvertently our developing economy.

We are an underdeveloped non-self-governing territory. We have just begun to prosper due to certain economic growth-generating formulas enacted by the Congress of the United States as evidence of its concern for our welfare and our economic future.

In the light of these facts, certainly this is not the time to turn back the hands of the clock; this is not the time to undo the good that has been done; this is not the time to destroy unwittingly the economic sructure which the Congres has helped to build in the Virgin Islands of the United States. Let me particularize:

We have belonged to the United States close to 50 years, having been acquired by purchase from Denmark in 1917. At that time the per capita income was exceedingly low. Today it is the highest in the entire Caribbean area, exceeding even Puerto Rico which has done so well through the Puerto Rican bootstrap industrialization program.

The cornerstone of this economic growth has been tourism; that is why we are here to urge you not to do anything that will adversely affect our tourist economy. We understand and are in full sympathy with the responsibility of the Congress to do whatever is necessary to correct the balance-of-payments problem; but we are here to give you our views and information which we hope will be helpful in devising a formula that will solve that problem.

First, we would like to make the point that in the overall balance-of-payments picture, the Virgin Islands share is infinitesimal, but a very big problem for us. Our foreign tourist goods purchased in 1964 amounted to $8,500,000. On this we paid approximately $1,200,000 in taxes plus Federal income taxes on our profits from the sale of these goods.

And most importantly from the sale we generated net income to the extent of $8,500,000—this was U.S. income, which helps sustain our economy because it goes to pay for rent, salaries, utilities and many other local U.S. costs—it helped pay for our $69 million in U.S. purchases directly and indirectly by attracting tourists who spent far more for transportation, hotels, food, et cetera—that did not go to a foreign country.

If the Treasury bill providing for $50 customs exemption for foreign countries and $100 for U.S. possessions is passed, our foreign purchases would be cut 40 percent or $3,200,000. On this we pay $416,000 in various taxes, plus Federal income tax on our profits, all of which the Government would lose, so that we are talking about a net figure of less than $2,800,000. This will hurt the Virgin Islands far more than it will help the United States.

If our business is made to suffer by the penalty proposed by the Treasury witness—and we are sure it would—the entire economy will suffer. Merchants alone won't suffer—taxi drivers, travel agents, hotels, restaurants, beaches, auto services, banks, grocery stores, laundries will all suffer—and, of course, the Government will lose in taxes.

The U.S. Department of the Interior, and the government of the Virgin Islands have the figures and statistics to show that from each tourist dollar spent in the Virgin Islands, only 16 cents goes foreign to buy the tourist items for resale.

This, of course, is not the case when the same American dollar is spent in Bermuda, Jamaica, Antigua, Aruba, or Curacao, or any of the other foreign Caribbean islands which are our greatest competitors for the American dollar. When an American dollar is spent in any of these foreign Caribbean islands, 100 cents of that dollars affects the balance-of-payments problem; whereas, we repeat, in the case of the Virgin Islands of the United States only 16 cents is so involved. Therefore, we ask you to take note of this fact, and to realize that the tourist economy of the Virgin Islands of the United States is no drain on the gold of the United States. To the contrary, when any American visits the Virgin Islands he is visiting a part of the United States. This is the theme of our tourist advertising today, for which the Secretary of the Interior, the Honorable Stewart Udall, has commended us.

H.R. 8147 provides for:

(1) A tourist exemption of $200, for U.S. possessions.

(2) Continuation of the gallon allowance for the U.S. possessions.

Statistics compiled by the U.S. Department of the Interior, and the government of the Virgin Islands, which we understand have been made available to your committee, show the effect on the tourist economy of the Virgin Islands when the exemption figure is $100 as contrasted with $200. We urge you to study these statistics, and to grant us the $200 exemption to preserve the economic prosperity of the Virgin Islands, so that we can continue to improve our hospital and school facilities and services in our continuous effort to work for the American standard of living.

(3) Continuation of the gallon liquor quota.

The bill reduces from 1 gallon to 1 quart the liquor which a returning resident of the United States may bring back duty free except for American possessions. We are aware that the reason for this provision is to prevent the dumping of liquor through mail-order solicitation in the United States, thereby curtailing substantially the retail trade to which mainland liquor dealers are entitled. We believe the abuse of this privilege through the "to follow" procedure in cases where the tourist was never physically present in the foreign area from which he declares the item, should be corrected. This the bill does by providing that the purchaser must be physically present in the Virgin Islands and that the shipment must be made from the Virgin Islands. However, we request the committee to take note that the Virgin Islands of the United States are American territory and that the privilege of bringing home a gallon of liquor is a great tourist attraction; without it our economy would be seriously hurt.

Senator DOUGLAS. Do you mean to say that the prosperity of the Virgin Islands depends upon a person bringing home a gallon of liquor?

Mr. WITTY. I would say this, Senator, that is a very important part of our economy.

Senator DOUGLAS. Well isn't that a grave charge, if true?

Mr. WITTY. I am sorry, Senator, I did not hear that.

Senator DOUGLAS. Isn't that a very grave charge, if true?

Mr. WITTY. No, I don't believe so, because, as I pointed out, Senator, the gallon of liquor is a very important tourist attraction, so much so that we are close to Puerto Rico, and this helps people going to Puerto Rico, it is an added incentive for people going to Puerto Rico and visit the Virgin Islands because they know they can buy a gallon.

Senator DOUGLAS. In other words, the puritan standards have never penetrated the Caribbean?

Mr. WITTY. I didn't understand.

Senator DOUGLAS. The puritan standard of Bahama has never penetrated the Caribbean?

Mr. WITTY. I think the standards are similar in the United States and all over the world insofar as consumption of liquor and that field of morals.

Senator DOUGLAS. Senator McCarthy, who is not a New Englander, says some of the Yankees were willing to trade in liquor.

Senator SMATHERS. You go ahead.

Senator DOUGLAS. I am sorry, Mr. Chairman. I was somewhat shocked by that statement.

Mr. WITTY. Thank you, sir.

Senator SMATHERS. You go right ahead, Mr. Witty.

Mr. WITTY. In conclusion this bill provides the rightful protection of the interests of the United States and also provides for the economic advancement of the Virgin Islands of the United States. We urge your approval.

In closing, permit me to express in behalf of the delegation and the people of the Virgin Islands of the United States, our thanks and appreciation for the many courtesies extended to us by your committee, including this opportunity to be heard.

Thank you.

(The attachment to Mr. Witty's statement follows:)

Value of imports and exports to and from the Virgin Islands, 1955–63

Year	Value of imports from United States	Value of exports to United States from Virgin Islands	Year	Value of imports from United States	Value of exports to United States from Virgin Islands
1955	$12,372,098	$3,694,027	1960	$29,392,721	$6,832,976
1956	14,279,593	5,022,943	1961	38,725,786	7,681,141
1957	15,673,827	4,497,413	1962	40,593,468	19,118,647
1958	18,033,605	2,929,305	1963	53,556,023	22,608,015
1959	25,297,337	5,729,019			

NOTE.—The above external trade statistics of the Virgin Islands with the United States over the past 9 years are most revealing, starting from a low of $12,400,000, to a high of $53,500,000. The largest increase occurred between 1961 and 1963.

Senator SMATHERS. Thank you, Mr. Witty.

Senator Anderson, do you have any questions?

Senator ANDERSON. I would have a few. I see a reference here to representatives from the Republican and Democratic Party. Is that the party in control of the legislature?

Mr. WITTY. I am sorry, Senator, I did not hear that.

Senator ANDERSON. You had a lot of people elected on the Democratic ticket and a lot of people elected on the Republican ticket, didn't you, formed the Unity Party.

Mr. WITTY. Yes, sir; but we do have a Republican Party that is a major party represented by Mr. Leon Musser.

Senator ANDERSON. But the Unity Party runs the legislature, doesn't it?

Mr. WITTY. No; at this moment it is called the Democratic Party.

Senator MCCARTHY. Do they assign people to the Republican Party down there to keep it alive? [Laughter.]

Mr. WITTY. The Democratic Party is the ruling party and as part of the Democratic Party of the United States is now the moving party in St. Thomas.

Senator ANDERSON. What happened to the Unity Party?

Mr. WITTY. The Unity Party is now the Democratic Party.

Senator BENNETT. May I observe that they can change the name of the Unity Party to Democratic Party in the Virgin Islands but they couldn't change the name the other way around in the United States.

Senator ANDERSON. The Democrats won the election and lost the peace over there. They had a Unity Party after they carried the election.

You say a great deal about the tourist economy. You make some statement about how much would happen to it if it were passed. You say there is a study that is available to this committee on that. You wish we would look at it. Fortunately I did. I didn't think it proved it at all and therefore I insisted upon having hearings before we did it. Are you still willing to have hearings on that subject?

Mr. WITTY. Yes, sir.

Senator ANDERSON. Don't you think we ought to wait on those before we take this action here?

Mr. WITTY. Well, sir, in our records and statistics they show that immediately after the change from the $200 to the $100—that the economy showed an immediate decrease.

Senator ANDERSON. And immediately after that it showed a substantial increase, didn't it?

Mr. WITTY. No, sir; it has not. Our figures show that up until now we are off over 3½ percent compared to the year before, and this is the first year in the last 10 years that it has not shown at least a 15- to 20-percent increase. In other words——

Senator ANDERSON. Are your figures up to date?

Mr. WITTY. Yes, sir.

Senator ANDERSON. Have they been submitted to this committee?

Mr. WITTY. I think so.

Senator ANDERSON. Well, will you see they are submitted before Monday to this committee if you have some of them?

Mr. WITTY. Yes, sir.

Senator ANDERSON. Because the Treasury doesn't testify to that, does it?

Mr. WITTY. This, these records were done by the Department of the Interior and the Virgin Islands government.

Senator ANDERSON. The old study?

Mr. WITTY. No; the new one.

Senator ANDERSON. How new?

Mr. WITTY. It is a new study and we have the figures and we will submit these figures.

Senator ANDERSON. How new; does it include 1964?

Mr. WITTY. Yes, sir.

Senator ANDERSON. And the Department of Interior made that study?

Mr. WITTY. With the government of, the Virgin Islands government.

Senator ANDERSON. Did the Department of Interior make the study?

Mr. WITTY. I understand from my knowledge that it was a combined study of both, and I am not a hundred percent sure, Senator that it included all of 1964 up to date, and I don't know exactly what part but since the important feature of it is that since the act has been changed the Virgin Islands has felt the impact because of the lower rates and the lack of any increase. We have shown no growth at all since this bill was amended to $100 where for years it has been known that we leaped 15, 20 percent every year.

Senator ANDERSON. If the figure would finally reveal that the tourist business was in better shape now than it was prior to the removal of the $100 limitation, you wouldn't ask for it in this bill, would you?

Mr. WITTY. No; I would not, because I am certain these figures we have go over it and I know the figures would bear me out.

Senator ANDERSON. I do know some figures did, but they were not filed with the Department of Interior, they were figures from the Virgin Islands and they were full of holes.

Mr. WITTY. I only know what I was told Senator and it is in my report that the figures were made in conjunction with the Department of Interior and the Virgin Islands government and I will stand on that statement.

Senator ANDERSON. You say, if the Treasury bill provides for a $50 custom exemption for foreign countries and $100 for U.S. possessions are passed our foreign purchases would be cut about 40 percent. Can you supply some figures showing where you got that; 40 percent is a fairly sizable cut; isn't it?

Mr. WITTY. Well, this is based on the fact that——

Senator ANDERSON. It must be based on figure; isn't it?

Mr. WITTY. Yes, sir; but this is based on the facts——

Senator ANDERSON. Have you got them?

Mr. WITTY. On the fact that we now purchase foreign goods of $8½ million, and take a 40-percent cut on that allowance, then it stands to reason that our purchases from foreign goods would be reduced at that same figure and that is where we are basing our base simply on the question of 40 percent from the $17 million worth of goods that we sell and $8½ million worth of goods that we buy, and I have these figures right here, that—$8½ million of foreign goods here.

Senator ANDERSON. Has your allowance ever been reduced in the past?

Mr. WITTY. Yes; it has been reduced from $200 to $100 and in 1961.

Senator ANDERSON. Were your foreign purchases cut down 40 percent there?

Mr. WITTY. I am sorry, sir; the reduction was made in 1946 when the change——

Senator ANDERSON. Were your foreign purchases cut down 40 percent when that happened?

Mr. WITTY. At that time?

Senator ANDERSON. Yes.

Mr. WITTY. No; they were not, sir.

Senator ANDERSON. Why would they be now?

Mr. WITTY. There is very important reason why they were not, Senator, because the ships that were coming in were still having the old $200 and people were coming into St. Thomas the first 3, 4, 5 months still asking for $200 because it was never changed.

Also the number of tourist ships is now becoming less. For the first time in 15 years the number of tourist ships has been reduced to St. Thomas because of the fact that now our $100 is the same as other ports of call in the Caribbean, and all the advertising that has been, it takes 5 or 6 months before this gets around that we no longer have the $100 advantage or the double advantage, and this is seriously affecting us right now and our drop in the last few months has been greater than those in the first few months.

Senator ANDERSON. But you can't produce any figures to show 40 percent.

Mr. WITTY. No; at this moment I cannot, sir.

Senator ANDERSON. Well at any other moment you couldn't.

Mr. WITTY. Well, I am sure later on our figures, we can get this through the Government figures as the time goes by but at this moment our figures do show a drop and they do show that we have stagnation now. We don't have the growth and they also do show a very definite fall off in the number of ships that are coming in.

Senator ANDERSON. Your testimony is: There is stagnation now in the Virgin Islands, does Governor Paiewonsky agree with you?

Mr. WITTY. I am sure he does, sir.

Senator ANDERSON. He has been making great speeches about how wonderful it is in the Virgin Islands.

Mr. WITTY. But our figures show, Senator, we have no growth in figures.

Senator ANDERSON. But stagnation is no worse than no growth?

Mr. WITTY. I may be wrong on the terminology of the word "stagnation" but I know for the first time that the Virgin Islands have not shown a growth and we can only pinpoint it to this very important fact that we no longer have this advantage—you see, the advantage is really an equalizer because it is true and you realize that our salaries are so much higher than the salaries in the other islands. We have incomes taxes, we have social security, we have unemployment, all of these things competitively hurt us. We have this 6 percent duty that goes from customs where other islands don't have any duty at all. So this equalized is very important to us. So if we have double the amount to come in on exemption, this is really an equalizer.

Senator ANDERSON. You mentioned the income tax. How much Federal income tax does the island pay to the Federal Treasury?

Mr. WITTY. I can give you that figure right away, sir.

Senator ANDERSON. To the Federal Treasury.

Mr. WITTY. In 1955 it was $1 million and in 1963 it was $7,582,000.

Senator ANDERSON. Stagnation, then, wasn't there.

Mr. WITTY. These are 1963 figures.

Senator ANDERSON. That is a good sample of stagnation.

Mr. WITTY. No; we are talking now of just the last 6 months to a year since this was taken off.

Senator ANDERSON. Was there ever a cut in——

Mr. WITTY. I am saying our figures show no growth of tourist business, and also it is going, after all tourism is our main business, Senator.

Senator ANDERSON. That is what your figures show.

Mr. WITTY. That is right.

Senator ANDERSON. But if you had $1 million in profits one year in taxes and $6 million the next that hardly shows no growth.

Mr. WITTY. This is one year, sir. I gave you a figure of 1955 was $1 million. In 1962 it was $7,250,000, and in 1963 it was $7,582,000.

Senator ANDERSON. So it has been going up all the time?

Mr. WITTY. A very small change from $7,250,000 to $7,582,000.

Senator ANDERSON. It is hardly stagnation, is it?

Mr. WITTY. As I repeat, sir, it has not at this particular time had its effect yet but we do believe it will have an effect unless this new bill is passed in its present form.

Senator ANDERSON. You are going to submit some figures to us then to show the effect on the tourist economy of the Virgin Islands is very severe—recent figures?

Mr. WITTY. Sir, I did not say it was very severe, I said it showed a drop and it also showed no growth for the first time in 15 years, and we will show you those figures.

Senator ANDERSON. Very well.

Mr. WITTY. Senator, I do have some figures here that were just given me, and these are comparative figures since the change in customs; may I read them to you?

Senator ANDERSON. Surely.

Mr. WITTY. Yes.

Senator ANDERSON. What are these figures from now?

Mr. WITTY. These are Government figures and these are on tourist expenditures. Actually they are from 22 of the most important gift shops in St. Thomas, and the total shows——

Senator ANDERSON. There was a $500 exemption at one time.

Mr. WITTY. No; this is the difference between the $200 exemption and the $100 exemption.

Senator ANDERSON. All right.

Mr. WITTY. We will start in May in 1963 it was $383,756. In 1964 it went down to $346,000. In June it was $361,000. In 1963, and in 1964 it was $294,000. In July it was $509,000 in 1963 and in 1964 it dropped to $424,000, and in August it was $400,000 and it dropped to $325,000. In September it was $206,000 and went up to $270,000. In October it was $255,000 and went up to $301,000, and in November it was $484,000, went down to $478,000.

Senator ANDERSON. If that is typical of stagnation, I would have to agree with you. How much of that is follow-on business?

Mr. WITTY. I do not know, sir.

Senator ANDERSON. How much of it was cruise business when the man went out on a cruise ship and never set foot on land at all?

Mr. WITTY. None, sir.

Senator ANDERSON. None?

Mr. WITTY. None, sir; that does not take place in St. Thomas.

Senator ANDERSON. It never took place there in the Virgin Islands?

Mr. WITTY. Not that I have ever known it, sir.

Senator ANDERSON. How long have you lived there?

Mr. WITTY. Three and a half years, sir, but I have been visiting the islands for ten years but permanently living there for three and a half years.

Senator SMATHERS. Senator Bennett?

Senator BENNETT. No questions.

Senator SMATHERS. Senator Dirksen?

Senator DIRKSEN. Thank you very much, Mr. Witty.

Senator SMATHERS. Representative E. "Kika" de la Garza, of the 15th District of Texas, has submitted for the record a statement in support of amending H.R. 8147 to provide an exception in the case of the Republic of Mexico with respect to the duty-free limit of $100 of the goods that may be brought back to the United States by tourists.

(The statement referred to follows:)

STATEMENT BY E. (KIKA) DE LA GARZA, 15TH DISTRICT, TEXAS

Mr. Chairman, I appreciate your giving me the opportunity to appear before your distinguished committee. My purpose is to recommend that, in H.R. 8147, an exception be made in the case of the Republic of Mexico with respect to the duty-free limit of $100 on goods that may be brought back to the United States by U.S. tourists.

My congressional district borders on Mexico. The Rio Grande constitutes the border, but, Mr. Chairman, this river is not a division line between the two countries. Rather, it is a technical beginning of one and ending of the other country. The civic, commercial and personal attachments between my part of the United States and the Republic of Mexico are indivisible.

Many examples of this closeness might be given. The contiguous towns of Brownsville, Tex., and Matamoros, Mexico, and the continguous towns of Laredo, Tex., and Laredo, Mexico, celebrate the Fourth of July and all four towns celebrate the Mexican Independence Day. The city councils in Matamoros and Brownsville have what are in effect joint meetings about problems that affect either side of the border.

As to the commercial aspect of this relationship, more than 50 pecent of the retail sales in Brownsville, Tex., are made to people from Matomoros or from the interior of Mexico. In the city of McAllen, which is some 7 or 8 miles from the border, more than 40 percent of retail sales are made to people from Mexico. The city of Laredo, and its sister city, Nuevo Laredo, Mexico, have such close economic, social, and civic ties that they are virtually like on major area.

This same situation applies to the Mexican side of the border. It comes down to the fact that we have two areas where we can buy. If a wanted article is not to be found on one side of the river, the chances are good that it will be found on the other side. The Mexicans take advantage of the technological developments that have been made in the United States, while we take advantage of the opportunities to enjoy products of the arts and crafts that the Mexican people have developed to a fine point.

In short, Mr. Chairman, the relationship between the two peoples is one of friendship and business assistance on a reciprocal basis.

This relationship cannot but be injured by restrictions imposed by the United States to limit the amount of goods to be brought home by a returning citizen.

Let me say that Mexico has a liberal policy regarding foreign-bought goods that can be brought into the country. I will, with your permission, Mr. Chairman, place in the record a list of goods that are permitted to be imported into Mexico by a returning woman tourist.

The value of these goods could easily mount into the thousands of dollars if a lady brought in the maximum permissible free of duty.

Let me emphasize that our balance of payments is not involved here.

Mexico is now the fifth most important trader with the United States. This Nation's business concerns have an investment totaling $1.2 billion in our neighbor to the south. Mexico will buy about $1.22 billion in American goods this year. If net receipts are considered, including tourism, about 99.8 cents of every dollar spent in Mexico comes back to the United States in goods and services. Furthermore, if short-term assets for all economic transactions are included, Mexico spends $1.04 for every U.S. dollar put in its economy.

These are facts of vital economic importance to the people of my district, Mr. Chairman, and indeed to the United States as a whole. Even so, more than economic considerations are involved. Such restrictions as are proposed in H.R. 8147 should not be imposed against a good neighbor. I hope that, in the end, they will not be imposed against our good neighbor, the Republic of Mexico.

Senator SMATHERS. Our next witness is Mr. Oscar L. Chapman, representing the Nogales Liquor Dealers Association, State of Sonora, Mexico.

Mr. Chapman, we are always delighted to have you, a former member of the Cabinet of the United States of America.

STATEMENT OF OSCAR L. CHAPMAN, REPRESENTING NOGALES LIQUOR DEALERS ASSOCIATION, STATE OF SONORA, MEXICO

Mr. CHAPMAN. Thank you, Mr. Chairman and members of the committee.

My name is Oscar L. Chapman, and I appear before you this morning on behalf of the Nogales Liquor Dealers Association, an association of liquor merchants in the State of Senora, Mexico.

H.R. 8147 is of great interest to this association because its members make substantial sales of Mexican liquor to U.S. tourists who go to Mexico on holidays or vacations. Under the present laws these tourists are allowed to bring back up to 1 gallon of alcoholic beverages per person duty free. Section 1(b) of H.R. 8147 would lower this exemption to only 1 quart and would accordingly decrease the sales of the members of the association. Because of this, I am here today to urge this committee to delete this section from the bill, or in the alternative to at least make it inapplicable to alcoholic beverages purchased in Mexico and, I want to add, in Canada.

At the outset, I would like to put H.R. 8147 and section 1(b) in their proper perspective. As I understand the matter, H.R. 8147 is designed to help remedy our balance-of-payments problem by discouraging U.S. travelers from making purchases while they are in other countries. H.R. 8147 will accomplish this result by reducing to $50 the amount of such purchases which may be returned to the United States free of duty. Except for the limitation on liquor purchases in section 1(b), however, the bill does not in any way attempt to discourage the purchase of any particular foreign product.

On the surface, at least, it would seem that the important element of H.R. 8147 from a balance-of-payments standpoint would be the limitation on total duty-free purchases, not a limitation on any one product. For example, it would seem that a dollar spent abroad for perfume, a watch, or a piece of jewelry would have the same balance-of-payments effects as a dollar spent abroad on liquor. Accordingly, it seems strange to me that balance-of-payments legislation should have a provision reducing the duty-free-liquor allowance from 1 gallon to 1 quart.

With this in mind, my office went into the legislative history to determine why the 1 gallon limitation was put into the Tariff Act in the first place. We discovered that the Tariff Act of 1930 allowed returning residents to bring into the United States up to $100 worth of foreign goods duty free, and apparently, U.S. liquor producers felt they were injured by duty-free purchases in foreign countries.

Senator ANDERSON. Could I interrupt you to ask: Did they go into it thoroughly?

Mr. CHAPMAN. Yes.

Senator ANDERSON. They did not know that we had prohibition in 1930?

Mr. CHAPMAN. Yes, sir; but they did not allow any to come in.

Senator ANDERSON. There were not any allowed in under the law.

Mr. CHAPMAN. But in 1930, the law made it available is what I am talking about; the total allowance was available, not the liquor, because that followed 2 or 3 years later.

Senator ANDERSON. I just do not understand your statement about the change of $100. You say that the U.S. liquor producers felt they were being injured by duty-free purchases in foreign countries. You could not bring it into the United States, and you could produce it in the United States, so how were they injured?

Mr. CHAPMAN. If you will follow the next sentence, you will see it. Accordingly, when the liquor tax administration bill came before the Congress in 1936——

Senator ANDERSON. We repealed prohibition in 1933.

Mr. CHAPMAN. That is right.

The domestic liquor industry asked for, and received additional protection in the form of a 1-gallon limitation on the amount of alcoholic beverages which could be brought in free of duty by a returning resident. I think that clarifies your point. The first sentence may have appeared to be misleading on that one point.

With respect to this provision, this committee said:

> Section 337 limits the amount of intoxicating liquor which may be imported free of customs duty by travelers returning from abroad to 1 wine-gallon. It has been brought to the attention of the committee that returning travelers have ben able, by the liberal exemption of $100 contained in paragraph 1798 of the present tariff law, to import liquors from foreign countries without payment of duty, and that the practice of bringing in such liquors is becoming so general that considerable loss of revenue is sustained and *bona fide taxpaying sellers in the United States are losing a substantial amount of business.* (S. Rept. No. 2028, 74th Cong., 2d sess. (May 12, 1936), p. 15) [Emphasis supplied.]

It is easy to see that the reason for imposing the limitations in the first place, then, was to protect the domestic liquor industry.

Section 1(b) of the present bill, H.R. 8147, appears to have the same origin. It was not a part of the administration's original legislative proposal on the returning resident's exemption. Instead, it had been introduced separately sometime earlier as H.R. 4669 for the purpose of giving additional protection to the domestic liquor industry. Unfortunately, in the Ways and Means Committee the liquor industry's protection provision got tacked onto the administration's balance-of-payments bill. The fact that the liquor limitation in section 1(b) has nothing to do with the balance of payments, however, is emphasized by the report of the Ways and Means Committee which attempts to justify the provision on completely different grounds.

With this in background, then, it seems to me that there are good reasons why this committee should delete section 1(b). First, unlike the remainder of the bill, section 1(b) has not been carefully examined by all interested parties. It was not a part of the original administration proposal, and therefore it was not touched upon in the House hearings. Moreover, since it has an entirely different basis, and involves different issues, considerations relevant to this section were not even collaterally discussed in the House hearings. Second, it appears that there is a need for haste in dealing with the balance-of-payments portion of the bill because the temporary legislation which it replaces will expire in less than a week, but there is no similar need for haste in dealing with section 1(b) because the present 1-gallon limitation on duty-free liquor is in permanent legislation, and it will not expire. For these reasons, section 1(b) should be put back where it began and where it belongs, in a separate bill, so that hearings can be held on it, and Congress can determine in an orderly fashion whether the domestic liquor producers need additional protection.

Irrespective of whether section 1(b) is separated from the rest of the bill, however, there are good reasons why it should not be enacted. Not the least of these is that it may injure the fine relationships which we have for decades enjoyed with Canada and Mexico along the thousands of miles of common border. Some of these relationships are commercial. In the House hearings on this bill it was noted, for example, that the largest portion of the purchases made by U.S. travelers abroad are made in Canada and Mexico. But this is not a one-way street; the citizens of Canada and Mexico also account for the largest portion of purchases made by foreign travelers in the United States. Thus, in a recent press release the U.S. Department of Commerce said:

> Foreign visitors to the United States last year spent 17 percent more than in 1963, for a total of $1,095 million. Spending by visitors from Canada and Mexico as usual made up the bulk of our receipts, their combined outlays reaching $700 million, nearly two-thirds of the total.

One of the most significant elements in the fine relationship the United States enjoys with Mexico is the spirit of cooperation and good will which has been built up by the Mexican and American citizens of the border towns. The twin cities of Nogales, Ariz., and Nogales, Sonora, Mexico, are such towns. They exist side by side, with separate, cooperating governments, but as one economic entity. The 45,000 Mexican citizens who live in Nogales, Sonora, derive a large part of their income from American tourists. But the 12,000 Americans who live across the border in Nogales, Ariz., are also large beneficiaries of this trade. The tourist who goes to Nogales, Sonora, during the day may well have spent the night in a Nogales, Ariz., motel. Usually he will also have purchased his gas there, and made numerous other purchases which contribute to the economic well-being of Nogales, Ariz.

Not only do the people on the American side benefit from the tourist trade, but also they benefit from the purchases made in Arizona by citizens of Nogales, Sonora. It has been estimated, for example, that 99 percent of the dollars spent by U.S. tourists in Nogales, Sonora, are returned to Nogales, Ariz. In this connection, I understand that the Government of Mexico has wisely recognized the closeness of the relationship between the two towns, and has in practice allowed an exemption from duty to the citizens of Nogales, Sonora, and the other border towns for any purchases made on the United

States side which they actually bring back with them. Pursuant to this arrangement, many of the housewives of Nogales, Sonora, even do their grocery shopping in Nogales, Ariz.

It is clear then, that anything which, like section 1(b), injures Nogales, Sonora, will also harm its sister city across the border in Arizona. Under these circumstances it is perhaps not surprising that the Governor of Arizona, the mayor of Nogales, and the publisher of the Nogales Herald should all send telegrams protesting against this measure. We can be sure that if section 1(b) had come to light before May 24, when it was reported out of the House committee, the citizens of every border State would have registered similar protests.

In summary, I would like to emphasize once again that section 1(b) is a measure designed to protect the domestic liquor industry, that unlike the rest of the bill, it has nothing to do with the balance of payments, it was not a part of the administration proposal, there have been no hearings on it on the House side, and there is no urgency in dealing with it. Under these circumstances, and especially in view of the fact that it will do great injury to our border communities, I urge this committee to delete it from the bill.

In conclusion, I would like to thank this committee for giving me the opportunity to appear before you once again on behalf of our good friends of Mexico.

I appreciate always the opportunity of appearing before this committee.

Senator SMATHERS. Thank you, Mr. Chapman.

Senator Anderson, do you have any questions?

Senator ANDERSON. I merely want to say the program you outline in Nogales is exactly as you outlined it. The same thing happens pretty much in Columbus, N. Mex., and in El Paso, and Juarez.

Mr. CHAPMAN. Yes, sir.

Senator ANDERSON. The people who spend their pay checks in the El Paso stores carry their goods across the line without anybody asking them any questions.

I do realize it is a problem in that part of the country.

Mr. CHAPMAN. I appreciate that, Senator, because that is true clear across the border towns, Brownsville and Matamoros, and Juarez-El Paso, Nogales, and Columbus, N. Mex.

Senator SMATHERS. Your position is, as I understand it, to keep House bill——

Mr. CHAPMAN. It is.

Senator SMATHERS. Except striking out the so-called Watts amendment.

Mr. CHAPMAN. Yes, sir; strike out the rider amendment would be my position.

Senator SMATHERS. Senator Bennett?

Senator Dirksen?

Thank you.

Our next witness is another distinguished former public servant, former Chairman of the Communications Commission, Mr. Paul Porter.

All right.

STATEMENT OF PAUL A. PORTER, REPRESENTING AMERICAN TOURIST & TRADE ASSOCIATION

Mr. PORTER. Mr. Chairman, I am accompanied by my partner, Mr. Bob Herzstein, and Mr. Charles Feeny, who is the president of the American Tourist & Trade Association which I represent.

I have a statement here which I would like to incorporate in the record, but because of the limitation of time, I will merely summarize it, presenting the highlights.

Senator SMATHERS. Without objection, we will make the statement a part of the record.

Mr. PORTER. First of all, Mr. Chairman and gentleman, I would like to clarify one matter. The group that I represent are composed of about 20 business enterprises operated by young men like Mr. Feeny here that were referred to by the Secretary, my dear friend, Mr. Fowler, yesterday, as somehow engaging in operations through a loophole.

Well, very respectfully, I disagree with that definition. We rather think that these small institutions are what might be called mobile duty-free shops. I think you all have had the experience of going through the Kennedy Airport in New York or through Shannon or Orly in Paris, and there you have these duty-free shops at which you can buy goods from all over the world, including liquors, sweaters, clocks, china, et cetera.

Now, this group have, with what I think is commendable ingenuity and enterprise, developed a business in which the traveler can fill out an order for the amount of his duty-free goods, which will then follow. This is a matter of convenience. It is a matter which, I think, is susceptible of easy administration by customs, and is the enterprise which, if the House version of this bill is adopted by the Congress, will actually be liquidated. It will put these young men and the enterprises they have developed clearly out of business, and for no good reason, and for nothing connected with the objective, which we all share; namely, that the balance of payments is a grievous problem.

So, we insist at the outset that this is a legitimate, legal enterprise. I sometimes think it is analogous to the credit card systems that have been developed in our economy, the rent-a-car services, and things of that sort.

Now, we filed with the House committee, Mr. Chairman, a rather detailed study by a noted travel authority, Mr. Waters, and I would like to lodge a copy of that study with this committee.

Senator SMATHERS. Without objection.

(The document referred to will be found in the files of the committee.)

Mr. PORTER. I do not think, Mr. Chairman, it is necessary to put it in the record, because it is already in the House record, but for your convenience we have distributed that statement.

First of all, as I have said, this bill, with the unaccompanied baggage, as the Treasury proposed, would liquidate these businesses.

Further, the reduction of a gallon to a quart would likewise cause the elimination, because a great deal of this business is on this duty-free liquor.

Mr. Waters, who is a recognized authority on travel, points out in his study that the travel figures are really just estimates, that there have to be judgment values placed upon these travel figures in order to understand precisely what the balance-of-payments problem may be.

He also points out, which appeals to me a great deal, and that is that your average tourist takes a trip abroad on a budget, and if he is not allowed to bring back the duty-free items he is going to spend it on something else.

Well, I believe Senator Fulbright colorfully described that as, perhaps, sophisticated debauchery, whatever he might have meant by that.

The customs' burden, and I think it has been alluded to here this morning, there has been a suggestion that perhaps this was more of a psychological rather than a balance-of-payments contribution.

In my informal conversation with my friends at the Treasury, I think it was the result of a meeting of the minds that these prohibitive restrictions would make no substantial contribution to the balance-of-payments problem, but, on the other hand, all citizens should be made to feel that they were making some contribution to what is a very grievous and complex national problem.

However, I do not believe that without the hearings, as Mr. Chapman has pointed out, that the group that I represent should be decapitated without the opportunity for further and more deliberate hearings and proceedings.

The figures on this are very interesting, and I think they have been alluded to.

We recently—I think the Congress recently, and I think wisely, eliminated as a matter of economic policy pretty close to $5 billion in excise taxes.

There is less than $10 million which would be involved if the consumer bought his necessities of distilled spirits at his local liquor store. So this is really a de minimus problem, less than 450,000 gallons of distilled spirits and other liquors coming back through the duty-free allowance.

Now, also, there was on yesterday, and I think some question was put, about the reciprocity with other countries, as was developed, as to what reciprocity was developed, as other countries, as other countries permitted duty-free goods and liquor, and you will find that in my statement on page 17 in a footnote there, which will give you the statistics on the selected countries of the amount of duty-free liquor that is permitted.

So, there is a great flexibility with other countries, and we are not the only country that has this policy as a matter of border crossing or convenience to the tourists.

Now, I would suggest that certainly the control, the regulatory or the protective provision, inserted on the House side should certainly be stricken from this bill.

We also urge that the unaccompanied baggage privilege be permitted to be retained.

Finally, I would suggest that if the committee feels that it should deal with the problem of liquor at all, that the gallon limitation be maintained and, perhaps, if you want to restore it to the strictly tourist privilege, you can require that it be available only once every 6 months, perhaps, and limit it to those of 21 years and older.

With respect to these statistics on foreign travel I pointed out in my statement that it is not a one-way street. For example, last year, four of my partners, including Mr. Herzstein, took a total of 14 trips abroad, and that goes into what is described as the tourist gap.

Now, I have reason to believe they brought back more dollars in the form of legal fees, at least I hope that is the case, than they expended on purchases or on foreign travel.

So, gentlemen, we feel, as has been stated before this committee, that this is not dealing with the symptoms of the problem, and we urge upon you that if you are going to consider a protective measure in connection with this bill, that it should be done separately, as the distinguished former Secretary of the Interior suggested to you.

I will rely upon our statement in the interest of time, Mr. Chairman. If there are any questions, I would be happy to try to answer them.

(The prepared statement submitted by Mr. Porter reads in full as follows:)

STATEMENT OF PAUL A. PORTER IN OPPOSITION TO SECTION 1, SUBSECTION (b) (1) OF H.R. 8147

Mr. Chairman and members of the committee, this statement is submitted on behalf of the American Tourist & Trade Association, an association of some 20 companies engaged in the home delivery of duty-free merchandise to U.S. tourists. The companies specialize in the home delivery of duty-free liquor and perfume. My clients are opposed to two proposals that are now before this committee: First, section 1(b) (1) of H.R. 8147, which would reduce the quantity of duty-free liquor that may be brought back by returning residents of the United States from 1 gallon to 1 quart; secondly, the proposal of Secretary of the Treasury Fowler, which was contained in the original bill submitted to the House of Representatives, to remove the duty-free exemption from unaccompanied baggage. If passed, either of these provisions would drive the member companies of the American Tourist & Trade Association entirely out of business.

First, I would like to describe the nature and activities of the home delivery industry. This is a small industry, comprising some 20 companies employing something more than a few hundred persons. It is also a young industry, having grown up since the war, and is owned and run by young men. It is a typical example of America initiative and enterprise developing a service in response to a growing demand by the American traveler.

With the rapid postwar growth of oversea travel, companies were quick to provide services for the shipment home of baggage, personal effects no longer needed on the trip, bulky acquisitions and the like. Naturally, the tourist found this a simple and cheap way to ease his travel burden. Foreign retailers provided additional services by shipping purchases directly to the tourist's home—a service Americans have been accustomed to from dealing with large department stores at home. After all, carrying one's purchases is a chore, overweight baggage is costly, planes are crowded, and taking one's purchases through Customs in country after country is bothersome. The home delivery industry was developed to serve one aspect of this growing need, the shipment and delivery of the duty-free liquor to which the tourist was entitled. It now fulfills a very useful function, much appreciated by American tourists.

In his statement before this committee yesterday, Secretary Fowler referred to our mode of operation as if it were some kind of insidious device exploiting a so-called tariff loophole. In fact, as I have explained, this is not the case at all; our companies are supplying a genuine service that tourists want and indeed need. Secretary Fowler made reference to the fact that by using our service tourists avoid paying both domestic and foreign taxes on their acquisitions, whereas if they bought the same articles in a tourist shop, they would have to pay the local taxes.

Apart from the fact that this has nothing whatever to do with the balance-of-payments deficit,[1] it is worth pointing out that the tourist can avoid paying

[1] In fact it will tend actually to lessen it, since tourists are paying less for their foreign purchases.

local taxes by making his purchases at one of the duty-free shops which exist at almost every international airport. In essence, our service is no more than a mobile duty-free shop.

Secretary Fowler also remarked on the fact that the articles purchased are not always present in the country in which the order is placed. However, as I explained at the hearings before the House Ways and Means Committee, when this point was discussed at some length, this is simply a matter of administrative convenience, and is designed to streamline operations and so to cut the cost to the consumer. It was suggested at the hearings that perhaps the exemption should be limited to goods actually present in the country where the tourist makes his purchase. The only effect of such a requirement would be to cause the article in question to make two journeys, from the port of origin to the place of purchase, and thence to the United States. It is hard to see what essential difference, apart from the extra administrative problems and the additional cost, there would be between such a system and the present mode of operation, whereby the liquor is shipped in consolidated consignments direct from the port of origin to the United States. Besides, taken to its logical conclusion, the "physical presence" suggestion would require that only items actually produced in the country of purchase should be entitled to the duty exemption.

I hope that the above description makes it clear that these companies are providing a true service to the American traveler, and are not simply engaged in the exploitation of a "tariff loophole" for their own selfish ends.

We base our opposition to these proposals on the following grounds.

1. They will put our industry out of business

Removal of the unaccompanied baggage privilege will, of course drive our companies right out of business. Likewise, there is no question that reduction of the liquor allowance would eliminate them, for even if returning residents continue to take advantage of the 1-quart allowance, they will clearly be prepared to carry it back themselves, and will not require the services of our companies. In any case, it would be entirely uneconomic to operate our service on consignments of one bottle only.

Many of our companies have substantial commitments on leases. We have hundreds of employees, and large stocks of inventory. Any legislative proposal which would completely destroy a thriving American industry, employing several hundred persons, and providing work for many others in the Customs brokerage, handling and delivery of the articles concerned, would constitute a drastic enough measure even if it were justified in terms of the potential savings in the dollar outflow. However, as I shall demonstrate, neither of these proposals will result in a decrease in tourist spending abroad. Moreover, one of them, the reduction of the liquor allowance, was not even proposed by the administration. It was the brainchild of local liquor interests.

2. Neither proposal will assist the balance-of-payments problem

When the Treasury Department predicts that elimination of the unaccompanied baggage provision will have a favorable effect on the balance of payments, they are making several assumptions which I believe are clearly wrong.

First, they are assuming that many American tourists will forego their foreign purchases rather than carry them back. I do not believe that this will happen. Are returning tourists going to pass up the opportunity to bring in a souvenir of their trip abroad, rather than put up with the inconvenience of carrying it back themselves? Certainly a few, particularly those physically unable to carry extra luggage, may do so, but the average tourist has grown accustomed to the right to bring back a few articles acquired abroad. The present measure, which will seem to him to be just another example of bureaucratic harassment, will merely strengthen his desire to avail himself of this right.

Moreover, it appears that it is more beneficial to the balance of payments for tourists to use our service than to carry back their purchases themselves. This conclusion was arrived at by Mr. Somerset Waters, a well-known expert in the economics of the tourist industry. He has developed some figures which show that when a tourist buys, say a gallon of Scotch from one of our companies, which then ships it back for him, only $9.25 out of the total price of $16.75 stays outside the United States.

The rest returns in the form of freight charges, customs brokerage fees, expenses in the United States, and the like. If, on the other hand, the tourist buys it from a duty-free shop overseas and carries it in himself, the entire price of $15 stays abroad.[7] In addition, overweight charges will be incurred, much of which will go to foreign airlines. Thus the saving in the dollar outflow achieved by our system would amount to a substantial portion of the total allowance.

The second assumption that underlies Treasury's rather hopeful prediction is that those tourists who decide not to make a foreign purchase will simply bring the money back home rather than spend it on something else while abroad. This assumption, as we all know, is contrary to the practice of the great bulk of American travelers. Most tourists spend to a fixed budget while abroad, and if they do not spend as much on articles to take home, they will just spend more on food, entertainment, and other items of "sophisticated debauchery."

The third assumption behind the Treasury prediction is that elimination of the duty-free privilege for unaccompanied baggage will end all unaccompanied shipments of articles acquired abroad. But it is obvious that many tourists will prefer to continue to send back separately some items, particularly fragile ones, and to pay the duty on them rather than put up with the inconvenience and the risk of breakage incurred by carrying them back themselves. Although this will result in a little extra revenue for the Treasury, it will not of course have any effect upon the dollar outflow.

I believe commonsense tells us that there is really very little ground for the view that ending the unaccompanied baggage provision will yield any significant reduction in dollar spending abroad. This proposal is entirely the wrong solution to the balance-of-payments problem. The matter is placed in better perspective when it is realized that Americans traveling abroad spend over $650 million a year on foreign air carriers. If a mere 6 or 7 percent of these switched to American carriers, the total expenditure on unaccompanied baggage, less than $40 million a year, would be entirely counterbalanced.

The House Ways and Means Committee clearly agreed that removal of the unaccompanied baggage allowance would not help the balance of payments, for it struck this proposal from the bill. The language reducing the liquor allowance was added, not at the instance of the administration, but, as I shall explain, at the behest of the domestic bourbon industry.

It is clear that this proposal, too, will have little effect upon the balance-of-payments. Secretary Fowler said in his testimony yesterday that the reduction might result in a saving of $20 million in dollar spending abroad. It is not clear where he got this figure. The Ways and Means Committee itself stated, in its report on the bill, that not more than $10 million in balance-of-payments savings would result from the reduction in the liquor allowance.

A proposal which would have the drastic effects I have outlined above is certainly not justified by a saving of $10 million.

As I have previously stated, if the American tourist does not spend some money on the excellent bargain that he may obtain on duty-free liquor, then he will simply spend the balance of his fixed budget on food, lodging, or some other item which will leave all of the money abroad, rather than bring some of it back into the United States, as happens with our service.

3. The proposals will not ease the burden on customs

Secretary Fowler indicated that one of the purposes for removal of the unaccompanied baggage privilege is to relieve customs of the bother of checking unaccompanied baggage. But is removal of the privilege really going to result in less work for customs? I think not. It will certainly increase their work in the examination at the port of entry of articles carried back by returning tourists, and, at the same time it will be a great inconvenience to returning travelers. I am sure that every member of the committee knows what a struggle it is even now to get through customs at places like Kennedy Airport. Removal of the unaccompanied baggage privilege will make the situation much worse. At present only 1 person in 20 pays any duty at the time of going through customs. The reduction in the duty-free allowance from $100 to $50 will necessarily result in delays as many more people will be required to pay duty. Removal of the unaccompanied privilege will mean that tourists will carry back more articles and will consequently generate even greater congestion and delay in getting through customs. The unaccompanied baggage procedure permits millions of parcels to enter and be inspected after the tourists arrive home—rather than at the crowded air terminal, as planeloads of tired passengers wait to clear the customs line.

[7] See "Should New Restrictions Be Imposed on American Tourists?" p. 14.

Removal of the privilege is also likely to result in more work for customs in the clearance of gift items worth under $10 sent in by tourists abroad. The number of these is likely to increase sharply if the unaccompanied baggage privilege is removed and the duty-free allowance reduced. Moreover, most of them come in by mail and must be cleared individually.

While on this point, it is interesting to note how the companies in the association which I represent have already greatly simplified the procedure for the entry of unaccompanied liquor. This procedure was described in detail at the hearings before the House Ways and Means Committee by Mr. Feeney, who runs one of these companies. I will just point out now that these companies bring in the liquor in consolidated shipments, usually of 2,000 gallons. The company bringing it in prepares a numerical list of the individual cartons, and puts the appropriate customs forms into alphabetical order. Thus the work of the customs inspector is greatly simplified, and he needs only to make a spot check on a few individual packages to insure that they contain the right quantity of liquor. The company can be asked to rectify any mistakes which are discovered after the shipment has been cleared. The company will of course be very careful to insure that all its shipments comply with the law in order to protect its business.

The effectiveness of our system is amply demonstrated by the fact that whereas a customs official can clear an average of only 200 to 300 individual packages in a working day, he can clear 4,000 or 5,000 liquor consignments using our procedure. And in 1963 customs adopted a very similar procedure for the entry of gifts worth less than $10,[3] a tribute to the inventiveness of our industry.

My clients feel quite sure that the entry of other unaccompanied articles could be streamlined in much the same way, and they would be very willing to sit down with customs to discuss possible means of doing this. Yet with all their experience in this field, and their proven ability at simplifying entry procedure, they have never been approached by the customs authorities. Customs is apparently unprepared to make a few simple investigations as to whether this alleged problem can be solved without taking the extremely drastic step of eliminating the privilege altogether.

4. The reduction of the liquor allowance is not justified by excise tax considerations

In considering the reduction of the liquor allowance, the Ways and Means Committee appeared more concerned by the loss of excise tax revenue than with the balance of payments. In its report, it stated that:

"The extensive use of the alcoholic beverage privilege in connection with the returning resident exemption results in a considerable loss of revenue, aside from the ordinary customs duty loss."

The present excise tax is $10.50 per gallon, so that if it is assumed that as a result of the reduction an extra million gallons of liquor are purchased in the United States, the increase in revenue will be little over $10 million. The absurdity of this argument is clear when it is recalled how recently Congress passed an act to cut the excise taxes by nearly $5 billion.

In any case, it is by no means clear that the proposed reduction will result in much extra revenue. To argue that it will is to make several unwarranted assumptions. First, that travelers will continue to purchase liquor abroad, and will pay the duty and excise tax on their return. This, of course, is most unlikely, and in any event would not assist the balance-of-payments problem. Alternatively, it assumes that a person who is prevented from purchasing a gallon of liquor abroad will buy the equivalent quantity of liquor in the United States. But a quantity of the liquor presently brought in under the exemption is either brought in as a gift or as some exotic form of liqueur as a souvenir of the returning tourist's trip abroad. In neither case would the tourist buy an equivalent amount of liquor on his return to the United States.

5. The proposal to reduce the liquor allowance is a piece of "special interest" legislation, and is aimed solely at the elimination of competition

The proposal was inserted at the behest of certain elements of the domestic liquor industry, namely the bourbon manufacturers, who have been agitating for such a measure for some considerable time. The amendment was introduced by Congressman John Watts, of Kentucky, one of the largest bourbon producing

[3] See customs regulation sec. 8.3(d)(4).

areas. It is clear that the gigantic bourbon industry, which produces some 100 million gallons a year, is attempting to squash a small competitor, who it believes is threatening, through its initiative and energy, to take a minute proportion of its sales while serving the foreign tourist. This matter should be placed in its proper perspective. The total quantity of liquor consumed in this country last year was about 276 million gallons, with a value of about $6 billion. Last year the home delivery companies brought back about 450 thousand gallons, about $9 million worth. It is estimated that between half a million and a million gallons more of duty-free liquor were carried back by returning travelers. Thus the total amount of liquor brought in duty-free was worth between $17 and $25 million, a miniscule amount compared with the total sales of $6 billion. It constitutes about four-tenths of 1 percent of total liquor consumed in the United States.

In any case, the bourbon manufacturers are laboring under a misapprehension if they believe that a reduction of the allowance will increase sales of bourbon. A portion of the liquor entered under the duty-free exemption is brought in either as gifts or in the form of exotic liqueurs, and the prevention of such purchases abroad will not result in equivalent purchases in this country. Moreover, most of the rest is Scotch, and few people will be induced to switch to bourbon if they cannot bring back a gallon of duty-free Scotch. As a Washington Post editorial recently said, "The gain that bourbon is likely to make at the expense of Scotch is small."

It is most unseemly that a piece of special interest legislation such as this, with its highly dubious motives, should be permitted to be attached to a bill put forward by the administration with the laudatory, though in this case perhaps misdirected, aim of easing the balance-of-payments deficit.

6. The proposal to reduce the liquor allowance is highly discriminatory

There is no apparent justification for imposing a severe quantitative restriction on just one product. It may be argued that the purpose of the duty-free exemption is to allow tourists to bring back souvenirs of their holiday, and that a bottle of liquor is not a souvenir because similar liquor can be purchased at home. However, there is no quantitative limit on the amount of perfume which may be brought in under the duty-free allowance, and a gallon of Irish whisky or a gallon of rum from Jamaica is as much a souvenir as a bottle of perfume from Paris. Yet perfume distributors and retailers in this country have not requested that the duty-free allowance for perfume should be restricted.

Secretary of the Treasury Fowler himself pointed out at the hearings before the House Ways and Means Committee the disadvantages of imposing restrictions on imports:

"If we get into a reciprocal contest as to who can impose the most restrictions on their imports we are bound to end up the loser, because with most other countries that are our trading partners we sell them more goods and services than they sell us, so it is to our advantage to not only maintain the current situation, but to try to minimize the trade restrictions." (Hearings, p 57.)

7. The liquor allowances of other countries are often effectively more liberal than the U.S. allowance

Secretary Fowler in his testimony yesterday stated that other countries do not allow returning residents to bring back as much duty-free liquor as does the United States. It is true that the actual quantity that may be brought in at one time is usually less.[4] However, in most of these countries there is no time limitation, so that, for example, a Spaniard can travel into France and bring back his allowance of two bottles as many times as he wishes. It must be remembered that the opportunities for visiting other countries is much greater in Europe. Thus, the allowance is effectively greater than the U.S. limit of 1 gallon every 30 days.

In conclusion, Mr. Chairman, I and my clients do not believe that the proposal to eliminate the unaccompanied baggage allowance will have the desired effect upon the balance-of-payments. Indeed, it seems to us that the whole bill is pointing in the wrong direction. Instead of attempting to narrow the "travel gap" by imposing further restrictions on American tourists, we should be taking the positive step of encouraging more foreigners to visit our great and beautiful country.

[4] Australia, 3 quarts; Canada, 40 ounces; Denmark, 2 bottles; France, 2 bottles; Greece, 4 bottles; Ireland, 2 bottles; Japan, 3 bottles; Mexico, 3 bottles; Spain, 2 bottles; Sweden, 2 bottles.

In any case, it seems to me that the Treasury's figures on the so-called "tourist gap" are misleading, for they do not distinguish between trips taken abroad purely for pleasure, and business trips, which may well result in a return of foreign money to this country. Last year just 4 of my law partners went to Europe on business about 14 times. Although the cost of these trips would have appeared on Treasury's statistics to swell the "travel gap," this amount was recouped many times over in legal fees from the foreign clients, and the travel expenses themselves were reimbursed. Of course, the influx of foreign money represented by these fees would not have appeared on the other side of the ledger when the "travel gap" was computed. I am sure that our experience is typical of a large percentage of U.S. travelers.

We urge this committee to reject that part of the bill which relates to unaccompanied baggage. If passed, it will generate a number of undesirable consequences: it promises actually to increase, rather than reduce, dollar spending abroad: and it will create more work for Customs in other areas.

I would like to reemphasize our opposition to the proposal to reduce the liquor allowance. In addition to placing an entirely unjustified restraint upon the American tourist, this highly discriminatory measure will drive out of business one small industry, which has been developed by typical American ingenuity and inventiveness. This proposal was not put forward by the administration and it will not cut down dollar spending abroad. It is merely an insidious device by means of which the domestic liquor industry misguidedly hopes to eliminate all possible competition, however small and inconsequential. I strongly urge this committee to reject section 1(b)(1) of H.R. 8147 as it stands. However, my clients feel that some form of action to advised to restore the allowance to its original form, that is, a privilege for returning tourists. The committee may therefore wish to consider the suggestion that the allowance be permitted only once every 6 months,[8] instead of every 30 days, as at present, and we also suggest that, as in the present bill, it be restricted to persons over 21.

Finally, Mr. Chairman, I would like to attach to my statement a number of editorials comments, to demonstrate that the reaction of the press and the public has been almost uniformly hostile to this totally unwarranted piece of legislation, whose only purpose is to bolster up the interests of a gigantic and voracious industry, at the expense of the American public in general, and our small industry in particular.

The administration should concern itself with more positive and creative measures to reduce the balance-of-payments deficits, instead of imposing further inconsequential restrictions upon the hapless American traveler, who has had no spokesman in any of the proceedings involving this legislation.

[From the Washington Post, May 14, 1965]

"The measure will also serve to embolden the protectionists who are ever ready to declare war on all imports. It is hardly an accident that the provision of the bill reducing the whisky allowance from 1 gallon to 1 quart per person was sponsored by Representative John C. Watts of Kentucky. The gain that bourbon is likely to make at the expense of scotch is small. But the measure may very well hurt important manufacturing industries in Mexico and other less developed countries in the Caribbean area."

[From the Journal of Commerce, May 19, 1965]

"We are not very enthusiastic, either, about the committee's decision to cut from 1 gallon to 1 quart the amount of liquor each tourist can bring home, and to limit this quota to adults. Is this designed to ease the U.S. balance-of-payments deficit? Or is it designed for the comfort and convenience of liquor producers in the Kentucky constituency of Representative John C. Watts, who proposed this odd addition to the measure?"

[From the New York Times, Sunday edition]

"Neither Mr. Byrnes nor other observers of the problem appeared concerned about the bill's proposed change on importing alcoholic beverages. The change would limit such imports to those 21 years of age or older. Presently, anyone, even infant travelers, can bring in a full gallon.

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[8] This would make the effective liquor allowance actually lower than would the Watts amendment, for under the latter, the frequent traveler could bring in as much as 3 gallons a year; if our suggestion were put into effect, he could only bring back 2.

"However, in a last-minute surprise move, Representative John C. Watts, Democrat, from the bourbon State of Kentucky, persuaded the Ways and Means Committee to cut the gallon of duty-free liquor back to 1 quart for those over 21."

Cognac connoisseur

"The Scotch drinker or the cognac connoisseur presumably buys Scotch whisky and French cognac at his friendly, neighborhood liquor store when his gallon of duty-free alcohol is used up.

"The questioning travel officials ask what difference it makes to the dollar gap whether the friendly liquor store ships the dollars overseas or the tourist takes them over with him. The final effect is the same."

Senator SMATHERS. Thank you very much, Mr. Porter.

Senator Anderson?

Senator ANDERSON. No questions.

Senator SMATHERS. Senator Dirksen?

All right.

Our next witness is Mr. William C. Steele, representing the Peninsular & Occidental Steamship Co.

STATEMENT OF WILLIAM C. STEELE, REPRESENTING THE PENINSULAR & OCCIDENTAL STEAMSHIP CO. AND EASTERN STEAMSHIP LINES

Mr. STEELE. Mr. Chairman, I do not have a prepared statement. I will be very brief.

We support the position taken by the Bahamian Government. I represent Peninsular & Occidental Steamship Co., and also Eastern Steamship Lines.

It was felt that the committee should have the benefit of these operations to differentiate them from the European trade.

Peninsular & Occidental Steamship Co. commenced thrice-weekly voyages to Cuba in 1896, and for the next 60 years operated to Cuba. With the advent of Castro they went to Nassau.

Eastern Steamship Lines, prior to Castro, operated to Cuba. They now go to Nassau.

The nature of these cruises accounts for—or the nature of them is a cheap cruise; that is, for approximately $59 to $100 we take people to Nassau for a weekend. They have their lodging aboard the ship, they are provided all of their meals, and they are there for 2 days. These, we feel, are in real contrast to the European cruises, and the European tourist business.

I might also add that the round-trip air fare between Miami and Fort Lauderdale and Nassau is only $27 which, in turn, contrasts with the European trade.

We feel that this difference should make for a difference on the Bahamian exemptions, if there is to be any reduction of the $100 or the 1 gallon, as far as liquor goes, and we urge the committee to leave these, at least as to the Bahamian trade.

I would be glad to answer any questions that I can.

Senator SMATHERS. Senator Anderson, do you have any questions? Senator Dirksen?

There are no questions.

Thank you, Mr. Steele. We very much appreciate your statement.

Mr. STEELE. Thank you for the opportunity.

Senator SMATHERS. Our next witness is Mr. John Exter of the First National City Bank of New York.

Senator DIRKSEN. Mr. Chairman, Mr. Exter is here actually as a result of my invitation. I encountered a statement on the balance-of-payments problem in the Congressional Record some time ago that I thought was rather extraordinary, and it occurred to me that Mr. Exter, after a lifetime of experience in this field, would have a great deal of authority to speak on it.

We have heard a great deal of statements on the balance of payments, probably not as knowledgeable as his.

I believe there was a Member of Parliament who said that if nobody said anything unless he knew what he was talking about, an awful hush would fall on this world.

I think Mr. Exter knows what he is talking about, and I trust that the chairman can be a little liberal with time, because he is truly an expert and has given a lifetime of study to the problem.

Senator SMATHERS. All right.

Mr. Exter, we agree with Senator Dirksen, that there is a lot about this subject that we can all learn. Why don't we start out and see how we are doing. You get started. The Senate is now in session. You heard those bells ring. We are in the morning hour and, presumably, nothing of any consequence is happening.

Senator DIRKSEN. Only calendar bills.

Senator SMATHERS. You go ahead. We are delighted to have you here. Your testimony will be beneficial.

STATEMENT OF JOHN EXTER, SENIOR VICE PRESIDENT, FIRST NATIONAL CITY BANK

Mr. EXTER. Thank you, Mr. Chairman.

I am a senior vice president of First National City Bank with responsibility for the bank's relations with foreign governments and foreign central banks. Before joining City Bank I was vice president in charge of foreign operations at the Federal Reserve Bank of New York for 5 years and before that the first Governor of the Central Bank of Ceylon for 3 years. I have been invited personally to testify by Senator Dirksen, so the views that follow are my own and may not necessarily be subscribed to in their entirety by my bank.

Simply stated, I regard our balance-of-payments problem as primarily a monetary problem. We shall have a deficit as long as we make dollars too plentiful; we can correct the deficit only by making dollars scarce. Most foreigners have long since recognized that the forces constantly at work restoring international monetary equilibrium are extraordinarily powerful and that the discipline of the balance of payments imposes severe limitations on monetary policy; they do not fear high interest rates. We have gone on thinking our payments problem will somehow solve itself, although we ran budget deficits, pump newly created money into the economy, and hold interest rates down to stimulate our economic growth, perpetuate our boom and absorb our unemployed.

Even in the short run, these policies do not accomplish their intended purposes; they cannot be sustained without a crackup of the world's monetary system. We have had easy money since 1958 with but one partial respite in late 1959 and early 1960. After 7½ long years of it our unemployment rate has only recently gone below 5 percent. In spite of our abundant resources, extraordinary skills, imaginative and intreprid management and rapid accumulation of capital, our economic growth rate, fed by easy money, has been far below the growth rates of the tight-money countries. Tight-money Japan, for example, with resources sparse relative to population, regards a growth rate below 10 percent as recession, and has labor shortages. Tight-money Germany recruits unskilled Turkish labor from the plains of Anatolia and has 600,000 jobs unfilled.

To understand this paradox look at the basic elements of our international monetary system. Most important is that each currency is freely convertible into the others at fixed exchange rates, and that our dollar is additionally freely convertible by central banks into gold at $35 an ounce. I used the word "freely" advisedly. Although there are restrictions on this convertibility in many countries, including the voluntary ones on the dollar imposed since February 10, yet in all countries the variety of ways in which conversions can be made freely is infinite. So, no matter how many restrictions may be imposed, every currency in the world is going to find its equilibrium with every other currency in one way or another, if necessary, even through black markets. The restrictions may slow the equilibrium forces—though I am not so sure they can do much of that—but they certainly cannot indefinitely dam up purchasing power.

We may think the restrictions help because we mentally put flags on certain dollars to set them apart; we compartmentalize the balance of payments as though one compartment were independent of others. We put flags on foreign aid and foreign military dollars, for example, when we tie them to expenditures in this country. But the moment those dollars are spent the flags are gone, the strings on the dollars untied, freeing them to be spent by their recipients anywhere in the world and through any compartment whatsoever. And how briefly those dollars are tied. In New York City, demand deposits turn over about 100 times a year, outside New York about 35 times. So flags can be tied on foreign aid dollars for perhaps 10 days if spent outside New York and only about 3 to 4 days if spent inside it. Does no one ever wonder how much brief delays can significantly help the balance of payments? Meanwhile, tieing increases the cost of the programs, for tied dollars buy less than untied, sometimes much less.

This committee is now considering the flags on the relatively small proportion of tourists' dollars spent on goods brought into the United States. Can anyone believe that the flags will stay on these dollars and bring them home if more of them are taxed, when the tourist is free to remove the flags and indulge his temptation to spend them in countless untaxed ways overseas?

There are no flags on dollars. Any dollar can be substituted for any other dollar, like any drop of water for any other, so that restrictions placed on certain dollars do not prevent all others from doing their equilibrium work. As a boy you must have tried to dam a stream. You put a rock in it and were greatly pleased that no water went through the rock. The original interest equilization tax was like that rock, or perhaps more like a cinder block, for it had great big Canadian and developing countries' holes in it. In any case, virtually no money went over the tax, through or over the rock. There have been no issues by developed countries in New York subscribed to with taxable dollars. But plenty of dollars went around the tax, like water around the rock, as foreigners borrowed nontaxable dollars. There were at least 40 public dollar issues floated in Europe, for example, and bank loans and direct investment. So now we put in more rocks, one taxing bank loans, another putting a 105 percent ceiling on all bank foreign lending, another putting the same ceiling on nontaxable foreign issues of under 10 years, another asking voluntary reduction of direct investment, and now this one, reducing still further the customs-free tourist allowance, and so on. Will not the water run around these rocks, too? Will we not always need more rocks?

I have been asked, "Why not call in a contractor and build a dam?" That would be cutting off all transactions with other nations, isolating our economy with an import and exchange control far more complete than anything ever attempted in the modern world. Sounds absurb. Yet our present Keynesian policies are based on a book by Keynes, written in the 1930's, that made just such an assumption. He assumed a closed economy, one with a dam all around it. No wonder policies based on theories built on that assumption yield paradoxial results. Pump money into a closed economy, it admittedly absorbs the unemployed; but pump it into an open economy, it runs out almost as fast as you pump it in, and absorbs the unemployed in other economies, the tight money ones, like Germany and Japan. All economies today are really open, for the exchange controls of the real world are always so incomplete and imperfect that they cannot prevent equilibrium.

I was once governor of the Central Bank of Ceylon. As governor, I ran an exchange control, a full-fledged one, with nothing voluntary about it, both for Ceylon itself and for the Ceylon sector of the sterling area.

I loathed the job. The control penalized the honest and helplessly threw rewards to the rascals. We could deny foreign exchange to the conscientious, hardworking, and law-abiding, but could not keep it from invaders. We caught a few rascals, never enough to discourage the dishonest from becoming less so. There are as many ways of evading controls as of annoying your wife.

We not only turned moral forces upside down, but market forces, too. The tighter we controlled, the higher went the black-market rate; higher the rate, the greater the incentives and rewards to the rascals. Each new control bred fears of the next and induced more flight from the currency. So be not misled when a controller tells you his control succeeds. He prevents many from passing the control, but he loses track of the evader. He takes pride in his rocks but is blind to the water flowing around them.

You must have squeezed a balloon to make it smaller. But you could not squeeze it all over. The more you squeezed in some places, the more it popped out in others.

My most revealing discovery was this. The control was once so tight that the Indian rupee went to a 35-percent premium in black markets. We suddenly relaxed the control and increased our licensing of Indian remittances fivefold. To my astonishment we lost no foreign exchange at all. The control paid out almost five times as much.

The premium on the Indian rupee disappeared, the exchange formerly running illegally through the black market poured legally into the Central Bank. The control had been futile; it has saved us no foreign exchange. We had penalized the honest in vain. I know of no major relaxation, or even removal, of a control that has ever caused a country a significant loss of foreign exchange. If not, why control? Why restrict?

If supply and demand work here as in Ceylon, volunteering is in vain. Volunteers simply initiate market forces that throw rewards to nonvolunteers.

For example, as volunteers return Euro-dollar balances, Euro-dollar interest rates rise, attract balances of nonvolunteers, and restore equilibrium between Euro and home dollars at slightly higher rates. The nonvolunteers need not be Americans; there are countless foreigners with neither our patriotic interest in correcting the balance of payments, nor guidelines, who own billions of dollars, both short and long term, all freely substitutable for our own and eager to do the work that ours forego. The high interest rates our dollars lose are thrown to them; the balance of payments is hurt, not helped.

It is futile and self-defeating to fuss with the rocks; better to look to the source of the stream. The monetary world is like a lot of interconnecting pools of monetary liquidity in which currencies in all pools constantly seek equilibrium with one another through the streams or channels available to them. In fact, they would never get very far out of equilibrium if central banks did not upset it, usually by creating new, but sometimes by destroying old, monetary liquidity in their respective pools.

This is why countries without central banks with the power to create or destroy money do not have payments problems. Hong Kong, with its own currency, but no central bank, does not even bother with balance-of-payments statistics; it realizes it can no more have a payments problem than Scotland or Wales. Panama and Liberia, without central banks, can no more have payments problems than Hawaii or Puerto Rico, Malaysia, whose central bank's power to create money is still limited, need never worry about a payments problem as long as the bank's power remains thus limited. This is why countries following gold-standard practices have monetary stability and never worry about balance-of-payments deficits. European Payments Union members in the early days were astonished to find that Switzerland kept no balance-of-payments statistics. As a follower of gold-standard practices, it had no need.

Finally, this is why no Federal Reserve district ever has a payments problem. Each Federal Reserve bank can create money independently of the others, but it does not do so. Within the System it follows gold-standard practices implicitly, continuously redeeming its note and deposit liabilities with gold certificates through the inter-district settlement fund. If ever it has a discount rate lower than the others, and so creates money faster than the others, it loses gold certificates to the others at an intolerable rate, and must soon fall into line. How futile it would be for it to hold out and then try to control the consequences with interest equalization taxes, voluntary restraints, or what have you. Can it be otherwise for the 12 together?

In simplest terms, a balance-of-payments deficit appears when a central bank deliberately tries to create or expand its country's money, in the form of bank notes or bank deposits, faster than central banks elsewhere are creating or expanding theirs. The created money will run out to countries whose central banks are deliberately destroying money, not creating it at all, or permitting it to be created less rapidly. It matters not whether the expansionary country is small or large, though the process is much easier to visualize in the small, especially if foreign trade is large relative to gross national product. In the Netherlands about half the gross national product is spent outside the country, principally, of course, on imports, so it is apparent how the money run out. To the Netherlands bank it is a fact of life that the Netherlands economy must be kept in monetary equilibrium with the rest of the world. To the Fed it is not. Many have yet to see the close relation between monetary expansion and the payments deficit. In fact, they find it unbelievably and impossibly frustrating that the tiny tail of a \$3-billion payments deficit should wag the huge dog of a \$625-billion gross national product. But it does.

What do I mean by "creating" or "destroying" money? In all modern countries, we have fractional reserve banking systems. In the United States we carry Federal Reserve notes in our pockets, but even more important are the deposits of member banks at the Federal Reserve banks which constitute the reserve base. On any increase in this base, member banks can expand their time and savings deposits 25 times and their demand deposits 6 or 8 times, depending on whether they are city or country banks. They create deposits by making loans and investments. Changes in reserve requirements alter the multiples. Banks can create more deposits on a given reserve base with lower reserve requirements, less with higher.

Central banks increase the reserve base and their note liabilities, and thus create money, when they acquire, that is, buy, assets. The most important asset central banks buy is gold, whether newly mined or previously hoarded. In a stable exchange rate system based on gold, they must be prepared to buy it and sell it automatically and involuntarily on demand to maintain the rate. When one central bank buys gold from another, there is no net increase in reserve bases, for the seller's loss is the buyer's gain. Under gold-standard practice, the central bank losing gold does not offset the loss by buying a domestic asset. This is why the gold-standard system, and also our Federal Reserve System within itself, work so beautifully. The expansion of the reserve base, and of money, in the country buying gold, and contraction of the reserve base, and of money, in the country selling gold, restore equilibrium rapidly, continuously, and painlessly.

The Dutch and Swiss feel no pain because their central banks follow old-standard practices. Indeed they find it most salutary. You feel no pain because your Federal Reserve bank follows gold-standard practices within the Federal Reserve System. You, too, find it salutary. It is what makes notes of your Fed freely acceptable at par throughout the System.

In the modern world central banks having payments surpluses have not always bought gold with the foreign currencies they earned. Instead, they have voluntarily held them, principally dollars and sterling, as foreign-currency reserves. Doing so creates money because the foreign-currency holding increases the reserve base in the surplus country without decreasing the reserve base in the deficit country through a gold loss. This holding of foreign currencies as reserves is usually called the gold-exchange standard because the foreign currencies so held are supposed to be freely convertible into gold on demand.

As holdings of reserve currencies by central banks grow under the gold-exchange standard, they create problems for the reserve-currency countries. Year after year such countries can pursue expansionary monetary policies and run payments deficits without losing gold. The United States could not have run payments deficits for so many years had not foreign central banks willingly accumulated dollars and put them into U.S. Government securities or into deposits in banks like my own. At some point, however, as the ratio of reserve-currency liabilities to gold assets grows, central banks begin to doubt the free convertibility of these liabilities into gold, and they may refuse to accumulate still more.

We and the British are now at this point, and it can be a very painful one indeed. Sterling liabilities to central banks alone are now about $7 billion, gold and dollar assets only about $2.8 billion, of which $2.4 billion is borrowed from the International Monetary Fund. Dollar liabilities to central banks are over $13 billion, our gold about $14½ billion.

Still, there are automatic checks on the power of central banks to create money whether by involuntarily buying newly mined gold or by voluntarily holding reserve currencies. Both the supply of new gold and the willingness to hold reserve currencies are limited. But central banks can also create money by voluntarily acquiring domestic assets, and to this, unfortunately, there are no limits. The Federal Reserve's founding fathers, some of whom were your predecessors, tried to impose the limit of a statutory reserve ratio of gold certificates to liabilities, but as we saw recently, the Congress readily changes the statute and lowers the ratio when it begins to bite. Central banks can acquire many kinds of domestic assets. The Fed and the Bank of England buy Government securities primarily. And sterling and the dollar have been in trouble because they have bought too many. The Fed has increased its total domestic credit almost $15 billion since the end of 1957. In the early years of easy money gold flowed out about as fast as domestic credit was created. The rest of the world was short of dollars, so the world absorbed the liquidity almost as fast as our banking system created it.

Also, in those early years foreign central banks converted dollars into gold more freely; so gold losses offset Federal Reserve credit creation and the reserve base did not rise. In recent years, the ability of the rest of the world, particularly Western Europe and Japan, to absorb the additional dollars has decreased because the gold and dollars that their central banks had previously bought had so expanded their reserve bases and money supplies that they began to approach quantitative monetary equilibrium with the United States. Their money supplies expanded faster on reserves created through involuntary central bank purchases of domestic assets. Moreover, central banks began to cooperate with the Federal by refraining from buying gold. They instead made us gold guaranteed loans through the IMF and exchange rate guaranteed loans through swaps and Roose bonds. In recent years, therefore, creation of Federal Reserve credit has far exceeded gold losses, so that the growth of the reserve base has accelerated and with it the growth of the money supply. Over the period, Federal Reserve credit creation of $15 billion has been offset by gold losses of $8.5 billion. The public has also demanded more Federal Reserve notes so that only about $2 billion of the $15 billion finally wound up as increased member bank reserves.

Federal Reserve credit creation has shown a disturbing tendency to accelerate. In the first year of economic recovery—that is, from end of January 1961 to end of January 1962—it increased $1.2 billion, in the second year by $2.2 billion, in the third by $2.9 billion, and in the fourth by $3.9 billion. The paper this morning says the increase in the last year has been $4.6 billion.

The impact of the fourth year's increase on the reserve base and on Federal Reserve notes was actually larger than the figure indicates because gold losses, which are an offset, were smaller than in earlier years. Commercial bank credit, expanding on the growing reserves, has increased at a rate of 8 percent in each of the last 3 years, over $21 billion in 1964 and about $26 billion in the year to the end of April.

It is this constantly growing availability of Federal Reserve credit that causes our payments deficit, not the interest rate at which it is made available. In fact, the level of interest rates and the level of net free reserves may be good indicators of the tightness of money, of the "feel" of the market, but poor ones of its rate of expansion. Thus the Fed created more credit with the discount rate at 3½ percent than it did at 3, more at 4 than at 3½; it also created more when the net free reserve target was $100 million than when it was $200 million, more at $50 million than at $100 million, more even with net borrowed reserves than with net free reserves. Like Alice in "Through the Looking Glass," the Fed has been running harder and harder to stay in the same place. The supply of credit has increased, but the demand for it, as evidenced by a commercial bank loan demand, has grown still more. Reporting member bank loans are about $2.8 billion higher now, as compared with year end, than at this time last year.

The interest rate equates supply and demand for money. If interest rates rise as the supply increases, it means demand has increased still more. Similarly, at a low net free reserve target the Fed may create even more reserves than at a high if the demand or reserve is rising. So it is futile to twist short-term interest rates up in order to correct the balance-of-payments deficit, or to tighten money by lowering the net free reserve target, if we nudge long rates down and go on creating ever-increasing amounts of Federal Reserve credit. It is this creation of credit that matters.

Monetary history shows that if a country continues an expansionary monetary policy no other measures than the mind of man can conceive will help its payments deficit. If it stops its expansionary monetary policy, no other measures are necessary. On May 2, 1962, Canada devalued its dollar to 92½ cents, a depreciation of more than 10 percent from the $1.05 that had prevailed earlier. Even such a devaluation, which, in my opinion probably somewhat undervalued the Canadian dollar, did not stop the payments deficit. During 1 month thereafter, Canada lost a third of its gold and dollar reserves. In that month the Bank of Canada continued a heavy buyer of Canadian Government securities, pumping new money into the economy, which people promptly exchanged for foreign currencies. On June 23 the process stopped when the Bank of Canada put its discount rate to 6 percent and became a heavy seller instead of buyer of Canadian Government securities. The payments deficit stopped immediately and by November Canada's reserves were at an alltime high.

If an outright devaluation that increases the Canadian dollar cost of all foreign exchange, and increases the Canadian dollar equivalent of all foreign exchange receipts by more than 10 percent cannot check the Canadian payments deficit, what may we Americans expect from small reductions in our customs-free tourist allowances? In 1963 the Bank of Italy created credit at an excessive rate, and the lira weakened. In early 1964 the bank stopped its creation, though not so dramatically as the Bank of Canada, and the lira, and the economy, too, have gained in strength from month to month.

In 1964 the Bank of England created credit from February to August and sterling weakened. The new Labor government of October 16 made clear its firm intention to maintain the value of sterling. Yet Mr. Patrick Gordon Walker, on a visit to this country, stated categorically that the 5 percent bank rate would not be raised and called bank rate an "old-fashioned" remedy for payments problems. The two policies are incomparable. Even the most powerful dictator cannot hold the prices of a foreign money and domestic money down, hold the exchange rate stable and the interest rate down. These are the two most important prices in any economy. The new Government tried putting rocks in the stream, like its 15-percent import surcharges, with no better result than the Canadian devaluation, and on the Monday before Thanksgiving the Bank of England announced the new 7-percent rate. This should have "pulled money from the moon." It didn't, for it was not accompanied by an adequate credit squeeze, and on the day before Thanksgiving the $3 billion of standby credits from foreign control banks had to be marshaled to check the drain. Still it continued, and in December the Bank of England had to draw $325 million of the $3 billion standby. The reason is plain to see.

Bank of England returns indicate that in December 1964 when bank rate was 7 percent, the bank created more domestic credit than in December 1963 when bank rate was 4 percent. Again, as in the United States, interest rates indicated tighter money, but central bank domestic credit figures indicated expanding money. In January and February Bank of England contracted credit seasonally and sterling strengthened. Unfortunately, the February–August expansion of 1964 has been repeating itself this year, so again sterling is troubled.

In appraising the strength of a currency, it is not the effects of import surcharges, income policies, budget deficits, interest equalization taxes, reductions of customs-free tourist allowances, voluntary restraints, or even devaulations that you need to watch. It is primarily central bank credit creation. Bear that always in mind.

With the British experience less than 3 months away, it surprised me, quite frankly, that the balance-of-payments message of February 10 should have made the same incompatible statements of policy that the Labor Government had made. It said, "The dollar is, and will remain, as good as gold, freely convertible at $35 an ounce," and also voiced the expectation of "the continuation of essential stability in interest rates." We cannot hold the price of gold and keep interest rates down any more than the British could, though our day of reckoning may not come so soon. Given the present demand for credit, interest rates can be held down only by continuing monetary expansion, and with continued monetary expansion, we shall have payments deficits which we shall have to meet by selling gold. We cannot sell indefinitely at this price.

Any expansionary monetary policy produces balance-of-payments difficulties and jeopardizes the sound growth of the domestic economy, too. Payments deficits hold back an economy. The deficit means that people are spending and investing more abroad than is being spent and invested at home. Imports, foreign travel, and capital outflows all employ foreigners and stimulate foreign economies. Exports and capital inflows employ one's own people but are by definition deficient and inadequate. Payments surpluses are stimulating, so countries whose central banks have avoided expansionism have had both strong currencies and strong economies, and countries whose central banks have tried expansionism and given it up, have done so with most salutary results. Some countries without central banks to make expansionism possible, have been among the mot rapidly growing in the world.

The resistance in this country to discontinuing or slowing our expansionary monetary policy, and letting interest rates rise, is massive. We seem to think that stopping expansionism must produce deflation, depression, and unemployment. This is a hobgoblin of our fancies, not an observation of the real world. The economies of the tight money countries have uniformly performed best. Admittedly, they have benefited extraordinarily from the payments surpluses that have been the counterparts of our deficits. We cannot count on similar help from them.

Admittedly, too, if we stop easy money we may have problems in the short run. After all, we have kept this recovery going for 4½ years by injecting increasing amounts of new money. Naturally, once these injections stopped, adjustments would be required, for business expectations have been built upon the continued injections. In the short run, tighter money would produce higher interest rates and lead businessman to reappraise their expectations. There might well be some changes in various market values in our economy.

There has been concern, for instance, about the quality of bank credit and the problems of financial institutions that, having lent long at fixed rates, might be borrowing short at rising rates. If at some point we are forced to stop these injections of new money to save the dollar, we shall have to face some adjustments.

Many people have expressed the fear that stopping excessive monetary expansion will precipitate another 1929–33. These fears, I think, are unwarranted. The great depression was accompanied by the collapse of the then-existing gold exchange standard, which resulted in a large-scale destruction of money. We should be wise enough to avoid that mistake again.

That experience has led many to the conclusion that payments deficits can be corrected only through a deflationary lowering of costs and prices, with increased unemployment such as Britain experienced after Chancellor of the Exchequer Churchill went back on gold by restoring the prewar value of the pound in 1925. It was not the gold standard that should be faulted for the subsequent stagnation of the British economy, but the rate at which the pound was restored to it. Sterling was grossly overvalued after 1925; the Bank of England maintained that value for years by avoiding excessive monetary expansion, but at what cost to the domestic economy. As I have tried to show, payments deficits stop once easy money stops. Deflation and unemployment than appear only if a currency is overvalued. But we need have no fears on that score. The dollar today is, if anything, undervalued. The current buoyancy of exports, despite easy money, indicates our competitive position is strong. Because we have exported so much of our inflation, our costs and prices have gone up less than others.

So once the adjustments to the new monetary policy were made, strong underlying factors should begin to work in favor of our economy. When the payments deficit stopped, sentiment about the dollar would change drastically, and all factors formerly working against the dollar would start working for it. Exports would show new buoyancy, imports would lag, our trade surplus would increase. Positions taken against the dollar would reverse. Capital outflows would slow, inflows accelerate, monetary liquidity that had formerly flowed out of the economy would flow back in and help to stimulate it.

Meanwhile, there is a great plenty of monetary liquidity already here at home. Savings and time deposits are high and insurance companies are generating unprecedented flows of funds. It might take several years for the economy to grow up to this liquidity. We forget the 1954–57 period, during which we had an expanding economy, a shrinking rate of unemployment, and inflationary pressures while Federal Reserve credit actually shrank. There is also quite enough monetary liquidity in the world, so much so, in fact, that it may be inflation that we have to fear, not deflation.

There are those who say that stopping our payments deficit would produce a shortage of international liquidity to finance expanding world trade. This argument misses the point of why we need international liquidity. We don't need gold and foreign exchange reserves to finance world trade; they only finance payments deficits. Trade is financed principally by commercial banks like my own. Within our Federal Reserve System, the gold certificates in our Federal Reserve banks do not finance trade among the districts; the commercial banks do that. The gold certificates finance only those small fluctuations in the flows of funds that occur because of the imperfections in the System. These imperfections are small indeed, for the Federal Reserve is the most perfect gold standard system in monetary history, so the gold certificate ratio of any Federal Reserve bank never departs by more than a couple of percentage points from the average of all 12. The ratio of a particular bank would drop in a hurry if that bank were independently to pursue a monetary policy more expansionary than the others. If the central banks of the world conducted themselves as our Federal Reserve banks do within the System, balance-of-payments deficits would be negligible—and existing international liquidity would actually prove excessive. The Common Market central banks are already moving in this direction. On the other hand, if a central bank refuses to accept international payments discipline, no amount of international liquidity will ever suffice.

There are those who say that the shortage of international liquidity would hamper internal growth. As long as they harmonize their policies and expand together, they can always meet the monetary needs of their domestic economies. The Federal Reserve banks do this right here at home. We might still be concerned that, even if major central banks coordinated policies, they might all be too expansionary at once and produce inflation, but we can cross that bridge if ever we come to it.

The dollar's troubles are needless, for it is inherently strong and competitive. In fact, if we stopped expanding money it might well prove embarrassingly strong and once more bring back talk of dollar shortages. The freedom of maneuver of a reserve currency country may actually be restricted more on the contractionary than on the expansionary side. While we have been expansionary, we could not prevent foreign countries accumulating dollar balances to finance the expansionism. We should not now overdo. We should stop being expansionary, but should not turn contractionary and produce a sizable balance-of-payments surplus. As the counterpart of such a surplus, foreign countries would have deficits which they would have to finance by liquidating their dollar balances, so destroying monetary reserves. Such a slow destruction of the gold exchange standard would be deflationary in the world, and we must avoid another deflationary collapse of that standard like that in 1929–33. So we should stop expanding central bank domestic assets, but not contract them.

I have one more paragraph, Mr. Chairman, which I have not reproduced. May I read it for the record?

Senator SMATHERS. Surely.

Mr. EXTER. In conclusion, you see that I dislike the protectionist approach. The logic of that approach led the British with the 15-percent import surcharge to undo in one fell swoop the cooperative work of years by the Outer Seven in bargaining tariffs down. All to no avail. They still had to come to the monetary approach.

The logic of the protectionist approach to this country would lead me ultimately to call off the Kennedy round, repeal the Trade Expansion Act, and raise tariffs all around.

I am convinced that so extreme a measure as that would also be of no avail, and would be unfortunate for the world. So, I believe we must come to the monetary approach.

You note, first, I have not subscribed to any of the famous Triffin's, Bernstein's, Stamp's, Maulding's, or even Rueff's primarily because I think they would all confound our problems, not reduce them.

Essentially, I subscribe to the present system, the principal architect of which was a distinguished predecessor of yours, Mr. Carter Glass. His work was good work. We should build upon his system and make it work, but to do so we shall have to accept its disciplines. Were he here today, I think he would be the first to say so.

Thank you, Mr. Chairman.

Senator SMATHERS. Thank you very much, Mr. Exter.

With respect to the bill which is before us, can I conclude from that which you have stated that you do not think that this particular measure we have before us is going to accomplish anything insofar as remedying our balance-of-payments deficit?

Mr. EXTER. That is right, sir.

Senator SMATHERS. This is just a little pebble alongside those rocks you were talking about.

Mr. EXTER. Exactly.

Senator SMATHERS. Thank you very much.

Senator Dirksen.

Senator DIRKSEN. Mr. Exter, you say:

> In appraising the strength of a currency, it is not the effects of import surcharges, or incomes policies, budget deficits, interest equalization taxes, reductions of customs, free tourist allowances, voluntary restraints, or even devaluations that you need to watch. It is primarily central bank credit creation. Bear that always in mind.

I take it, you were not too impressed with the equalization act we enacted and reported in this committee, and sundry other things, in dealing with the balance-of-payments problems?

Mr. EXTER. You are right, Senator. As a matter of fact, as you can see from this statement, I do not think that any tax, any tariff, in fact, any restriction that this country might place on the dollars going abroad will prevent this economy of ours from reaching monetary equilibrium with the rest of the world. In other words, dollars will always go out through some other channel, untaxed or unrestricted channels, around rocks, Mr. Chairman, that you mentioned.

Senator DIRKSEN. Unless we come to grips with this credit problem which you have delineated here, what hope do you see of meeting this balance-of-payments problem for a long extended period of time?

Mr. EXTER. Senator, I do not think we can come to grips with this balance-of-payments problem unless we deal with the credit problem, the problem of the creation of credit with which I have dealt in this statement.

Senator DIRKSEN. So, in your book, these are all rocks in the stream——

Mr. EXTER. Exactly.

Senator DIRKSEN (continuing). That do not actually stop the stream.

Mr. EXTER. Exactly.

Senator DIRKSEN. I think your statement speaks for itself. It is quite an excellent delineation, and I do not think from theory but from your experiences with your bank in New York and also as Governor in Ceylon, because you have been through this mill, and you have had a chance to appreciate it and to appraise it in other circumstances and in other conditions as well.

Thank you. I thank you for coming down and giving the committee the benefit of your information.

You have a more extended statement that was reprinted, which consisted of, I think, the address you made at the Drake Hotel in Chicago quite some time back. I believe that is a somewhat extended statement over this statement, and it was made under the title "Easy Money and the Balance of Payments."

Mr. Chairman, I rather think, while we may not be able to reproduce some of the diagrams that it contains, I think it ought to be put in the record.

Senator SMATHERS. Without objection, we will make it a part of the record insofar as we can. If not, we will make it part of the record by reference.

(A subsequent examination of the reprint of Mr. Exter's address entitled "Easy Money and the Balance of Payments" revealed that it was a copyrighted document and thus could not be reproduced in the hearings.)

Senator DIRKSEN. I am sorry the committee could not hear it, but this is Friday, and it is a difficult day.

Senator SMATHERS. Thank you very much.

Senator Bennett, would you care to ask any questions?

Senator BENNETT. Of course, I just heard you thank the committee for the opportunity to appear, so I can only pick up by a very hurried scanning and listening to my colleagues what you stated.

You believe that the basic tool, the fundamental tool, the Government must eventually use in the monetary tool, and this is used by the power of the central bank to increase or reduce the flow of new money into the economic system, and many people think they do that by raising or lowering interest rates, but actually they do it by increasing or decreasing the supply of money, and then the interest rate effect is an effect and not a cause; is that right?

Mr. EXTER. That is right, Senator.

I do not want to destroy money. I think we should stop the expansion of money, the creation of money.

Senator BENNETT. We have heard a lot of talk in this committee and in the Banking and Currency Committee on which I also serve, which has the final responsibility for wrestling with this problem. Today, we are dealing with a small pebble because that falls within the jurisdiction of this committee. Within the other committee, we deal with the main problem, and we heard a lot of conversation there about the necessity for maintaining adequate liquidity in our international transactions.

Don't you think we may have a little too much liquidity?

Mr. EXTER. Yes, I do. I dealt with that in this statement. I think this has been the principal problem that we have created so much liquidity in this country that it has run out to other countries throughout balance-of-payments deficits, and produced too much liquidity in those countries as well, so that it is not only a matter of having too much liquidity in the United States, it is a matter of having too much in the world. This means this has inflationary implications for the future.

Senator BENNETT. We cannot go out in the world to stem that tide of excess liquidity. We have to work inside our own monetary system to begin to reduce that flood; am I right?

Mr. EXTER. Yes, I tried to point out in this statement that when we create liquidity here it does not stay here.

Senator BENNETT. I understand that.

Mr. EXTER. It goes all over the world.

And I also tried to point out that the principal central banks in the rest of the world have not, by and large, contributed to this creation of liquidity, excepting for the Bank of England. The Bank of England and the Fed have done it.

Senator BENNETT. Let me put it another way. We cannot stanch the extra flow abroad and still maintain superliquidity inside the United States. We cannot operate on the theory that we are going to have very easy credit and free creation of additional monetary capacity inside the United States, and then go outside the United States and say we are going to stop it out here.

Mr. EXTER. That is entirely right, sir.

Senator DIRKSEN. Mr. Exter, how long do you think this can go on without coming to grips with the real problem before we inherit some tragic results?

Mr. EXTER. When I am asked that question, Senator, I usually reply by saying; Suppose you have termites in your house, and you know there are termites in the floor beams of the living room, and someone asks you when the beam is going to go. It is very hard to say, it depends on how fast the termites eat and who walks on the beam. Lately, the termites have been eating too rapidly, in my view. The creation of Federal Reserve credit has accelerated, as I pointed out. Also, General de Gaulle has been walking on the beam.

Senator BENNETT. We would like to make him walk the plank, but not the beam.

I have no further questions, Mr. Chairman.

Senator DIRKSEN. Thank you.

Senator SMATHERS. All right, thank you very much.

Thank you, Mr. Exter.

Mr. EXTER. Thank you for the privilege of appearing.

Senator SMATHERS. Our next witness is Mr. Donald Cook from Ohio. I understand he has got an emergency situation, so we will hear from you, sir, right now.

STATEMENT OF DONALD D. COOK, DIRECTOR OF LIQUOR CONTROL, OHIO DEPARTMENT OF LIQUOR CONTROL

Mr. COOK. Mr. Chairman and members of the Senate Finance Committee, my name is Donald D. Cook. I am director of liquor control of the Department of Liquor Control of the State of Ohio.

The Ohio Department of Liquor Control was created by the Ohio Liquor Control Act which became effective in December 1933. The department was established to serve and protect the public by regulating and controlling the manufacture, distribution, and sale of spirituous liquors, wines, and beverages. Through its monopoly store system of control of the sale of spirituous liquor, and the permit control of malt beverages and wine, the department serves as a source of revenue to support other State and local government services.

The director of liquor control is appointed by the Governor of Ohio and is a member of the Governor's cabinet. He is directly responsible to the Governor for all departmental policies, enforcement of all State liquor laws and regulations, collection and distribution of liquor revenues, and hearings conducted by the department. He issues all liquor permits and approves all consents for the importation of alcoholic beverages into the State.

The department's division of accounting is directly responsible to the director of liquor control. In 1964, 4,733,992 cases of spirituous liquor were sold through the department's retail and wholesale stores. The gross sales therefrom amounted to $240,134,793; and the total monopoly revenues produced for the State amounted to approximately $74 million.

The department's division of accounting has estimated that Ohio's total liquor monopoly revenues for 1965 will amount to approximately $78 million. These funds have been allocated to and will provide substantial assistance in Ohio's program to increase the salaries of Ohio's public school teachers and to improve related public school services and facilities.

Early in 1963, the Ohio Department of Liquor Control adopted a rule that only adult residents of Ohio, returning from a foreign country, could bring home no more than 1 gallon of alcoholic beverages free of any Ohio tax consent, not more than once in any 30-day period, provided such alcoholic beverage was "hand-carried" as luggage, and provided such adult resident had complied with all Federal laws and regulations. This restriction was the direct result of a departmental study and survey which showed that Ohio was suffering an annual loss in spirituous liquor sales of approximately $600,000.

According to our accounting division, the enforcement of Ohio's restriction on liquor imports by Ohio residents returning from abroad had increased Ohio's liquor sales in excess of $1 million for the past 2-year period.

It is our understanding that H.R. 8147 proposes three restrictive conditions which would be extremely beneficial to our Federal and State Governments and to all segments of the alcoholic beverage industry in the United States. As we understand it, H.R. 8147 proposes to—

1. Reduce from 1 gallon to 1 quart the amount of alcoholic beverages American tourists may bring back from abroad;
2. Restrict the release of such alcoholic beverages to only those individuals who have attained the age of 21 years; and
3. Reduce duty exemption from $100 to $50 for American tourists returning from abroad.

Our accounting division estimates that Ohio's spirituous liquor sales would be increased at least $1 million per year if these restrictive conditions are retained upon the enactment of H.R. 8147. We also believe that the proposed individual age limit of 21 years would be of great assistance in Ohio's campaign against juvenile consumption of intoxicating liquor. It has been estimated that the United States has suffered a loss in Federal excise tax revenues amounting to millions of dollars annually under the existing tax-free privileges. It is reasonable to believe that the enactment of H.R. 8147, insofar as it would reduce the amount from 1 gallon to 1 quart, would eliminate approximately 75 percent of such annual loss in Federal excise tax revenues.

Usually reliable sources indicate that millions were drained from our Federal gold resources in 1964 as the result of U.S. residents purchasing liquor from foreign countries. The enactment of H.R. 8147 could reduce such outflow of our gold reserves and improve our trade balance.

Conformity and cooperation between Federal and State laws and regulations will provide maximum economy and efficiency in the administration of Federal and State liquor regulatory agencies. Experience has shown that any substantial diversity between Federal and State laws and regulations will impair and nullify the administration and enforcement of State liquor laws and regulations.

The State of Ohio and the Ohio Department of Liquor Control vigorously support H.R. 8147 and respectfully urge and request that your honorable committee recommend its enactment at the earliest possible date. Thank you, Mr. Chairman.

Senator SMATHERS. All right, sir.

Let me ask you just one question. If this liquor is brought back duty free, you could still, if you wanted, put a tax on it, could you not, as a payment to Ohio?

Mr. COOK. Yes, if we could have the record of what was being brought in, which would be difficult to obtain.

Senator SMATHERS. Yes. I was just noticing here that the State of Kentucky which produces the most bourbon, more than any other State in the Union or any country in the world, the State Legislature of the sovereign State of Kentucky passed a bill to permit the importation of 1 gallon of duty-free liquor, and it did this, so this says, contrary to the wishes of the bourbon distilling interests, but the people wanted it.

The fellow argues, and I think rather persuasively, in a letter to the chairman, that the States could enforce it if they wanted to.

Senator BENNETT. I have just one question. Most of the liquor to which you refer comes in from Canada, I assume?

Mr. COOK. No, it comes in from all ports of entry of residents of Ohio who travel abroad and many areas outside the country.

Senator BENNETT. You do not recognize that most of it comes because of Ohio's proximity to the Canadian border?

Mr. COOK. I presume that is correct. I do not have the exact figures.

Senator BENNETT. All right. Thank you.

Senator SMATHERS. Thank you very much, Mr. Cook.

Our next witness is Mr. Gallogly, of Providence, R.I.

STATEMENT OF EDWARD P. GALLOGLY, ON BEHALF OF HOWARD R. FOLEY, OF WARWICK, R.I.

Mr. GALLOGLY. Mr. Chairman, I have submitted a brief statement, and my oral statement will summarize that and be briefer still.

Senator SMATHERS. Thank you.

Mr. GALLOGLY. My name is Edward P. Gallogly, and I come from Providence, R.I., and I represent Howard R. Foley, whose business it is to receive and to store duty-free liquor purchased overseas or outside of the continental limits of the United States by naval personnel, essentially who operate out of the Newport Naval Base, and from Norfolk, Va.

Unfortunately, the provisions of this bill apply to civilian tourists as well as military personnel. I suppose in the strictest sense of the word, men serving in the naval forces are not tourists.

These men are serving voluntarily in the Navy at sea, and one of the few gratuities or emoluments that go with sea duty is to purchase presently 1 gallon of duty-free liquor.

These men have a limited amount of money available to them to spend on duty-free imports. One of the best bargains they seem to be able to get is this duty-free liquor.

To reduce the amount of duty-free liquor that can be brought in by these men from 1 gallon to 1 quart makes the cost of that quart prohibitive because the shipping costs for the 1 quart are about the same as that for 1 gallon and, therefore, they shop around to see what next-best bargain they can get when they are overseas.

There is a further inequity in this matter or in this bill in connection with these servicemen, it seems to me, in that these men cannot carry back ther own goods, and so the service is provided by the people that they purchase it from to ship it to their home port so that when they come back it is cleared through customs for them, and they present their chits at the bonded warehouse and pick up their merchandise or it will even be shipped to their own home.

To penalize what these men consider a gratuity in connection with their service in the Navy, it seems to me, is wrong, particularly when our Government is now concerned with trying to induce men to stay in the service. I suppose it may seem like a little thing, but it is another niche in the morale department so far as these men are concerned.

I see no reason why the purchase of this liquor by men overseas would affect our balance-of-payments problem. They spend out of the Atlantic coast ports less than a half million dollars a year total, and assuming they did not spend one nickel of that one-half million dollars on any other item but would remain overseas in the overall tourist deficit of $1.3 billion, approximately at the present time, it would have very little effect on the overall picture.

So I think and suggest that the committee give careful consideration to eliminating the provisions of 1(b) certainly as it applies to servicemen serving with the armed services of the United States.

Senator SMATHERS. Do you have any information or do you have any knowledge at this time of any group of sailors or Navy personnel, Coast Guard personnel, who have already shipped back whatever their quota is with respect to whisky, and they themselves are not due to get back for a month, and if this bill is passed they will not be able to——

Mr. GALLOGLY. I have not got the precise figure.

Senator SMATHERS (continuing). To get that whisky.

Mr. GALLOGLY. But that problem will arise. There are men who stay out of Newport with 4-month tours, with the 6th Fleet in the Caribbean, and other places, and they buy this merchandise and have it shipped home for them where it is waiting for them in a bonded warehouse. It will create a very serious problem for these men in the fleet who are out.

I understand there are probably 20,000 men involved in sea duty who have available to them this service. These men operate at approximately a turnover of one-third being away at each quarter of the year, each third of the year, for 4-month periods, so I would think it would be one-third of those men overseas at the present time, and with the overall picture representing $500,000, I would suggest that the total cost of purchases in this trip would be in the neighborhood of $175,000 worth of merchandise.

Senator SMATHERS. Thank you very much.

Do you have any questions, Senator Bennett?

Senator BENNETT. Just one. I am curious about the procedure. Actually, doesn't Mr. Foley and people who operate as he does, import a variety of brands in bulk or in large lots so when the man presents the chit he is given a bottle out of stock rather than the bottle he purchased abroad?

Mr. GALLOGLY. There will have to be a minimum purchase of 50 case lots, I believe, Senator. It is done usually through the cooperation and approval of the captain of the ship, each individual ship.

In other words, as I understand it, an officer is designated to take the orders of the men who are interested in purchasing this merchandise, and the merchandise is then paid for, and then the man is given a chit by the officer, and it is very strictly controlled by the naval authorities, and then when the man returns to Newport, say, he goes to the bonded warehouse, the merchandise has been cleared through customs, and Mr. Foley's business is to distribute the merchandise to the man who purchases it.

Senator BENNETT. No further questions.

Senator SMATHERS. I might add for the record that we actually know, it has been called to the attention of the committee, of a group of sailors who are now serving overseas who have this same problem, and they are very much concerned that the law will be passed and that what they paid for they are not going to get.

Mr. GALLOGLY. Unless things have changed since I was in the Navy, I am sure that is so. Thank you.

Senator SMATHERS. Thank you, sir.

(The prepared statement of Mr. Foley follows:)

STATEMENT ON BEHALF OF HOWARD R. FOLEY OF WARWICK, R.I.

Mr. Chairman and members of the committee, I should like to thank you for affording me the opportunity to present my views concerning H.R. 8147, personally, today. I assure you that my remarks shall be very brief.

Mr. Howard R. Foley of Warwick, R.I., is engaged in the business of importing liquor purchased outside the continental limits of the United States by service personnel of the U.S. Navy. This liquor is then stored in bonded warehouses and upon the return of the personnel to the United States, it is released from the warehouse to the purchaser. The present duty-free limits of such purchases is 1 gallon per person. Under the provisions of the bill presently pending, H.R. 8147, the quantity of duty-free liquor which could be brought in by service personnel of the U.S. Navy would be reduced to 1 quart.

I am in complete sympathy with the efforts of the administration to equalize our balance-of-payments position, and I have no quarrel with the bill as originally proposed by the administration. However, the amendment adopted by the House Ways and Means Committee reducing the quantity from 1 gallon to 1 quart we oppose for the following reasons:

1. It is applicable to all U.S. citizens, civilian tourists, as well as military personnel. It will create a hardship and discriminate against the members of the U.S. Navy who serve outside the continental limits of the United States for periods of less than 140 days.

These men are not tourists in the strict sense of the word. They are outside the continental limits involuntarily in the service of their country. They have very limited funds available with which to purchase duty-free merchandise; therefore, they shop around for what they consider to be the best buy for their money. One of these is a duty-free gallon of liquor. They are unable to carry this merchandise aboard their ships and so it is shipped for them by bonded carrier to a warehouse at their home port for delivery to them upon their return to this country. Since the shipping cost of handling 1 quart is substantially the same as the cost of handling 1 gallon, the price of the merchandise becomes prohibitive for these personnel. Such a prohibition does not help our balance-of-payments problem because if these men cannot spend the money on 1 gallon of liquor, they look for the next best bargain—a watch or some other item, or they simply spend the extra money ashore.

2. The proposed bill discriminates against the members of the U.S. Navy who serve with the 6th Fleet and other units of the U.S. Navy serving outside the continental limits, because in most cases they are out of this country for only a 4-month period. Under another provision of the law, Public Law 87-406, 78 Stat. 72, a serviceman who has been out of the country for more than 140 days

may return with household merchandise, duty free, and included in the classification of merchandise is 1 gallon of liquor.

It would seem inequitable to allow 1 gallon of duty-free liquor to be brought in for serving in excess of 140 days and not allow it if the period were only 139 days.

3. The inclusion of service personnel within the provisions of the proposed law could save a maximum of $1 million in our balance-of-payments deficit, and then only if that money is not spent ashore on other items or in other ways. This is hardly a substantial amount when related to the total deficit of $1.3 billion. It appears to me that it was for these reasons that the original act specifically excluded the American territories of the Virgin Islands, Samoa, and Guam. Apparently, the servicemen were overlooked.

4. Our Government has been making every effort to continue to attract career personnel for service in the Navy. Being able to purchase duty-free liquor has come to be considered one of the emoluments which go with sea duty in the Navy, and while it may appear to be an insignificant thing, to these men it serves as another intangible in the morale department.

It is quite evident that the reduction from 1 gallon to 1 quart had nothing whatever to do with the purposes of this bill, the reduction of our balance-of-payments deficit, but, on the contrary, was designed solely for the purpose of restricting the purchase of liquor abroad. This was certainly not the intention of the administration when the original bill was proposed, nor was it the intention of the administration to remove a gratuity, if you will, heretofore available to our servicemen.

In representing Mr. Howard Foley, who is engaged in the business of importing and storing in bonded warehouses at Newport, R.I., the duty-free liquor purchased overseas by the members of the naval forces attached to ships based at Newport, R.I., I should like to point out that 98 percent of his business is with naval personnel serving in the Navy at either Newport or Quonset Point, R.I. Relationships between naval personnel and Mr. Foley and his business have always been most cordial, and we feel quite strongly that while the effect of this bill upon Mr. Foley would be disastrous from a business standpoint, it would have a substantial impact upon the morale of the men who presently use the services which he offers.

For these reasons, we respectfully request the members of the Senate Committee on Finance to seriously consider an amendment to the present bill which would exclude its provisions from men serving in the Armed Forces of the United States.

Respectfully submitted.

EDWARD P. GALLOGLY.

Senator SMATHERS. Our next witness is Mr. Warren Wright of the Virginia Alcoholic Beverage Control Board. Mr. Wright.

STATEMENT OF WARREN WRIGHT, MEMBER, VIRGINIA ALCOHOLIC BEVERAGE CONTROL BOARD

Mr. WRIGHT. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, my name is Warren Wright. I am here today as a member of the Virginia Alcoholic Beverage Control Board. It was my pleasure, recently, to serve as president of the National Alcoholic Beverage Control Association and later as chairman of the board of directors of that association. I am deeply appreciative of the opportunity afforded me to appear before this committee to express my views and those of the entire Virginia Alcoholic Beverage Control Board, relative to H.R. 8147.

There are others here to express the national significance of this legislation and I shall, therefore, in general, confine myself to the effects of this legislation on the State of Virginia.

If this bill had been enacted into law a year ago my State may have received additional revenue of approximately $500,000. This is an educated estimate based on information supplied me by the collector of customs of Norfolk, Va. During that period of time, approximately 140,000 people came into the Hampton Roads area of Virginia alone from foreign ports.

It is conservatively estimated by that Customs office that more than 70 percent of those people entering Virginia from foreign ports purchased the maximum amount of tax exempt and duty free alcoholic spirits allowed by Federal law. This would mean that approximately 100,000 people entering the State of Virginia brought with them 100,000 gallons of alcoholic spirits. Had this amount of whisky been sold in my State, the revenue derived from our markup and State tax would have approximated $500,000. I am sorry to say I do not have available the number of people entering Virginia from foreign countries via the Dulles International Airport, therefore, I am unable to inform you of the amount of tax and duty free alcoholic spirits coming into Virginia through this facility.

The Virginia Alcoholic Beverage Control Board was created in 1934, primarily as a board to control the sale and consumption of alcoholic beverages. Under the present tourist exemption law, it would be extremely difficult for the State of Virginia, as a practical matter, to properly control alcoholic spirits coming into our State from foreign ports. As a matter of fact, under the present law, anyone of any age may bring 1 gallon of alcoholic spirits into my State fully free of taxes and custom duties. I do not wish to imply that responsible parents of minor children would permit them to consume alcoholic beverages in violation of the laws of Virginia.

I do say, however, in my State, particularly—this was confirmed, incidentally, yesterday by the Secretary of the Treasury—people are traveling abroad more than ever before and, therefore, upon their return, are bringing more alcoholic spirits which are tax and duty free. If for no other reason than to control the possession and consumption of alcoholic beverages by minors, this would be good and sufficient reason for the enactment of this legislation. Incidentally, this is not only a matter of great concern to us in my State, but has become a matter of much concern throughout this entire Nation.

Virginia, in the past year, imported 166,770 cases of alcoholic spirits. During this period, 80,401 cases were imported from Scotland and 56,650 cases were imported from Canada. In other words, 48 percent of our total imports came into Virginia from Scotland and 34 percent came into Virginia from Canada, making a total of 82 percent of all imported alcoholic spirits coming into Virginia from these two countries. I feel this is pertinent information to show that retaliations would not be expected from these countries, in view of the fact this bill would do precisely what these countries are now doing relative to the importation of tax-free and duty-free alcoholic spirits from the United States. At this point and, with your permission, I should like to read a letter from the Honorable Albertis S. Harrison, Jr., Governor of Virginia, offering support of this legislation.

Senator BENNETT. I wonder if, in the interest of time, we could not just assume the letter had been read and insert it in the record?

Mr. WRIGHT. Senator, this is very brief.
Senator SMATHERS. We have both read it.
Mr. WRIGHT. All right, we will dispense with the reading of it.
Senator SMATHERS. All right.
Mr. WRIGHT. I fully realize all of you are extremely busy and have other matters of equal or greater importance under consideration. I shall not, therefore, transgress further upon your time, but in closing, Mr. Chairman, I would respectfully urge you and the other members of this committee to favorably report this bill and recommend its enactment into law.
(The attachment referred to follows:)

COMMONWEALTH OF VIRGINIA,
GOVERNOR'S OFFICE,
Richmond, June 24, 1965.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.

MY DEAR SENATOR: I understand your committee will hold hearings this week on H.R. 8147. This bill has my wholehearted support.

As I understand it, the bill would have the salutary effect of eliminating the tax- and duty-free gallon of spirits now allowed each minor child returning from another country, and reduce the allowance for each adult from 1 gallon to 1 quart.

The Virginia Alcoholic Beverage Control Board estimates that in the neighborhood of 100,000 gallons of tax- and duty-free spirits now enter Virginia through the ports of Hampton Roads alone. The board, as a practical matter, has little control over this flow and these imports are thus able to find their way into the hands of unauthorized persons.

Virginia's objective in the control of alcoholic beverages has been to promote temperance among our citizens and to provide a proper atmosphere in which our young people can grow to maturity.

The present Federal exemption not only frustrates this end but actually offers an incentive for violations of the law and an opportunity for our young people to obtain these spirits which would otherwise be denied them.

Leaving aside the estimated one-half-million-dollar loss per year in gross revenues to the Commonwealth, the present Federal law leaves a gaping hole in Virginia's widely admired and emulated system of insuring proper distribution of alcoholic beverages, a system overwhelmingly supported and zealously guarded by the citizens of this State.

With kindest personal regards, I am,
Sincerely,

ALBERTIS S. HARRISON, Jr.

Senator SMATHERS. All right, sir. Thank you very much.
Mr. WRIGHT. This letter is addressed to Senator Byrd, your chairman. Would you accept it?
Senator SMATHERS. Yes. It is part of your statement.
Mr. WRIGHT. This is the original letter addressed to him.
Senator SMATHERS. We have already made it a part of the record.
Senator BENNETT. We will accept the original and transmit it to Senator Byrd.
Senator SMATHERS. By hand.
All right, sir. May I ask you just one question. Actually, most of the people at the Norfolk Naval Base—servicemen are primarily the men who are in that area of Hampton Roads, are they not?
Mr. WRIGHT. The vast majority of them.
Senator SMATHERS. The vast majority.
Mr. WRIGHT. Yes, sir.
Senator SMATHERS. Thank you very much.
Mr. WRIGHT. Thank you.

Senator SMATHERS. The last witness is Mr. Charles Buscher of the National Alcoholic Beverage Control Association, Inc.

Mr. BUSCHER. Mr. Chairman, if you prefer, I could come back Monday.

Senator SMATHERS. No, sir. We would prefer that you go right ahead now. Thank you.

STATEMENT OF CHARLES B. BUSCHER, EXECUTIVE DIRECTOR-TREASURER, NATIONAL ALCOHOLIC BEVERAGE CONTROL ASSOCIATION, INC.

Mr. BUSCHER. I am Charles B. Buscher, and I appreciate the opportunity to appear before you today to express the support of the National Alcoholic Beverage Control Association for H.R. 8147. We represent the 17 State agencies charged by local law with responsibility for the control, regulation, storage, distribution, and/or sale of alcoholic beverages within their respective jurisdictions. We hope this committee will issue a favorable report on the measure because we believe its enactment into law would be a major contribution to the improvement of the administration of the alcoholic beverage control laws.

Mr. Chairman and members of the committee, we direct ourselves to those provisions of the bill which would reduce from 1 gallon to 1 quart the quantity of alcoholic beverages a tourist may bring into the United States free of the Federal tax of $10.50 per proof-gallon and the customs duties of $1 to $1.25 per proof-gallon, and which would limit such importation to persons who are at least 21 years of age. Our longstanding support of such legislation was reaffirmed at our 28th annual conference last month in New York.

Under the 21st amendment to the Constitution of the United States the several States are granted the right to control the transportation or importation of alcoholic beverages within their borders. Each of the States has enacted control legislation designed to implement this provision and insure against liquors being brought into the State in violation of State law. The present posture of the Federal law imposes an administrative burden on the States which is virtually impossible to enforce.

One of the major control problems which the States have experienced results from the granting of the tax- and duty-free liquor exemption to all returning tourists, regardless of age.

Especially important, in our opinion, is the checkrein the bill would impose on the delivery of alcoholic beverage to young people. No one below the minimum legal drinking age can obtain such merchandise from any reputable store, tavern, dealer, or restaurant in our State and the District of Columbia. All of these jurisdictions, without exception, prohibit the delivery to and the consumption by underage persons of alcoholic beverages. In some of the States, even the possession of such beverages or their consumption at home by young people is forbidden by law.

However, due to the virtual impossibility of enforcement, these laws can be and are violated every day by the delivery of alcoholic beverages to underage boys and girls whose only apparent legal qualification is that they have been outside the United States for at least

48 hours, except Mexico and the Virgin Islands where there is no time of absence requirement. Obviously, this was not the intent of Congress and we are delighted that corrective steps now are in contemplation.

Pending the enactment of corrective legislation, law enforcement agencies in the several States must labor under the handicap of a Federal law that unintentionally validates infractions of local statutes. Respect for law is difficult to maintain when it can be violated with impunity, and the net effect is a steady erosion of respect for and obedience to local authority. This is no more the desire of the majority of the American people than it is of the Congress. Hence I am confident that the public is solidly behind any move aimed at its correction.

There are revenue implications that also appear worthy of consideration. It has been estimated that the loss in revenue to the Federal Government through the importation of tax-free, duty-free alcoholic beverages exceeds many, many millions of dollars annually. In addition, many millions of dollars are also lost to the States.

To the above may be added the fact that reducing the maximum importation from 1 gallon to 1 quart will not prove a hardship on our tourists. A traveler will be able to bring in a gallon, if he desires, providing he pays the Federal tax and duty on the quantity in excess of 1 quart.

In conclusion, Mr. Chairman and members of the committee, I wish to reemphasize that we in the National Alcohol Beverage Control Association, consider the proposed legislation vital to our States.

Our views are shared by alcoholic beverage control and regulatory agencies in the other States and the District of Columbia, and to support this statement I have been requested by Mr. Gilbert H. McQuay, executive secretary-treasurer of the National Conference of State Liquor Administrators, an association of all license States, to submit with my statement a copy of a resolution in support of this legislation.

Also, with your permission, Mr. Chairman, I would like to file, which I have attached to my statement, a copy of a statement by the chairman of the Pennsylvania Liquor Control Board in support of this legislation.

(The documents referred to follow:)

Thirtieth Annual Meeting, National Conference of State Liquor Administrators, Miami Beach, Fla., May 31 to June 4, 1964

Resolution No. 8—Request Change in Federal Importation Regulations of Alcoholic Beverages

Whereas the National Conference of State Liquor Administrators includes among its members 33 States which exercise their prerogative of alcoholic beverage control given under the 21st amendment of the Constitution of the United States; and

Whereas section 2 of the 21st amendment to the U.S. Constitution expressly prohibits "the transportation or importation into any State, territory, or possession of the United States for delivery or use therein of intoxicating liquors, in violation of the laws thereof * * *"; and

Whereas existing Federal statutes allow the tax-free importation of liquor into the United States by certain persons without reference or apparent regard to the alcoholic beverage control laws of the individual States; and

Whereas the alcoholic beverage control laws of many States prohibit such acts as: delivery of liquor to minors, possession of liquor by minors, the home delivery of liquor, delivery of liquor by common carrier to any person other than a licensed consignee, and the importation into a State of a maximum quantity of liquor less than that allowed by Federal law; and

Whereas under present circumstances, such State alcoholic beverage control laws may be and are being violated in many instances by persons entering the United States who, at the same time, are comforted in the knowledge that specific Federal law allows such conduct, at least to the extent that its prohibitions are not parallel to nor auxiliary to the enforcement of such State law; and

Whereas the continued existence of such Federal statutes creates a paradoxical situation which presents to the U.S. citizen who travels abroad an opportunity to violate State laws by the observance of Federal law, thereby markedly increasing the difficulty of State law enforcement: Now, therefore, be it

Resolved, That the National Conference of State Liquor Administrators, hereby requests Congress to repeal existing Federal statutes which allows the tax-free importation of alcoholic beverages into the United States; and, be it further

Resolved, That the officers and members of this association be authorized to do any and all things necessary to effectuate the purpose of this resolution.

Passed Wednesday, June 3, 1964.

STATEMENT OF THE PENNSYLVANIA LIQUOR CONTROL BOARD IN FAVOR OF THE ENACTMENT OF H.R. 8147 (CONCERNING THE IMPORTATION OF DUTY-FREE LIQUOR)

The Pennsylvania Liquor Control Board, a member of the National Alcoholic Beverage Control Association, Inc., wishes to go on record as favoring the enactment into law of H.R. 8147, now before the Senate Finance Committee.

The law which presently permits travelers abroad to import 1 gallon of liquor free of Federal tax and duty, costs the Federal Government millions of dollars in lost revenue.

The many thousands of gallons of liquor purchased abroad with American dollars for consumption in the United States does great harm to the economy of an industry which contributes in taxes very substantial sums to the Federal Treasury each year.

Moreover, the expenditure of millions of American dollars for the purchase of liquor in foreign countries has contributed very materially to the imbalance in the dollar exchange which now plagues the administration. H.R. 8147 which reduces the free importation from 1 gallon to 1 quart is designed to correct, in some measure, this imbalance.

While the proposed legislation will result in advantage to the Federal economy it will also have a good effect on the economies of the individual States, including Pennsylvania.

Pensylvania adopted in 1961 a statute modeled after the Federal statute, permitting a traveler abroad to import free into Pennsylvania an amount of liquor not exceeding 1 gallon provided the liquor is permitted to be imported into the United States duty free.

Thus it will be seen that the Pennsylvania law is so worded that the importation into Pennsylvania is conditioned on the traveler's having the right to bring the liquor into the United States duty free. Such changes as are made in the Federal law will effect similar changes in the application of the Pennsylvania statute. It will thus be seen that we have a special interest in H.R. 8147. Its passage by the Congress will go far to solving our problems in Pennsylvania. As for ourselves, we are attempting to have the 1961 statute repealed. The present session of the State legislature has such a repealer before it now.

Pennsylvania is anxious that the importation privilege be confined to adults. Pennsylvania law prohibits those under the age of 21 to purchase, possess, consume or transport liquor. Yet sales abroad are made to parents in the names of their infant children for delivery into Pennsylvania.

In many cases the liquor is sold by service companies to nonresidents of Pennsylvania for transhipment to States where the free importation of liquor is forbidden.

Pennsylvania urges your committee to report favorably on H.R. 8147. Unquestioned advantage will flow to the Federal Government if it should become law. Pennsylvania will benefit since the importation into Pennsylvania will stand or fall on the terms of the Federal statute, the traveler's right to bring the liquor into Pennsylvania existing only if the traveler "was allowed to bring it into the United States duty free."

Pennsylvania's complaints concerning the existing law are as follows:

1. Revenue loss: In the 3 years the Pennsylvania law has been in force the Commonwealth has lost $2,135,000 in profits and taxes.
2. Increased number of shipments from abroad: Each successive year since 1962 the number of shipments has more than doubled over the previous year.
3. Sales to minors: Parents are permitted to purchase in the name of their infant children though Pennsylvania law forbids minors to purchase, consume, possess, etc.
4. Numerous abuses of the privilege. Sales are made by the service companies for transhipment from Pennsylvania to those living in States where the importation is unlawful.

For the reasons stated, Pennsylvania favors the passage of H.R. 8147 into law.

Senator SMATHERS. Thank you very much, Mr. Buscher.

Do you have any questions, Senator Bennett?

Senator BENNETT. No questions.

Senator SMATHERS. Thank you very much. These matters have been made a part of the record.

Mr. BUSCHER. Would I be permitted to make a comment on what another witness stated here this morning?

Senator SMATHERS. Yes, sir.

Mr. BUSCHER. Mr. Porter, testifying on behalf of the American Tourist & Trade Associations, comprised of some 20 companies engaged in the business of home delivery of tax and duty-free liquor and perfume makes the point that the liquor provisions of the bill are aimed solely at the elimination of competition between American-produced bourbon and Scotch whisky.

I should like to make it absolutely clear that the State agencies I represent and the control administrators of the license States on whose behalf I have filed for the record a resolution urging corrective action, are concerned only with the control and revenue considerations which I have already discussed. We have no interest whatsoever in promoting the sale of one type of spirits as against another. As a matter of fact a very significant portion of our sales are represented by Scotch and other imported spirits and wines.

Moreover, as I have previously pointed out, the returning tourist could continue to bring in 1 gallon, provided he pays tax and duty on the quantity in excess of 1 quart.

Senator SMATHERS. Thank you very much, Mr. Buscher.

That concludes our witnesses.

Senator BENNETT. May I ask the chairman how long witnesses may have to file additional statements?

Senator SMATHERS. Until 5 o'clock today.

Senator BENNETT. No later than 5 o'clock.

Senator SMATHERS. If there are additional statements. We do not know of any.

We will stand in adjournment, and we will have an executive session Monday to further deliberate on what the committee will do with respect to the bill. Thank you very much. The committee is adjourned.

(By direction of the chairman, the following is made a part of the record:)

WASHINGTON, D.C., *June 24, 1965.*

Hon. HARRY FLOOD BYRD,
U.S. Senate, Washington, D.C.

Reference is made to H.R. 8147, a bill to amend the tariff schedules to set permanently the exemptions from duty for returning residents and other purposes.

The Grace Line recognizes fully and subscribes to the underlying purposes of this bill which seeks to help solve the balance-of-payment problem. However, we are greatly concerned with two provisions of the bill as it passed the House, namely, the permanent application of the duty exemption and the general application of the $100 exemption to all foreign countries.

Perhaps one solution would be to eliminate the permanent effect of the bill and extend the exemption to July 1, 1967, as was originally proposed by the executive branch. In this way the Congress can, at some later date, reconsider the situation when the present balance-of-payments problem becomes less urgent. Furthermore, the Grace Line is greatly concerned over the bill's effect on the already weak economies of less-developed countries, particularly those of our Latin American neighbors, including the Caribbean islands. To many of these countries, especially the Caribbean islands, tourism is an important source of revenue affecting people of all economic and social levels. In terms of total gold flow, the amount of this revenue is relatively small; but to each of such countries it is a major loss. It is, therefore, recommended that it is in the best interest of ourselves and our Latin American neighbors that the underdeveloped countries of Latin America, including the Caribbean islands, be granted the same $200 exemption as the House bill now provides for the Virgin Islands and other U.S. possessions.

A number of countries in Latin America are for the first time embarking on well-founded and conceived plans to increase their tourist goals. These efforts and the ends toward which they are directed are a basic part of the intent behind the Alliance for Progress program. To institute an across-the-board restrictive measure at this time cannot help but negate much of the enthusiasm and interest in what has been a long-sought step—the development of sound programs to improve communications and relationships between our respective countries.

In my view it is better to help these underdeveloped countries earn what they spend here with less dependency on U.S. assistance.

W. J. MCNEIL,
President, Grace Line, Inc.

CHILD & WATERS, INC.,
New York, N.Y., June 23, 1965.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: Although it is not possible for me to appear in person to testify at the hearings on H.R. 8147, I submit for the consideration of the Senate Finance Committee the following statement:

My name is Somerset R. Waters, president of Child & Waters, Inc., of New York. Our firm specializes in travel research and economic studies in the field of tourism and resort area development.

To identify myself, I am a special adviser to the Department of Commerce's Travel Advisory Committee, have served as a director of the National Association of Travel Organizations and am a past president of the Travel Research Association.

This committee now has before it a proposed bill which will impose new restrictions on millions of American tourists now traveling outside the borders of the United States. These tourists have no one here today to represent them. They have no lobby. They are not even aware that these hearings are taking place. Yet 1 week from today, as they arrive at our ports and airports, they will be confronted with these new restrictions unless this committee acts to protect their historic privileges.

I have prepared a detailed study of H.R. 8147 and its many adverse implications from the point of view of American tourists, as well as its contradiction of our basic foreign trade policy of expanding worldwide trade through gradual reduction of Government-created barriers. There is no statistical evidence that the proposed new restrictions will have any beneficial effect on our balance-of-payments position. This study, entitled "Should New Restrictions Be Imposed on American Tourists?" has been made available to the committee.

In view of the legislative history of this bill, and considering the need for immediate action to meet the July 1 deadline, may I respectfully suggest that the committee report out a bill containing the following provisions:

1. Retain the historic $100 duty exemption on foreign purchases including the gallon of duty-free liquor.
2. Base the $100 allowance on retail value—the price the tourist paid for the items.
3. Provide that the exemption be allowed once every 180 days instead of every 30 days.
4. Provide that the duty-free exemption on the gallon of liquor apply only to those 21 years of age or older.

The above suggestions represent a compromise which will have the following advantages:

1. The historic $100 privilege dating back to 1790 will be retained.
2. The confusion as to what is the wholesale value of each item will be removed. The tourist knows the price he paid.
3. By limiting the exemption to once every 180 days it keeps within the bounds of intended application to ordinary tourism.
4. Limiting the liquor exemption to those aged 21 years or older will remove a source of criticism.
5. A bill containing the above provisions will prevent undue hardship on the millions of tourists now traveling abroad and will prevent severe financial repercussions on thousands of small businessmen located in the United States, in Canada and Mexico, in neighboring islands, and in friendly countries throughout the world.

Sincerely,

SOMERSET R. WATERS.

STATEMENT OF MAEVE S. FITZGIBBON

Mr. Chairman and members of the committee, my name is Maeve S. FitzGibbon, senior representative of the Shannon Free Airport Development Co., in the United States, with offices at 420 Lexington Avenue, New York City.

I would like to present the following statement on behalf of the duty-free shops at Shannon Airport, Ireland, in regard to H.R. 8147, and in particular, to section 1(b) of this proposed legislation, the enactment of which would have very serious economic effects on the airport and those employed there.

Shannon, as you are all probably aware, was the world's first duty-free airport, and has played a unique role in the development of North Atlantic airtraffic. Revenue derived from the duty-free shops, established in 1950, averages $3 million per annum, and is used to defray the cost of operation of the airport as a whole.

You are no doubt aware that there already exists a trade deficit between Ireland and the United States. According to the latest figures available, our imports from the United States in 1964 were $73,700,000, as against exports to your country of $27,800,000. Should this legislation go through it would lead to a further deterioration in the situation and it is estimated that the loss in revenue to Shannon would be in the region of $1 million annually.

By American standards this may appear to be of minor importance, but this revenue makes a large contribution to the prosperity of what would otherwise be an underdeveloped area of Ireland. One of the effects of the loss of this revenue would be to create large-scale unemployment and it can be appreciated, therefore, that the matter is one of grave concern for the Shannon authorities.

As the representative of Shannon Airport—an internationally famous part of a small nation which has always maintained friendly relations with the United States, I respectfully solicit your consideration of the impact of a bill which would be most harmful to Shannon's future development.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
June 22, 1965.

Hon. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR HARRY: I feel compelled at this time to urge your committee to amend H.R. 8147 with respect to the new limitation placed upon the amount of liquor that may be brought duty free into the country by tourists returning from abroad.

As you are aware, President Johnson requested a reduction to $50 for the duty-free exemption, but made no mention about reducing the liquor exemption from 1 gallon to 1 quart. However, in considering this request, the House of Representatives made permanent the present $100 duty exemption, but added an amendment reducing the liquor exemption to 1 quart for each adult every 30 days.

It has been brought to my attention that the liquor reduction will have a serious effect on trade between the State of Arizona and the State of Sonora, Mexico, and along the entire border between the two countries. For example, the twin cities of Nogales, Ariz., and Nogales, Sonora, of every dollar spent by tourists in Mexico, over 80 cents is returned by purchases made by Mexicans in Nogales, Ariz. And sales of Mexican liquor amount to a large percentage of the total tourist spending in the border towns.

There is not any significant competition between the Mexican and United States liquor industries. For the most part, the liquor brought back to this country consists of rum, vodka, tequila, and such liquors as are not distilled in this country. What whiskies that are sold in Mexico are of inferior quality and, therefore, there is no direct competition to the American whisky industry.

In closing, I would like to state that of its revenue acquired through exports, Mexico spends approximately 99 percent on imports from this country. I am sure that a similar situation exists with respect to Canada. Therefore, I respectfully suggest that both Mexico and Canada, our closest friends in the Western Hemisphere, be included with those U.S. possessions that are authorized in H.R. 8147 to retain the present 1-gallon liquor allowance.

Yours very sincerely,

CARL HAYDEN,
U.S. Senator.

New York, June 22, 1965.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate Office, Washington, D.C.

DEAR SENATOR BYRD: The Soverign State of Kentucky passed, in January of this year, a bill (regs. PN20 and CH39) to permit the importation of 1 gallon of duty-free liquor. By this act, the people of the State of Kentucky have, through their legislature, indicated their desire to have this privilege.

It is also interesting to note that in spite of all the controversy which is presently raging as to whether duty-free liquor should be permitted in its present form, not one State which permitted this importation has passed a law to restrict the public's right to enjoy this privilege.

The 18th amendment to the Constitution, which ended prohibition, specifically provided that any and all liquor laws should be administered by the individual States themselves and not by the Federal Government. The Federal law which permitted the importation of 1 gallon of duty-free liquor was a law to give this general privilege to the entire population of the United States. However, because of the "States rights clause," only about 10 or 12 States give this right to its citizenry. If the law is to be changed, it should be done so by the individual States and not by the Federal Government.

There has been a certain amount of heated discussion on both sides as to whether this law should or should not be changed. Pressure groups have appeared to claim certain facts which may or may not be correct but the one fact that is correct is that no State official—such as a liquor commissioner—should have the right to go against the will of his constituents and request the Federal Government to do something which the State itself will not do.

The Bourbon Institute has been completely opposed to this privilege and has presented a supposedly logical argument. Yet the State which produces the most bourbon in the world has passed a law permitting the importation of duty-free liquor. Apparently their arguments were not sufficiently strong to convince their own people.

Now they seek to circumvent their own State's wishes and ask that the Federal Government do what the State has rejected.

When this proposed liquor restriction was made by the President of the United States, it was done so on the basis of savings in the gold drain. When this statement was made, I supported this measure 100 percent; but now that the administration has authorized the statement that they are no longer sponsoring the change affecting liquor importation and further state that it will not have any effect on the gold drain, I no longer see the need for the withdrawal of the public's privilege.

The question now, apparently, comes down to one of strictly business, and the question further narrows down to one of morality. Does any individual have the right to so confuse the issue before an august Senate committee as to encourage a possible change of law which the public wants, particularly when this law does not hurt the Federal Government on an economic level and, more particularly, when the same recourse can be had before the individual State legislatures?

I urge you to consider seriously the facts as put forth in this letter:

1. The matter of importation of duty-free liquor is a State right, and the State law should not be abrogated by the Federal Government even though it has the legal right to do so.
2. The withdrawal of the privilege will not serve any Federal Government purpose.
3. The reduction is not wanted by the people of the individual States nor by the State legislatures.
4. If any change is made in the present law, at most it should only restrict the importation to those of legal age and possibly to twice a year.

I urge you not to kill the patient because he may be reputed to be ill.

Sincerely yours,

GEORGE T. SCHEER.

AMERICAN CHAMBER OF COMMERCE OF MEXICO,
Lucerna, Mexico, D.F., June 1, 1965.

HON. HARRY F. BYRD,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BYRD: We are aware of the pending legislation contained in H.R. 8147 to be presented to the 1st session of the 89th U.S. Congress. This bill deals with the balance-of-payments program as related to a reduction of the duty-free franchise from $100 to $50 now enjoyed by returning U.S. tourists.

The American Chamber of Commerce of Mexico feels this bill is harmful to the best interests of the United States, as it relates to Mexico. The relatively minor benefits to be obtained from this bill by the United States with regard to Mexico will not compensate for the very possible and real harm it will cause United States-Mexican trade, not only in the purchase of capital goods but also the border trade that now exists between the two countries. Secondly, friendly international relations between the two countries are at an unprecedented level, and nothing should be done to damage them if at all avoidable. We think this bill will unnecessarily jeopardize these friendly relations.

We are also aware that the Mexican Confederation of Chambers of Commerce (CONCANACO) as well as the National Chamber of Industrial Transformation (CNIT) have already protested to their Government concerning the provisions in H.R. 8147.

Our protests against H.R. 8147 are based on the full knowledge of the importance of the U.S. balance-of-payments program and are in no way protests directed against this noble cause.

The apparent success thus far enjoyed by the United States in placing in balance the U.S. balance of payments is due in a large measure to the voluntary cooperation of the U.S. free enterprise sector. The "See the U.S.A." program under the direction of Vice President Hubert Humphrey is also based on voluntary cooperation. The request to U.S. tourists not to travel overseas is in harmony with the spirit of voluntary cooperation, and if this program is successful, there should be no further need to legislative and/or restrict travel. We feel the "See the U.S.A." program will accomplish the purpose intended in H.R. 8147.

We also feel that a portion of H.R. 8147 is particularly harmful to Mexico in that it limits the duty-free entrance of alcoholic beverages from 1 wine gallon to 1 quart.

We feel this portion of H.R. 8147 is not within the spirit of the balance-of-payments program. This restriction of alcoholic beverages will not in any way positively influence the balance of payments. On the contrary, it will injure Mexico's ability to maintain high border receipts as the result of border tourist trade. These border receipts are one of the main factors in allowing Mexico to maintain a favorable balance of payments and at the same time endure an unfavorable balance of trade with the United States. In 1964, Mexico purchased over $1 billion from the United States, thus demonstrating that the tourist dollar to Mexico immediately reverts to the United States in the form of trade. Figures from the Banco de Mexico indicate that every dollar invested or spent in Mexico is returned with a 4-cent dividend. This trade which is made possible as the result of tourist border receipts, largely as a consequence of purchases by U.S. residents in border cities of Mexican alcoholic beverages, does represent to Mexico an extremely important item. Whereas to the U.S. producer of alcoholic beverages it represents less than 1 percent of total consumption. Mexico's native alcoholic beverages are rum and tequila, neither of which is produced in the United States and, therefore, do not compete with the traditional alcoholic beverages distilled in the United States.

The alcohol used in Mexican alcoholic beverages is derived from sugar. The alcohol tax derived from the sale of sugar alcohol is used to subsidize the price of sugar to the consumer in Mexico. Sugar is a vital component of the minimum basic diet now available to the Mexican masses.

In 1964 there were 324,693 tourists that traveled to the United States from Mexico City alone. The vast majority of these tourists do so for the sole purpose of making very generous purchases in such cities as San Antonio, Dallas, Brownsville, Laredo, and El Paso in Texas; Tucson and Nogales in Arizona, and Calexico in California, as well as New Orleans and Miami, etc. Many U.S. border cities live exclusively from consumers in the adjoining Mexican border trade with its subsequent effect on thousands of U.S. jobholders in these areas as well as the revenue from municipal and State taxes, will not contribute to the balance-of-payments program.

Mexico's franchise to tourists through any airport open to international traffic is as follows:

Female passengers: 18 pieces of underwear; 3 nightgowns; 6 pairs of stockings; 12 handkerchiefs; 1 pair of bathing slippers; 1 pair of house slippers; 1 bathing cap; 1 bathrobe; 2 bathing suits; 6 pairs of shoes; 1 pair of riding boots; 1 pair of rubber overshoes; 1 dressing robe; 1 overcoat; 1 raincoat; 3 sweaters; 3 scarves; 6 pairs of gloves; 2 belts; 8 dresses; 3 skirts; 3 blouses; 2 pettycoats; 1 umbrella; 5 hats; 4 handbags; 2 pairs of fine earrings and 6 pairs of inexpensive (costume) earrings; 1 fine brooch and 3 inexpensive (costume) brooches; 1 fine necklace and 3 inexpensive (costume) necklaces; 2 fine bracelets and 3 inexpensive (costume) bracelets; 3 fine rings and 3 inexpensive (costume) rings; 2 watches or clocks for personal use.

Male passengers: 18 pieces of underwear; 12 shirts; 15 pairs of socks; 3 pajamas; 6 pairs of shoes; 1 pair of riding boots; 1 pair of rubber overshoes; 1 pair of bathing slippers: 1 pair of house slippers; 1 bathrobe; 2 bathing shorts; 1 house robe; 24 handerchiefs; 2 silk scarves; 6 neckties; 2 scarves; 3 sweaters; 2 pairs of suspenders; 3 pairs of gloves; 2 belts 3 pairs of trousers; 2 hats; 1 umbrella; 6 suits; 1 suit of evening clothes and accessories; 1 sport coat or jacket; 1 overcoat; 1 raincoat; 2 pairs of fine cuff links and 3 pairs of inexpensive cuff links; 2 fine tie clips and 2 inexpensive tie clips; 3 fine rings and 3 inexpensive rings; 2 watches or clocks for personal use.

Besides the articles of personal use set forth above, passengers may import free of duty:

(*a*) Up to 12 toilet articles for personal use.

(*b*) Up to 40 packs of cigarettes and up to 50 cigars per adult passenger.

(*c*) Up to 50 books. A duty shall be charged on such books in excess of 50, printed in Spain and in Spanish language.

(*d*) Scientific instruments and other tools of passengers who are scientists, workmen or craftsmen.

(e) A still camera and a portable motion picture camera plus six rolls of unused film for each.

(f) Sporting goods for the passenger's personal use.

(g) Up to three toys for children.

(h) Trunks, bags, valises and other packages in which items are imported.

(i) One pair of binoculars.

(j) Medicines for the use of the passenger.

The articles may be used or new.

GIFTS

Passengers may also bring into Mexico, without paying duty, six gifts the total value of which does not exceed $1,000 (Mexican pesos) or $80 United States.

Approximately 40 percent of tourism to Mexico arrives by air. This means that approximately 400,000 tourists, of which nearly 90 percent are from the United States availed themselves of this Mexican tourist franchise, and then also to consider that the tourist dollar returns in the form of direct purchases in the United States, this implies that H.R. 8147 will not correct a U.S. balance-of-payments program with regard to trade with Mexico.

Mexican chambers of commerce and industry, already aware of the impending legislation, will not allow such an opportunity to escape to bring pressure on their government to also restrict duty-free purchase from the United States by Mexican tourists. This problem is already a thorny one under present legislation and will become far more acute if H.R. 8147, under its present form, is passed.

The American Chamber of Commerce of Mexico takes the following position in H.R. 8147 in relation to Mexico:

That the passage in its present form would jeopardize the now favorable trade and diplomatic relations existing between our two countries and, therefore, not in the best interests of the United States;

That the American Chamber of Commerce of Mexico will increase its efforts to stimulate travel by Mexican nationals to the United States by working with the U.S. Travel Service and will continue to develop trade between the United States and Mexico through every means possible, including the organization of trade missions to the United States and the newly formed Export Expansion Council of the American Chamber of Commerce of Mexico.

Our organization requests that these arguments against the passage of H.R. 8147 be given serious consideration in your Senate Finance Committee. We cannot stress enough Mexico's position as a developing country and yet be able to purchase $1.1 billion from the United States during 1964 under a favorable balance of payments despite an unfavorable balance of trade with the United States. This phenomenon is made possible through high border transaction receipts and the flow of tourist dollars. Nothing should be done to jeopardize Mexico's ability to maintain this billion dollar trade with the United States.

Sincerely yours,

WILLIAM J. UNDERWOOD, *President.*

NATIONAL CONFERENCE OF STATE LIQUOR ADMINISTRATORS,
Baltimore, Md., June 22, 1965.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR SENATOR BYRD: The National Conference of State Liquor Administrators represents the 32 States and the District of Columbia in which the alcoholic beverage industry operates as a free enterprise. The conference is composed solely of those public officials responsible at the State level for the laws of this very complex and unique industry.

We write to you in support of H.R. 8147, which bill would, among other things, limit liquor imports by returning tourists to 1 quart for adults only. Our principal reason for supporting this legislation is that present Customs regulations permit returning tourists to violate State law, sometimes unknowingly.

The officials of the conference, President Harold Moberly, of Kentucky, and Executive Committee Chairmain Ted Christy, of Arkansas, are on record supporting this legislation for the following important reasons:

1. It will prevent minors from importing alcoholic beverages.
2. It will improve our country's balance of payments.

3. It will save an estimated $225 million in Federal excise taxes annually.
4. It will save millions of dollars in State taxes annually.
5. It will reduce the administrative burden now placed on States in processing requests by returning tourists to release the present gallon of tax and duty-free alcoholic beverages.

We will appreciate it if this letter of support is made an official part of the record.

GILBERT H. MCQUAY,
Executive Secretary.

NATIONAL ASSOCIATION OF TAX ADMINISTRATORS,
Chicago, Ill., June 21, 1965.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: I enclose herewith a resolution adopted at the recent meeting of the National Association of Tax Administrators in New York City on June 10 in which the tax administrators of the several States take note of the loss of Federal, State, and local taxes involved in the importation by returning tourists of articles of U.S. manufacture previously exported from the United States on a completely tax-free basis. The resolution suggests two approaches which would be effective in eliminating such revenue losses without at the same time affecting the status of articles acquired abroad "as an incident of the foreign journey" within the intended meaning of that language.

I respectfully refer these suggestions to your committee for consideration when hearings are held on H.R. 8147 and I ask that the resolution enclosed be made a part of the record of the hearings.

With every kind wish, I am,

Sincerely,

CHARLES F. CONLON, *Executive Secretary.*

RESOLUTION UNANIMOUSLY ADOPTED AT THE 33D ANNUAL MEETING OF THE NATIONAL ASSOCIATION OF TAX ADMINISTRATORS, JUNE 10, 1965

RESOLUTION 8

Whereas the duty-free privilege extended to U.S. residents returning from abroad covers articles of U.S. manufacture being reshipped to the United States; and

Whereas the tax administrators of the several States have expressed their concern over the growing business involving shipments of such goods on behalf of residents of the United States returning from abroad and the loss of tax revenue involved therein; and

Whereas there is a comparable loss of Federal revenue by virtue of this trade; and

Whereas the expenditure abroad of U.S. funds for the purchase of articles of U.S. manufacture has an adverse impact on the balance-of-payments situation: Now, therefore, be it

Resolved, That the tax administrators of the several States urge the Congress to restrict the tax-free importation of articles of U.S. manufacture by returning tourists by limiting this privilege to articles accompanying the traveler on his return to the United States or in the alternative by imposing a limitation in the amount of 1 quart of alcoholic beverages and 200 cigarettes for each adult as the maximum quantities of these articles admitted under the duty-free privilege.

U.S. SENATE,
COMMITTEE ON LABOR AND PUBLIC WELFARE,
June 18, 1965.

Hon. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
U.S. Senate.

DEAR MR. CHAIRMAN: A constituent firm, the Nordberg Manufacturing Co., of Milwaukee, Wis., makes an impressive case for the inclusion of the Bahamas as an exempted area under the provisions of H.R. 8147. This measure has been referred to your committee for consideration.

Many persons visiting Florida include a side trip to the Bahamas. I am advised that U.S. tourists to the Bahamas spent approximately $53 million there last year but tourism industries of the Bahamas spent approximately $93 million in the United States. The United States-Bahamas export-import balance is also favorable to the United States. The Nordberg Manufacturing Co. letter cites the September 1964 issue of an International Monetary Fund report that, for the 6-month period January–June 1964, U.S. exports to Bermuda were $21.7 million and imports from Bermuda were $0.7 million.

It seems that a substantial case can be made for the inclusion of the Bahamas as an exempted area. I trust that you will carefully evaluate the merit of this request.

GAYLORD NELSON, *U.S. Senator.*

NORDBERG MANUFACTURING CO.,
Milwaukee, Wis., June 14, 1965.

Hon. GAYLORD NELSON,
Senate of the United States,
Washington, D.C.

DEAR SENATOR NELSON: A Nordberg customer of long standing, the Bermuda Electric Light & Power Co., Ltd., would be adversely affected by enactment of H.R. 8147 by which the duty-free allowance of returning tourists would be limited to $100 retail value. Miss P. A. Martin of your staff has been helpful on numerous occasions in advising our company of the course of this legislation, which we feel has jeopardized a rather substantial transaction of importance, not only to our company, but also to Milwaukee and the United States.

We have quoted two diesel engines to Bermuda Electric for installation in their generating plant at Hamilton, Bermuda; the price is approximately $2¼ million. Although Mirrlees engines have been offered by the Hawker Siddeley Group of England at a lower net cost, we have been confident of booking this order because the customer has purchased three of our engines since 1961. Because of this pending sale, Nordberg representatives have been closely associated with management personnel of Bermuda Electric and, we believe have a direct knowledge of the unfavorable impact which this legislation would engender if enacted in its present form.

The United States currently sells to Bermuda exports valued at approximately $43.4 million per year, while importing from Bermuda only approximately $1.4 million.[1] You will readily appreciate that this single transaction involving the two engines represents a substantial factor in "repatriating" U.S. dollars at a time when our gold reserves are tight. Furthermore, the fabrication of each engine requires about 40,000 man-hours of direct labor in our manufacturing facilities in Milwaukee. Additional considerations include an estimated $20,000 per year per engine for service and repair parts, as well as the sale of additional engines over the years as the electrical requirements expand.

Bermuda Electric has U.S. dollars because of the tourist trade. The tourists, of course are also the reason that additional power generating facilities are needed. Accordingly, we are convinced that in the case of Bermuda, the present provisions of H.R. 8147 would prove dangerously unsettling to a relationship which is now generally favorable to the United States.

Upon consideration of the above and other aspects of this legislation, it is our hope that you will recognize the desirability of according more favorable treatment to Bermuda in the recognition that tourism between our countries results in tangible and desirable business for the United States.

Very truly yours,

DAVID S. BAUER, *Sales Engineer.*

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[1] Source: The September 1964 issueof "Direction of Trade" published by the International Monetary Fund reports that, for the 6-month period, January to June 1964, U.S. exports to Bermuda were $21.7 million and imports from Bermuda were $0.7 million.

EMBASSY OF JAMAICA,
Washington, June 16, 1965.

Re bill H.R. 8147, entitled "An act to amend the tariff schedules of the United States with respect to the exemption from duty for returning residents and for other purposes."

Hon HARRY FLOOD BYRD,
U.S. Senate.

DEAR SENATOR BYRD: The Government of Jamaica is exceedingly concerned with the current legislation now before the Senate, H.R. 8147, relative to duty exemption for returning American residents.

I must tell you that the proposed restrictions, including a reduction in liquor allowance, are viewed in my country as a severe blow to our economy. Equally important, this legislation has provoked emotional surprise, chagrin, and disappointment by ordinary citizens throughout our nation.

In 1963, following our attainment of independence, for the very first time in our history, our trade with the United States of America was larger than with Great Britain, indicating that increasingly, Jamaica has become a friendly, stable supporter of our great and respected neighbor to the north.

I appreciate that in terms of actual dollar loss to us the total sum involved appears miniscule in relation to U.S. budgets. But let me assure you that we are a very small nation, trying vigorously to better our standard of living and to develop our country. If this legislation is passed as proposed, its consequences to our small nation would be quite out of proportion to any possible benefit to yours. The liquor restrictions would injure our sugar industry, which is by far our largest employer of labor and which supports, or helps to support, thousands of Jamaicans in every walk of life.

Contrary to some opinions that have been expressed by administration officials, I can state positively that the friendly countries in the Caribbean and other neighboring areas are not accepting these restrictive proposals with equanimity. I, for one, am deeply disturbed by the strong reaction now being shown throughout Jamaica—both by press and public. Day after day even our newspapers—traditional supporters of the United States and its policies—have included headlines and editorials on an issue that threatens disturbance to our normal and wonderful relationship. I am enclosing examples of some of these newspaper items. I hope you will agree with me that the proposed restrictions, at least in our case, would be of little importance to the U.S. economy when compared to the weakening of the ties of friendship, association, and common tradition which have subsisted for over 300 years.

You are familiar with the onerous propositions of the legislation, and I shall not cite them here. I will leave you only this final request: that when the subject of this legislation is before you, you bear in mind the necessities of our emergent nation and extend to Jamaica as much help as lies within your scope.

Sincerely yours,

NEVILLE ASHENHEIM, *Ambassador.*

[From the Daily Gleaner, Kingston, Jamaica, May 27, 1965]

LIGHTBOURNE KNOCKS UNITED STATES

PROPOSAL TO SLASH DUTY-FREE TOURIST LIQUOR ALLOWANCE—SAYS MOVE CONTRARY TO AIMS OF KENNEDY ROUND TARIFF TALKS—"WOULD CAUSE DAMAGE, CREATE DEEP RESENTMENT HERE"

The American Government was severely criticized yesterday by the Minister of Trade and Industry, the Honorable Robert Lightbourne, over the proposed sharp reduction by the United States of duty-free tourist allowance.

Referring to the Kennedy round of tariff talks now going on in Geneva to liberalize world trade, Mr. Lightbourne contrasted this with the move by the Americas, who are sponsoring the tariff talks, to restrict the Caribbean liquor trade.

Mr. Lightbourne issued a statement on the situation after a meeting with representatives of the Jamaican rum trade, as well as of other groups in the island which have an interest in the matter.

Following is the text of the Minister's statement:

"Should the U.S. proposals be put into effect to limit the amount of duty-free goods which the American citizens who travel may take back into their country on a duty-free basis, implementation of such a policy would not only damage us but would be bound, in addition, to create deep resentment.

"The United States claims this step is intended to improve their balance-of-payments position. While we can understand the concern of any country in this regard, statistics show that they have already achieved a considerable improvement and that the potential contribution which this particular proposal could make would be comparatively insignificant.

"It has seemed to us that the call to the U.S. citizen not to travel, appears completely out of keeping with U.S. world responsibility. Surely it is only by acquiring at first hand, knowledge of what is happening in the world and seeing for themselves the problems and needs of those that are less fortunate, that the extent of understanding can be created amongst U.S. citizens which will permit their leaders to deal with world problems in effective fashion.

"Nor can we avoid considering that some of the internal social problems which the United States faces can be improved by their citizens seeing for themselves in other countries that peoples of many races can live and operate on a basis of mutual respect and consideration for each other.

"For those countries that wish to stand on their own feet and not resort to dependency on handouts, the formulas of international trade already appear to represent all but unscalable hurdles which the wealthy countries have over the years erected to safeguard their economies, leaving little opportunity for the young nations with their limited productive capacity to improve their economic positions.

"It does seem Gilbertian at this very moment when the nations of the world are gathered at Geneva for the 'Kennedy round' to bring into effect the concept of a great American President to widen world trade which to be meaningful must provide wider opportunity for the less fortunate nations, that at the same time the sponsor nation from which they expect maximum hope and understanding is considering a line of action that cannot but reduce the already limited ability of the poorer nations to trade."

[From the Daily Gleaner, May 27 1965]

RUM TEAM CALLS ON MINISTER

Jamaican rum interests—and other associated groups which are likely to be affected—went to the Minister of Trade and Industry yesterday to discuss the effect which the proposed U.S. limitation on duty-free liquor allowance will have on the local rum trade.

Members of the Jamaica Rum & Spirits Trade Association, representing the rum exporters of the island, met the Minister in his conference room, along with representatives of the Jamaica Chamber of Commerce and the Jamaica Tourist Board.

Anxiety was expressed by the group that the proposed limitation of the American tourist's duty-free liquor allowance from 1 gallon (represented by five bottles or "fifths") to 1 quart (one bottle) would have a damaging effect on Jamaica's rum export trade.

Figures presented at the meeting showed that liquor sales through in bond outlets at the island's two international airports were in excess of £200,000 a year. Total sales of liquor at all in bond outlets was estimated to be in the region of £500,000 a year.

Of this trade, it was estimated that about 71 percent was of Jamaican products—rum and Tia Maria, on the ratio of 66¼ percent rum, and 4½ percent Tia Maria.

ABOUT 15,000 CASES

Another figure presented to the meeting was that, as an index of the extent of the present trade done in rum with American visitors, one company alone was selling about 15,000 cases a year through this source.

Decision was taken that the various interests affected—the rum trade, the chamber of commerce, and the tourist board—would take action and issue statements giving their special view of the situation, in order to create a cumulative protest on the part of all affected Jamaican interests against the proposed U.S. action.

Representing the Jamaica Rum & Spirits Trade Association at the meeting were Mr. C. A. Bloomfield, chairman; Mr. Ken McDonald, vice chairman; Mr. Bradley Hayle, honorary secretary. The chamber of commerce was represented by Mr. Alec Durie, acting president; and the tourist board by Miss Hope Sealy.

Others present were: Mr. John Evelyn (Bryden & Evelyn, Ltd.), Mr. Arthur Myers (Edwin Charley Jamaica, Ltd.), Messrs. Henry Haegy and A. K. Mayer (Rum Co. of Jamaica, Ltd.3, Mr. Reg Byles (Jamaica Rums, Ltd.), Mr. N. G. Martin (Henriques Bros.).

[Gleaner Western Bureau]

MONTEGO BAY, S.J., May 26.—A move by the United States of America to limit the returning American tourists duty-free liquor allowance to 1 quart instead of the present 1 gallon has had an unfavorable reaction from the president of the local chamber of commerce, Dr. Arthur Eldemire.

Telegrams protesting the proposal were this afternoon sent to the Ministers of Finance, Health and Trade and Industry and to the Director of Tourism by Dr. Eldemire.

Dr. Eldemire's telegrams said the matter was of national importance. He also said the proposals would adversely affect the tourist and shopping indutries and requested information on the measures being taken by Government in the situation.

[From the Daily Gleaner, May 28, 1965]

LIQUOR ALLOWANCE: £536,000 LOSS TO JAMAICA FORECAST

Following their meeting with the Minister, the Honorable Robert Lightbourne, on Wednesday, the Jamaica Rum & Spirits Trade Association met yesterday morning for a detailed study of the implications of the U.S. proposal to restrict purchases by American tourists overseas, especially with regard to the proposed cut in the duty-free tourist liquor allowance.

A press release issued after yesterday's meeting said:

"At a special meeting of the Jamaica Rum & Spirits Trade Association which was called this morning to consider the possible effect of the proposal of the U.S. Government to restrict the purchases abroad by their tourist nationals, the members expressed very deep concern at the severe loss the rum and spirits trade is likely to suffer if this proposal is implemented.

"The meeting disclosed that, on the basis of the information submitted by its members, it is conservatively estimated that the loss to the island's rum, spirits, and liquor trade (not only through in-bond shops operating in Jamaica, but also through loss of sales to other parts of the world to parties who cater particularly for the American tourist) would be in the nature of $1½ million (about £536,000)."

The above, of course, does not take into 'account the increase in business which would normally arise from a steadily improving tourist trade.

NAVAL PERSONNEL

During the meeting it was also disclosed that U.S. naval personnel, who had been out of the country for more than 60 days are permitted the same facility as the American tourist, to take back five bottles of spirits duty free. This has brought to the island in recent years additional thousands of dollars, over and above the figure mentioned before, in sales of rums and other spirits.

Mr. C. A. Bloomfield, the chairman expressed further great concern as to the possible accumulative effect that this pending legislation would have on the sugar industry as a whole; because, on account of the extremely low prices prevailing for a large portion of our export sugar, sales of rum are vital to the economy of the industry.

Concern was also expressed that if this law came into effect, a great many Jamaicans directly employed in this trade would most certainly lose their jobs.

Finally, the meeting deplored the proposal and has asked the Minister of Trade and Industry to make the strongest possible representations to the U.S. Government.

[From the Daily Gleaner, May 27, 1965]

TRAMPLING

"When the elephant is trampling bush before lying down, little creatures had better move out the way." This jungle proverb very much describes the plight of countries like Jamaica when massive, powerful nations like the United States start tidying their balance-of-payments accounts. Secretaries of State in Washington vie with each other, and with Congress, to find new ways of stopping Americans spending too much money overseas. Sometimes they also think about the political effects these measures have on other people; but most of the time that kind of sensitive thinking applies only to "cold war" points of conflict which hold strategic significance.

Of course little countries anywhere in the world have to fend for themselves; just as big countries safeguard the power and wealth they already have. But there is today a chorus of anguish from the Caribbean countries which will be affected adversely by policies of retrenchment in U.S. spending on travel and U.S. citizens' purchases overseas.

For these difficulties there is no solution which a country like Jamaica can have the nerve to suggest to Washington. Because any such solution would be motivated by national self-interest just as the Washington policy and the Congress decision so far seem to be based upon U.S. national self-interest. But it must be pointed out that it cannot be consistent that the United States should maintain a Western Hemisphere policy of good will, Alliance for Progress, AID, peacekeeping and all that, if at the same time other policies emanating from the U.S. Government undermine grievously the economies of these Western Hemisphere countries struggling towards not the abolition but the alleviation of poverty.

And so while the elephant tramples the grass and little creatures get out of range, it would be beneficial if one could discover some method and pattern in the behavior of the giant which could make sense; that is to say make sense in relationships with all the minor creatures with which it otherwise has lively and sometimes friendly contact.

It would be most unfair to suggest that these U.S. policies, injurious to us, are the result of sinister motives. We know they are not. But the effect is just as bad as if the motives were malicious. We do hope it is not too late for the leaders of thought and those who hold supreme power in the United States to think about integrating their great and acknowledged policies of aid and assistance, with the contrary and restrictive penalties which other aspects of U.S. policies are today imposing upon friendly neighbors.

SUGAR IN THE FALL

A call has been made to the Commonwealth sugar producing countries to join forces and attend the forthcoming International Sugar Conference to be held in September as a team.

This is an idea which certainly seems worthwhile. Recent experience in the Commonwealth Sugar Conference has shown what can be done when countries forget their individual differences and combine efforts to present a common front. There is little doubt that if Jamaica and other nations had presented themselves as individuals to the British Government little would have been accomplished. The Ministry of Agriculture, Fisheries, and Food could most probably have created dissent among the attending countries, and then have made a much more favorable deal for England. Divide and conquer. There is certainly nothing wrong with such a procedure: it is good negotiating policy. However, this time it was not possible to divide a group of countries with a genuine desire to cooperate.

At the meeting of the International Sugar Council, such a degree of agreement between the Commonwealth countries may be much more difficult, since such meetings are usually characterized by "every man for himself." Under the Commonwealth sugar agreement each country is given a quota. Therefore, the only problem was that of working out the price. Basically, all the countries are interested in getting the highest possible price; so the problem is much more simple.

In the world market, however, competition is much keener. It might be said that the world market is the melting pot in which all sugar that is not covered by some sort of bilateral or multilateral agreement is thrown. And there is strong evidence that the amount of excess sugar that world producers are going to want to throw on the market is considerable. As the result of abnormally high prices in 1963 and part of 1964, world production has increased sharply, while consumption has maintained a slow rise about equal to the world population growth rate. It has been estimated by some sugar experts that 1964-65 production will reach 61.8 million tons—about 3 million tons more than consumption.

If, however, the Commonwealth countries turn out at the September conference en bloc, it might be possible to obtain considerable advantage over the numerous other countries as individuals. There is certainly an indication that there will be a battle royal. With prices at below-cost levels because of excess supply over demand, there will have to be a tightening up and restriction of quotas.

This is where bargaining power comes in. Those countries that can show the best performance will get the biggest pieces of the sugar cake. While several of the Commonwealth countries may not be able to show an impressive performance, together we might just be able to put on a good enough show to impress the Council.

[From the Daily Gleaner, Kingston, Jamaica, June 2, 1965]

JAMAICA-UNITED STATES TRADE: FAIR-TREATMENT CALL BY LIGHTBOURNE

WARNING: MORE WILL NOT COME IN THAN GOES OUT—"WE DON'T WANT HANDOUTS"

Another warning that Jamaica expects to be fairly treated by the United States in the matter of trade was given yesterday by the Minister of Trade and Industry, the Honorable Robert Lightbourne.

"We are a proud country; we don't want to be treated like anybody's poor relation. We don't want to become the recipients of handouts from anyone," he declared to the applause of an audience of Jamaicans and non-Jamaicans alike, at Palisadoes Airport.

Mr. Lightbourne was speaking at the formal function marking the inauguration of Pan-American Airways' new jet cargo service, which started yesterday afternoon, providing new trade opportunites between this country and the United States.

BARRIERS

"I welcome this plane. I hope it will do more than take goods between Jamaica and the United States. I hope it will remove some of the barriers to trade between our country and the United States," the Minister said, to more applause.

Mr. Lightbourne said the United States was "not be the easiest country to trade with." Pan-American Airways would do both Jamaica and themselves a "great deal of good" if they would be able to "work a lobby in the right quarters" to insure that Jamaican goods can get into the United States.

And, he warned: "More will not come in than goes out."

Mr. Lightbourne said Jamaica was the United States "last ray of hope" in this part of the world. This was a stable country. But, he warned again, stability was not easily maintained.

"In this world today, maintaining stability means giving extra opportunity to everyone in the country. We can only do this if we can make the fullest use of our trading potential," he declared.

Making specific reference to Jamaica's rum trade with the United States, Mr. Lightbourne pointed to the discriminatory duty levied by the United States on rum, as against that levied on imported whisky.

TWO-WAY STREET

"Trade is a two-way street," he warned.

Mr. Lightbourne said he did not want to restrict the imports of goods into Jamaica. He did not want to subject Jamaicans to limitation of choice of merchandise. But he also did not want Jamaicans to "wake up one morning and find that their pound was no longer worth 1 pound.

"So, as I say, I welcome this plane. I congratulate Pan-American Airways on the start of this new jet cargo service. All those who serve us well deserve well of us. But I ask you, our American friends, to take a hint from what I have been saying," Mr. Lightbourne said.

"We agree that the United States is our friend. We know that Britain is our friend. Our bonds with Britain, since independence, are stronger than ever. We would like to build in equal fashion links with the United States—not links of convenience, but links of strength and endurance.

"I sincerely hope this new cargo flight will herald a new era of trade between the United States and our country," he concluded.

Among his audience were not only officials of Pan-American Airways who came down to the occasion, but Mr. Lewis Purnell, Charge d'Affaires at the American Embassy in Kingston.

JACK TAR POINSETT,
Greenville, S.C., June 11, 1965.

Hon. DONALD S. RUSSELL,
U.S. Senate, Washington, D.C.

DEAR SENATOR: It was a pleasure meeting you personally in Greenville several weeks ago.

Although I have been in South Carolina only a short while, I feel I can impose upon your kindnesses.

Jack Tar Hotels, who own the Jack Tar Poinsett and Jack Tar Francis Marion in Charleston, are also very heavily invested on Grand Bahama Island in the British West Indies.

There is considerable consternation in the Bahamas over House bill 8147 which limits duty-free importation from the Bahamas to the United States to $100 personal property, retail value and/or 1 quart of alcoholic spirits.

There are two problems involving this legislation which we would like to bring to your attention:

1. According to records provided me, in 1959 there were 37 million Bahamian dollars spent in the United States. In 1964 there were 93 million Bahamian dollars spent in the United States. In 1959 Americans spent in the Bahamas $23 million. In 1964 they spent $53 million. It is also interesting to note that 65 percent of all materials used in the Bahamas in 1964 were imported from the United States, as compared with 14 percent of their importations being from England and only 7 percent imports from Canada. It is our understanding that the President's purpose in changing these import laws was to obtain balance in exchange. In essence, the Bahamian balance of exchange is already favorable to the United States and high protective tariffs are simply going to shove the Bahamas into doing business with markets other than the United States.

There is another very practical problem. There are some 156 U.S. military installations extended over the 100,000 square mile British West Indies Archipelago. Geographically the Bahamas are not only important to our interdefense perimeter, but also extremely valuable in our space and missile program.

It would be in the best interest of all concerned to simply allow 1 gallon importation of spirits duty free from the Bahamas. We further feel this can be extended to adults only and that any spirits imported into the United States of American manufacture, should be subject to regular tariff.

If you would be kind enough to convey our feeling and lend your support to this extremely important amendment to House bill 8147 in the Ways and Means Committee, it will be deeply appreciated.

Sincerely,

RUSH HAYS,
General Manager.

THE SECRETARY OF THE TREASURY,
Washington, D.C., June 26, 1965.

Hon. GEORGE A. SMATHERS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR SMATHERS: In view of your particular interest in the effect the proposed reduction in the duty exemption might have on the Bahamas, I would like to supplement my testimony with some additional observations.

I want to reiterate that we are of the firm opinion that the legislation proposed by the administration will not have any significant adverse effect on tourist receipts by the Bahamas or any other country in the Caribbean area.

We do expect that the legislation will reduce somewhat per capita purchases by American tourists in those areas. However, this should be considered along with the following points.

First, the upward trend of total American tourist visits in this area in recent years will undoubtedly continue, and will probably be enough to offset any decrease in per capita tourist expenditures for merchandise.

Second, it should be borne in mind that a substantial portion of American purchases in these areas are for products made in other areas, such as French perfume, British whisky, Japanese cameras, Swiss watches, etc. In this regard, it should be clearly understood that amounts spent for the purchase of Western European and Japanese produced articles, even though purchased in the Caribbean area, benefit the Caribbean countries much less than do equal, or even smaller, amounts spent in the Caribbean for locally furnished services and locally produced goods. Moreover, to the extent an inducement exists to purchase European goods in the Caribbean, dollars unquestionably find their way to some countries which buy gold from us. Although I do not basically agree with the argument that is often made that what tourists do not spend for merchandise they will spend for hotels, night clubs, and so forth, it may be true to a limited extent. To the extent that it is true the economy of the Bahamas, for example, would benefit. Dollar for dollar, American expenditures for services in the Bahamas provide more foreign exchange to that area than would comparable expenditures there for European goods.

We, of course, recognize that Bahaman purchases of goods in the United States are relatively large for so small an area. We do not believe, however, that a reduction of tourist purchases there (largely of non-Bahaman made goods) will have the effect of decreasing Bahaman purchases in this country. Those purchases depend in large part on the overall economic well-being of the Bahamas. And, as I have stated, the continuing increase of tourists with their demands for services can be expected to cushion any minor impact which this legislation might have on that area.

I want to emphasize that we would not be recommending this legislation if we felt that it would have a serious adverse effect on the economies of countries such as the Bahamas, with which you are concerned. We feel that the legislation will save approximately $100 million annually, most of which would otherwise go to Western Europe.

We do not feel that it would be advisable to except certain areas from the legislation. We do not believe that such exemptions are necessary or warranted. Further, we believe that to make such exemptions for particular areas would lead to justified charges of unwarranted discrimination and would be inconsistent with our policy of not discriminating among foreign countries in trade.

I hope that these additional remarks will be helpful in explaining the Treasury Department's vews on this matter.

I am sending a copy of this letter to the chairman of the Senate Finance Committee for inclusion in the record of the hearings on H.R. 8147.

Sincerely yours,

HENRY H. FOWLER.

(Whereupon at 1:20 p.m., the committee adjourned.)

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