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# DUTY-FREE ALLOWANCE OF RETURNING RESIDENTS

1464-1

# HEARINGS

BEFORE THE

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

FIRST SESSION

ON

## H.R. 6611, S. 877

AN ACT TO AMEND PARAGRAPH 1798(c)(2) OF THE TARIFF ACT OF 1930 TO REDUCE TEMPORARILY THE EXEMPTION FROM DUTY ENJOYED BY RETURNING RESIDENTS, AND FOR OTHER PURPOSES

JUNE 22 AND 23, 1961

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# CONTENTS



## WITNESSES



## ADDITIONAL INFORMATION

## LETTERS, STATEMENTS, AND TELEGRAMS

# DUTY-FREE ALLOWANCE OF RETURNING RESIDENTS

THURSDAY, JUNE 22, 1961

U.S. SENATE,
COMMITTEE OF FINANCE,
*Washington, D.C.*

The committee met, pursuant to notice, at 10 a.m., in room 2221, New Senate Office Building, Hon. Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Long, Smathers, Douglas, Gore, Talmadge, McCarthy, Hartke, Williams, Carlson, Bennett, Butler, and Morton.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The hearing today is on the bill H.R. 6611, which proposes to reduce from $500 to $100 the duty-free allowance of returning residents. The Chair places in the record a copy of the bill and copies of the reports on the bill received from the U.S. Tariff Commission, Bureau of the Budget, Departments of Treasury, State, and Commerce.

(The material referred to follows:)

[H.R. 6611, 87th Cong., 1st sess.]

AN ACT To amend paragraph 1798(c)(2) of the Tariff Act of 1930 to reduce temporarily the exemption from duty enjoyed by 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 paragraph 1798(c)(2) of the Tariff Act of 1930, as amended (19 U.S.C., sec. 1201, par. 1798(c)(2), is amended—

(1) by striking out "$200, if such person" in subdivision (A) and inserting in lieu thereof "$100 if such person arrives before July 1, 1963 (or $200 if such person arrives on or after July 1, 1963), and he either", and

(2) by striking out "$300 in addition, if such person" in subdivision (B) and inserting in lieu thereof "$300 in addition, if such person arrives on or after July 1, 1963, and he".

(b) The amendments made by subsection (a) shall appy with respect to persons arriving in the United States on or after the 30th day after the date of the enactment of this Act.

SEC. 2. In applying paragraph 1798(c)(2)(A) of the Tariff Act of 1930, as amended, to articles acquired in the Virgin Islands of the United States by any person—

(1) who arrives in the United States (as defined in section 401(k) of such Act) during the period beginning on the 30th day after the date of the enactment of this Act and ending on June 30, 1963, and

(2) who has remained outside the United States (as so defined) for less than 48 hours,

the 48-hour requirement in such paragraph 1798(c)(2)(A) shall be treated as satisfied.

Passed the House of Representatives May 17, 1961.

Attest:

RALPH R. ROBERTS, *Clerk.*

U.S. TARIFF COMMISSION,
*Washington, May 31, 1961.*

REPORT ON H.R. 6611, 87TH CONGRESS, AN ACT TO AMEND PARAGRAPH 1798(c)(2) OF THE TARIFF ACT OF 1930 TO REDUCE TEMPORARILY THE EXEMPTION FROM DUTY ENJOYED BY RETURNING RESIDENTS, AND FOR OTHER PURPOSES

Section 1 of the bill responds to one of the President's recommendations in a recent message to Congress for easing problems arising out of the existing unfavorable balance-of-payments posture of the United States by reducing the duty exemption allowed residents of the United States returning from abroad from $500 to $100. However, unlike the President's proposal, the bill would reduce the exemption only for a temporary period of approximately 2 years ending July 1, 1963. Section 2 of the bill would, in effect, waive temporarily the 48-hour absence requirement applicable to the returning resident claiming the $100 exemption with respect to those articles that he acquired in the Virgin Islands of the United States.

From 1897 until the enactment of Public Law 540, 80th Congress, approved May 19, 1948 (62 Stat. 242), the duty exemption allowed a returning resident was limited to $100. Under the Tariff Act of 1930, the $100 exemption could not be claimed more than once in 30 days.

Section 36 of Public Law 721, 75th Congress (52 Stat. 1093), amended the $100 exemption provision in several respects, including the introduction of an absence requirement of not less than 48 hours, with the provision that in the case of persons arriving from a contiguous country which maintains a free zone or a free port the Secretary of the Treasury was authorized to establish absence requirements of 24 hours or less. (Mexico is the only contiguous country that maintains a free zone or a free port.)

Section 2 of Public Law 540, 80th Congress (62 Stat. 242), added an additional allowance of not exceeding $300 to U.S. residents returning from abroad after an absence of not less than 12 days. This additional exemption is limited to once in 6 months. As a result of this amendment, a returning resident could claim an exemption of a total of $400 in value if he was absent from the United States for not less than 12 days.

Section 9 of Public Law 378, 81st Congress (63 Stat. 896), increased the $100 exemption to $200, thus increasing to $500 the total exemption for residents returning from abroad after an absence of 12 days.

For convenience, the $200 exemption will hereinafter be referred to as the "basic" exemption, and the $300 exemption will hereinafter be referred to as the "additional" exemption.

The increase in the basic exemption from $100 (which, as noted before, was originally established in 1897) to $200 was motivated largely by the change in the purchasing power of the dollar since 1897. The additional exemption, however, was adopted principally as an aid to the dollar-hungry countries of Western Europe. In view of the present excessive drain on U.S. dollars and the improvement in the dollar situation in the countries of Western Europe particularly, there would appear to be justification for eliminating the additional exemption. The reduction of the basic exemption from $200 to $100 would impose no hardship on U.S. residents returning from foreign travels. It should be noted that the goods passed free under the exemptions are valued on the basis of their foreign wholesale price.

The Tariff Commission has no readily available information that would enable it to estimate the amount by which foreign purchases by U.S. travelers abroad would be reduced if the total exemption is reduced to $100. It is believed that the majority of U.S. travelers abroad do not claim the full exemption now allowable.

The special temporary waiver of the 48-hour absence requirement is designed to permit the allowance of the $100 exemption for purchases made in the Virgin Islands by tourists who are in the islands as a result of a short airline side trip to the islands from their vacation site in Puerto Rico (a part of the customs territory of the United States). These vacationers now have an allowance of only $10 under the provisions of section 321(a)(2)(B) of the Tariff Act of 1930 as they seldom spend a full 2 days outside the customs territory in making such side trips. It is not known to what extent these trips are made.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
*Washington, D.C., June 9, 1961.*

Hon. HARRY F. BYRD,
*Chairman, Committee on Finance, U.S. Senate, New Senate Office Building, Washington, D.C.*

MY DEAR MR. CHAIRMAN: This is in reply to your requests of February 11 and May 19, 1961, for reports on S. 877 and H.R. 6611, bills which would reduce the exemption from duty enjoyed by returning residents.

In a letter to the Speaker of the House on February 24, 1961, the President recommended that the exemption be returned to the $100 level for a temporary period. H.R. 6611 as passed by the House of Representatives provides for such a temporary reduction in the duty-free allowance. The Bureau of the Budget therefore recommends your favorable consideration of H.R. 6611 rather than S. 877, which would provide for a permanent reduction. Enactment of H.R. 6611 would be in accord with the program of the President.

Sincerely yours,

PHILLIP S. HUGHES,
*Assistant Director for Legislative Reference.*

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THE SECRETARY OF THE TREASURY,
*Washington, June 8, 1961.*

Hon. HARRY F. BYRD,
*Chairman, Committee on Finance, U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 6611, to amend paragraph 1798(c)(2) of the Tariff Act of 1930 to reduce temporarily the exemption from duty enjoyed by returning residents, and for other purposes.

The proposed legislation would provide for a temporary reduction from $500 to $100 in the amount of purchases abroad that a returning resident could bring into this country free of duty. The reduction in exmeption would apply to all persons arriving in the United States 30 days after the date of the enactment of the act and before July 1, 1963. The bill would further waive the 48-hour requirement with respect to tourist purchases in the Virgin Islands.

The President, in his message on the balance of payments, urged the enactment of legislation reducing the tourist exemption to $100. Subsequently he sent to the House of Representatives a draft of legislation to carry out this recommendation. H.R. 6611 would implement the basic provisions of the President's recommendation. In view of this, the Treasury Department strongly recommends the enactment of H.R. 6611.

The Department has been advised by the Bureau of the Budget that the enactment of H.R. 6611 would be in accord with the program of the President.

Sincerely yours,

DOUGLAS DILLON.

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DEPARTMENT OF STATE,
*June 14, 1961.*

Hon. HARRY F. BYRD,
*Chairman, Committee on Finance,*
*U.S. Senate.*

DEAR MR. CHAIRMAN: This report on H.R. 6611, a bill to amend paragraph 1798(c)(2) of the Tariff Act of 1930 to reduce temporarily the exemption from duty enjoyed by returning residents, and for other purposes, is submitted in response to your letter of May 19, 1961. Your letter was acknowledged on May 23, 1961.

The proposed bill would reduce from the present total of $500 to $100 the aggregate value of articles which a returning resident of the United States may bring into the United States free of duty under paragraph 1798(c)(2) of the Tariff Act of 1930, as amended. The Department understands that the proposed reduction is designed to contribute to the solution of the present deficit in the U.S. balance of international payments.

The Department supports enactment of the proposed bill as being in accord with the President's program.

The Bureau of the Budget advises that there is no objection to the presentation of this report and that enactment of the proposed legislation would be in accord with the program of the President.

Sincerely yours,

BROOKS HAYS,
*Assistant Secretary*
(For the Secretary of State).

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GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
*Washington, D.C., June 8, 1961.*

Hon. HARRY F. BYRD,
*U.S. Senate, Washington, D.C.*

DEAR SENATOR BYRD: This is in reply to your letter of May 19, 1961, requesting the views of this Department, with respect to H.R. 6611, as passed by the House of Representatives, an act to amend paragraph 1798(c) (2) of the Tariff Act of 1930 to reduce temporarily the exemption from duty enjoyed by returning residents, and for other purposes.

This act would reduce from $500 to $100 the amount of articles purchased abroad that a returning U.S. resident may bring back free of duty. This change would be effective for 2 years. We favor enactment of such legislation.

The President, in recommending such legislation to Congress, pointed out that the present duty-free allowances were established shortly after World War II as part of our effort to alleviate the dollar shortage situation then prevailing in most foreign countries. This situation no longer prevails; on the contrary, we now have a balance-of-payments problem of our own. While our situation is getting better and other steps are being taken to continue such improvements, we believe that the continuance of the more liberal customs exemption designed to encourage extraordinary American tourist expenditures abroad is not now warranted.

The Bureau of the Budget advises there would be no objection to the submission of this report from the standpoint of the administration's program. The Bureau also advised that enactment of this legislation is in accord with the program of the President.

Sincerely,

ROBERT E. GILES.

The CHAIRMAN. The Chair desires to insert in the record a statement by the Honorable T. J. Dulski, Representative in Congress from New York, who favors amending the bill to exclude Canada and Mexico from its provisions.

(The statement follows:)

STATEMENT OF HON. T. J. DULSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman and distinguished members of this committee, I appreciate the privilege of presenting my position with respect to the House-passed bill to reduce temporarily the exemption from duty enjoyed by returning residents, which is before your committee today.

No one is more concerned with the balance-of-payments position of this country than I am, and I admire the vigor with which this administration has approached this very serious matter. We have already observed a reversal in the previous gold flow pattern.

We have been requested to approve this legislation in the interest of contributing a solution toward our balance-of-payments problem. But we should all recognize that the estimated saving in gold outflow of about $150 million will not carry us too far along this path. I have deep reservations that the pending proposal will save that much, but that is another matter.

What concerns me most is, aside from the fact that it may not accomplish too much to improve our balance-of-payments position, that it will unquestionably unbalance the deep friendly ties we have painstakingly built up over the years with our neighbors to the north and south—Canada and Mexico. This result is inevitable. And we are taking this action at a time when we need this friendship more than ever before. Instead we should be striving to solidify and strengthen our relationships in the interests of the long-range challenges now presented to Western Hemisphere nations by the establishment of a Communist regime in Cuba.

H.R. 6611, which is before your committee today, will serve to weaken these bonds and may even prove to be much more disastrous than any imbalance in our payments position.

There is another point I would like to bring to your attention—not to be overlooked in the case of our contiguous neighbors. Over the years, in the field of tourist trade, we have continuously enjoyed a favorable balance of trade with our northern neighbor. In 1959, for instance, Canadian tourists spent some $100 million more in the United States than our citizens spent in Canada on tourism. The figures for 1960 have not been compiled as yet, but it is fairly certain that much the same balance has existed in our favor. If Canada should retaliate—and who could blame her—this might very well serve to cut down on Cnaadian tourist purchases in the United States and nullify this attempted move to improve our balance-of-payments position.

While our tourist trade with Mexico in 1959 showed a balance in favor of Mexico of some $190 million, we cannot overlook the effect this proposal is certain to have on the sizable quantities of money spent by our tourists on lodgings and meals in the border States. As you know, the special absence requirements applicable to touristst who would claim present U.S. exemptions are waived, in large part, for travel to Mexico. The reason for this is that the greater number of U.S. border tourists visit Mexico by day and spend the evening and night in one of the border States. If we discourage this tourist trade, which we undoubtedly will if this proposal becomes law, then many of these border interests will be severely hurt.

Further, we cannot ignore the fact that on an overall basis, we sell about twice as much to Mexico as we buy from her. In 1960, our exports to Mexico were $806.8 million whereas our imports from Mexico were some $443 million. Here again, any retaliation on the part of Mexico could serve to cut down the very large favorable balance of trade we now enjoy to the ultimate detriment of our balance-of-payments position.

I represent an area of New York State which has fostered and built up a large part of the world-renowned friendship between the people of the United States and the people of Canada. We, in the Buffalo and Niagara frontier area, have played a major role in nurturing these ties of amicable and peaceful side-by-side coexistence with the people of this great Dominion to the north.

When H.R. 6611 was before the House recently, the House rules prevented my offering an amendment to exclude Canada and Mexico from its provisions. I, therefore, urge your honorable committee to weight heavily all the facts and consider a revision which would continue the present customs treatment of American tourists returning from Mexico and Canada.

The CHAIRMAN. The first witness is the Honorable A. Gilmore Flues, Assistant Secretary of the Treasury, accompanied by Assistant Commissioner of Customs, David B. Strubinger.

## STATEMENT OF HON. A. GILMORE FLUES, ASSISTANT SECRETARY OF THE TREASURY; ACCOMPANIED BY DAVID B. STRUBINGER, ASSISTANT COMMISSIONER OF CUSTOMS

Mr. FLUES. Mr. Chairman and the other gentlemen of the Senate Finance Committee, my name is A. Gilmore Flues, and I am Assistant Secretary of the Treasury.

At my left is Mr. David Strubinger, who is the Assistant Commissioner of Customs.

I appreciate this opportunity to appear before you this morning.

The bill which you have under consideration, H.R. 6611, to reduce the customs exemption for returning American travelers, is described as follows in the President's February 6 message on balance of payments and gold:

> After World War II, as part of our efforts to relieve the dollar shortage which then plagued the world, Congress provided for two additional increases of $300 and $100 in the duty-free allowance for returning travelers, for a total of $500. The primary purpose for this change having vanished, I am recommending legislation to withdraw this stimulus to American spending abroad and return to the historic basic duty-free allowance of $100.

As introduced in the House of Representatives, the legislation provided that the return to the $100 duty-free allowance would be effective for a 4-year period. Pending consideration of the bill by the House Committee on Ways and Means, Secretary Dillon wrote the chairman of that committee on April 25, in response to his request for a statement of the President's views, as follows:

> While the President recognizes that the balance-of-payments pressures have eased somewhat, he does not believe that the problem has been solved. He further believes that there is a real and urgent need for reduction of the exemption.
>
> The President feels that the seriousness of our balance-of-payments situation can best be presented to the country and to the world by legislation establishing the tourist exemption at $100 for a fixed period. This would require a review of this policy at the end of the period by the Congress and the President in light of our balance-of-payments situation at that time.

Subsequent to this, the House Committee on Ways and Means reported out a bill to reduce the duty-free allowance to $100 for a 2-year period. This bill, passed by the House of Representatives, is now before you.

The present law establishing the duty-free exemption, which the bill before you seeks to amend, is paragraph 1798(c)(2), Tariff Act of 1930. This law in its present form allows returning American tourists two basic exemptions:

Two hundred dollars exemption: Anyone who has been abroad at least 48 hours is permitted to bring in goods valued up to $200 without payment of duty. This exemption may be repeated on subsequent foreign visits, provided no part of it has been utilized within the preceding 30 days.

And I call your attention to the following exceptions:

For Lower California-Mexico crossings the minimum time out of the United States is 24 hours. There is no time limit for other Mexican border crossings, and H.R. 6611 would remove the time limit also for articles acquired by U.S. tourists in the Virgin Islands.

Senator BENNETT. When you say there is no time limit, you mean that a man can duck across the border and return in 10 minutes and have a $200 exemption.

Mr. FLUES. Yes.

Senator WILLIAMS. How often can he go?

Mr. FLUES. Once every 30 days, only every 30 days.

Senator BENNETT. He can go across, buy $200 worth and come back in 10 minutes?

Mr. FLUES. That is correct.

Three hundred dollars exemption: In addition, persons who have been outside of the United States for 12 days or more receive a separate and additional exemption of $300 which is available once every 6 months.

The proposed legislation seeks to do away temporarily with the $300 exemption, and cut the $200 exemption down to $100.

The increases in duty-free allowances took place at a time when many foreign countries were receiving assistance from the United States under the Marshall plan. There was a very strong worldwide demand for U.S. export goods because of the shortage of these commodities and the general pressure of postwar demands on the war-strained economies of Europe. During those years, these nations were experiencing heavy pressure on their international balance of payments, and our liberal duty-free allowances were a distinct help to them.

The situation has now markedly changed. The leading countries of Western Europe as well as Japan have accumulated large gold and liquid dollar holdings as a result of their strong export position in world markets. But our present duty-free allowances continue to act as a unilateral concession on their exports to this country, because at the same time the United States is experiencing large deficits in its balance of payments. As an increasing number of American tourists return each year, their purchases abroad represent a significant item in our payments deficit.

A $400 reduction in the duty-free exemption is going to have a distinct effect. We have made an estimate of how great an effect this will be, but I cannot guarantee it to be exact, because we are here trying to predict human behavior. However, there is good reason to believe that the reduction in exemption would reduce tourist purchases by somewhere between $140 million and $175 million.

This cannot be regarded as an insignificant figure. It represents 8 to 9 percent of what we regard as the basic $1.9 billion deficit in our 1960 balance-of-payments accounts.

The CHAIRMAN. Mr. Flues, do you have an itemized statement of that $1.9 billion?

I have heard figures ranging from $4 billion down to $1.9 billion.

Mr. FLUES. I point out that this is the basic deficit, sir. But I do have an itemized figure.

The CHAIRMAN. By "basic," you mean the actual money that we send out of the country, $1.9 billion more than we get back?

Mr. FLUES. This is taking out the short-term movement of capital, and also the speculative capital which flows abroad, and then comes back.

The CHAIRMAN. Where does the figure of $4 billion come from? We meet it time and time again.

Mr. FLUES. I think you are referring probably to the $3.8 billion rather than $4 billion.

The CHAIRMAN. Well, let us take the cost in military. How much is that?

Mr. FLUES. It comes roughly—the military expenditures abroad for the year 1960 were $3 billion.

The CHAIRMAN. $3 billion?

Mr. FLUES. Yes, sir.

The CHAIRMAN. Give the other expenses.

Senator LONG. Would you break that down? Of that $3 billion how much of it is European?

Mr. FLUES. I do not have the breakdown as between European expenditures and southeast Asia, for instance.

Senator LONG. Is not that what most of it is, maintaining these enormous troop establishments in Europe that were agreed to around 1949 and 1950?

Mr. FLUES. Certainly the main portion would be in the European area.

The CHAIRMAN. Does this $3 billion include any military equipment that is purchased from this country and sent abroad?

Mr. FLUES. These are military expenditures abroad, and they are not including, for instance, purchases for military equipment here in the United States.

The CHAIRMAN. I understand. That excludes any payments made in this country?

Mr. FLUES. That is right.

The CHAIRMAN. These are funds that are expended in Europe?

Mr. FLUES. In part, sir.

The CHAIRMAN. Go ahead. I was interested in establishing that for the record. It is a very important question.

Mr. FLUES. There are investments abroad of some $2.5 billion.

The CHAIRMAN. That is actual money that leaves this country?

Mr. FLUES. In part, sir; these are investments abroad by American private capital.

And then there are U.S. Government grants and credits, a gross of $3.4 billion.

The CHAIRMAN. What was that?

Mr. FLUES. $3.4 billion.

The CHAIRMAN. Of what?

Mr. FLUES. U.S. Government grants and credits. That would be, for instance, your economic aid.

The CHAIRMAN. Is that the foreign aid?

Mr. FLUES. That would be included in that, sir.

The CHAIRMAN. All of that is spent outside of this country, is that correct?

These figures you have given me are funds, not of any foreign aid or any equipment or anything else that we send abroad that is first purchased in this country; that is excluded?

Mr. FLUES. No, sir.

Mr. Schaffner of the Treasury Department's Office of International Finance informs me that this figure of $3.4 billion includes goods which are sent abroad for foreign aid.

The CHAIRMAN. Is that included in the imbalance of payments calculations?

Mr. FLUES. Yes, sir.

The CHAIRMAN. Now, military is $3 billion what?

Mr. FLUES. Military expenditures of $3 billion.

The CHAIRMAN. Investments abroad, $2.5 billion?

Mr. FLUES. $2.5 billion.

The CHAIRMAN. Foreign aid?

Mr. FLUES. $3.4 billion, foreign aid.

The CHAIRMAN. Is that 2, or 3?

Mr. FLUES. 3.4.

Pensions and remittances of $800 million.

The CHAIRMAN. Who gets those pensions?

Mr. FLUES. Well, I expect if someone has earned a pension here and lives abroad, it is forwarded to him.

The CHAIRMAN. Does that include social security payments abroad?

Mr. FLUES. Yes, sir.

Senator WILLIAMS. Do you have a breakdown of that $800 million as to how much of it is for American citizens and how much for other citizens?

Mr. FLUES. I do not have a breakdown of that figure, sir.

Mr. Schaffner thinks we can get a breakdown for you, Senator.

(The following was later received for the record:)

*U.S. remittances and pensions, 1960*

| | *Millions* |
|---|---|
| Total U.S. remittances and pensions, net | $848 |
| Less private remittances, net | 633 |
| U.S. Government pensions and other transfers | [1] 215 |

[1] Breakdown between payments to U.S. citizens abroad and non-U.S. citizens not available. However, it is estimated that at least half goes to U.S. noncitizens, primarily in the Philippines.

Senator LONG. While you are doing that, would you get a breakdown of the military figure, what percentage of that goes to Western Europe, as compared to southeastern Asia and other places, by areas?

(The following was later received for the record:)

*U.S. defense expenditures entering the U.S. balance-of-payments, fiscal year 1960*

| | *Millions* |
|---|---|
| Total | $3,020 |
| Western Europe [1] | 1,636 |
| Other areas | 1,384 |

[1] Including Greece and Turkey.

NOTE.—Of the $1,636 million spent in Western Europe, $127 million was in the form of local currency. Of the $1,384 million spent elsewhere, $25 million was in the form of local currency.

Mr. FLUES. We will get that, Senator.

The CHAIRMAN. What is the next item?

Mr. FLUES. Our merchandise imports last year were $14.7 billion. Those were the imports coming into this country.

Then you have an item of $5.6 billion for nonmilitary services. That is the charges for services moving in this direction.

Senator LONG. The $5.6 billion is what, nonmilitary charges, you say?

Mr. FLUES. These are nonmilitary services, $5.6 billion.

Senator TALMADGE. What would a nonmilitary service be? Would that be a service for the military?

Mr. FLUES. No, nothing connected with the military, Senator.

Senator TALMADGE. Give us some example of what a nonmilitary service would be.

Mr. FLUES. For instance, freight paid on foreign shipments, and banking services, insurance on shipping, things like that.

Senator LONG. That is, payments that we are making to them, is that it?

Mr. FLUES. Yes, that is correct.

Senator TALMADGE. In other words, it is all foreign exchange paid anywhere for a service and not a commodity?

Mr. FLUES. Correct, sir. It does include tourism, however.

Senator TALMADGE. It does include tourism expenditures?

Mr. FLUES. Yes, sir.

Senator BENNETT. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes, Senator.

Senator BENNETT. Do you have any figure for the value of duty-free merchandise brought in by tourists above the $100 that you now recommend?

Mr. FLUES. The value of the merchandise brought into this country above the——

Senator BENNETT. Yes. We are talking now about the effect of this bill, and how many million dollars worth of merchandise do American tourists bring back in, and how much would that be reduced if we reduced their present duty-free allowances to $100?

Mr. FLUES. In relation to your first question, the amount came to around $335 million over and above your $100.

Senator BENNETT. What is the total when you include $100?

Mr. FLUES. $420 million.

Senator BENNETT. The total is $420 million, and $335 million of that is over $100?

Mr. FLUES. Over $100, yes, sir.

Senator BENNETT. In order to bring anything over $100, the tourist first has to bring in $100?

Mr. FLUES. That is correct. He has an exemption up to the $100.

Senator BENNETT. Now, $335 million from $420 million is $85 million. And the impression I get from these figures is that everybody brings in $500 worth, because in order to have the total go as high as $420 million, everybody would have to bring in $500 worth. Are you not just backwards?

Mr. FLUES. Sir, actually as this breaks down, the number of written declarations of returning residents taking advantage of their exemptions over $200 per person came to 300,000 declarations.

And the average value of the exemption per declaration was $479.

Now, of the other written declarations, with the exemptions between $100 and $200 per person, there were some 1 million of those filed, and it is estimated that those ran out to an average of $150.

Then with the exemption under $100 per person, again there were approximately 1 million declarations, and those average values ran to $50.

Then there were oral declarations, because on the Mexican border and the Canadian border written declarations are not required. There in the area between $100 and $200 per person, the average exemption is figured at $150.

And with the exemptions under up to $100 per person, it ran out to $50.

Senator BENNETT. If this is a statistical average, then I would have to see figures and have time to do the multiplying. Let me repeat my question again.

What was the dollar volume of imports or the dollar value of material brought in by returning tourists, assuming that every tourist who brought in more than $100 worth did bring in $100 worth on which he had to pay no duty? What was the dollar value of all the merchandise brought in here of $100 and less, and what was the dollar value of merchandise brought in, in excess of $100, whether it is $200 or $500?

I am trying to figure out what the actual reduction in imports or the value of returning goods would have been if there had been a $100 limit on it last year.

Mr. FLUES. In answer to your question, sir, for those using an exemption under $100, the total, as figured by customs for 1960, ran to $85 million.

And the merchandise brought back in under the total exemptions came to the balance of that, which would be $335 million.

Senator BENNETT. But everybody who brought in more than $100 had a $100 exemption. And you have just added the value of those people who did not use more than $100, and you have not included the $100 basic value that everybody was given who brought in more than $100.

Mr. FLUES. So the total answer to your question becomes a figure which we previously stated, $420 million.

Senator BENNETT. But that does not answer my question at all.

My question is: If there had only been a $100 exemption last year—and you have told me that there was only $85 million worth of merchandise brought in by people who only claimed $100——

Senator MORTON. $200.

Senator BENNETT. My question is related to the $100 exemption proposed in the bill we are considering.

Senator WILLIAMS. Will you yield a moment?

Senator BENNETT. Yes.

Senator WILLIAMS. How many tourist declarations were involved in that $335 million item?

Mr. FLUES. 1,685,000 declarations.

Senator WILLIAMS. Now, each of those were entitled to $100 under this bill—would be—is that correct?

Therefore, $168,500,000 of that would be duty free even under this bill; is that correct?

Mr. FLUES. That could be so.

Senator WILLIAMS. Therefore, you would subtract $168 million from your $335 million in order to give you the figure which is over; is that not true? That would give you the figure that the Senator from Utah is trying to get?

Senator BENNETT. I worked at it the other way, Senator. You say the other figure is 420?

Mr. FLUES. That was the total, sir, the total value of exemptions.

Senator BENNETT. So we are talking about $168.5 million. Does that relate to the figure in your testimony which says this would reduce tourists' purchases somewhere between $140 million and $175 million?

Mr. FLUES. Roughly in that area, sir.

Senator BENNETT. Of course, that is an assumption; you cannot tell whether tourists would prefer to continue the purchases and pay the tax?

Mr. FLUES. That is the unknown quantity, what the behavior would be.

The CHAIRMAN. What is the average import duty, would you think, on this?

Senator BENNETT. The testimony, Mr. Chairman, is 15 percent.

The CHAIRMAN. Fifteen percent?

Mr. FLUES. Yes, sir.

The CHAIRMAN. In other words, if you brought in $500 worth under your bill, they would pay $60?

Mr. FLUES. That is correct, sir.

Senator BENNETT. And if they brought in $167 million worth, and chose to buy that and pay duty at 15 percent, there would be about a $25 million increase in the revenue of the customs; is that right?

Mr. FLUES. That would be correct, sir.

(The following was later received for the record:)

TREASURY DEPARTMENT, BUREAU OF CUSTOMS

*Estimated potential reduction in purchases abroad by returning U.S. residents if the personal exemption under par. 1798, Tariff Act of 1930, as amended, is reduced from $500 to $100 (based on February 1961 survey of 1960 declarations)*

| | Under present legislation | | Under $100 exemption | | Total value of exemptions |
|---|---|---|---|---|---|
| | Number of declarations | Average value of exemptions per declaration | Exemptions that would have been allowed | Maximum potential reduction in exemption allowable | |
| 1. Written declarations of returning residents with exemptions valued in excess of $200 per person | 300,000 | $470 | $30,000,000 | $110,000,000 | $140,000,000 |
| 2. Other written declarations: | | | | | |
| (a) With exemptions between $100 and $200 per person | 1,000,000 | 150 | 100,000,000 | 50,000,000 | 150,000,000 |
| (b) With exemptions under $100 per person | 1,000,000 | 50 | 50,000,000 | None | 50,000,000 |
| 3. Oral declarations: | | | | | |
| (a) With exemptions between $100 and $200 per person | 300,000 | 150 | 30,000,000 | 15,000,000 | 45,000,000 |
| (b) With exemptions under $100 per person | 700,000 | 50 | 35,000,000 | None | 35,000,000 |
| Total | 300,000 | ............ | 245,000,000 | 175,000,000 | 420,000,000 |

Senator WILLIAMS. Is one of the arguments in favor of this bill that you are proposing an effort on the part of the administration to reduce the amount of dollars which are abroad in the hands of these countries?

Mr. FLUES. Yes, sir.

It is an attempt to conserve American dollars and keep them on this side of the water.

Senator WILLIAMS. Would the same objective be achieved by striking $167 million out of the foreign aid program of the dollars we are sending abroad?

I would not ask you to comment on the merits; I am speaking of the mathematics?

Mr. FLUES. I do not think I should comment on that, sir. These are two entirely different pieces of legislation.

Senator WILLIAMS. I am not asking you to comment on the merits. I recognize that is before another committee. But I am speaking of the mathematics of it, from a dollar standpoint, purely from the mathematical standpoint, would the same result be achieved if it was

$167 million taken from the dollars we are sending over in foreign aid?

Mr. FLUES. Well, sir, your mathematics probably are as good as mine, or better.

Senator WILLIAMS. The difference is, I am not ashamed of my mathematics, and I am asking you the question.

Mr. FLUES. I think we always have to remember that a large part of our foreign aid program is spent for U.S. goods and services right here in this country.

In fact, one of the objectives is to try to work up to as high as 80 percent, making all these purchases of goods and services right here in the United States.

Senator WILLIAMS. That is a very good statement on the objectives. And now that we are commenting on that, I will go back to my question.

Would the mathematics be the same if we took it out of that portion of the foreign aid we are making as grants?

Mr. FLUES. I think it would, sir. You could figure it out that way, if it went into the same pocket. That is, if all foreign aid grant dollars were paid to foreigners.

Senator CARLSON. These figures you gave the Senator from Utah and the Senator from Delaware dealt with declarations that had been made.

What about this trade that we have where there are no declarations across the border, where do those figures come in?

Mr. FLUES. The best we can do there is to make estimates and to base these figures on experience.

Senator CARLSON. Do you have some estimates, do you have some figures on the oral declarations?

Mr. FLUES. Yes, sir.

On the oral declarations in the area of exemption between $100 and $200 per person, it was believed that there were some 300,000 declarations in that category, and the average value of the exemptions came to $150.

Senator CARLSON. That is in excess of the $100?

Mr. FLUES. That is correct.

Then with exemptions under $100 per person there were some 700,000 declarations, it is estimated, with an average value of $50.

Senator CARLSON. Thank you very much.

Senator MORTON. In other words, we are dealing with 300,000 declarations that came to $150, and if this bill were passed, assuming these people did not pay it, went over their limit and did not pay their duty, the amount of money involved is $50 on 300,000 declarations.

Mr. FLUES. $50 on—there were some 700,000 declarations.

Senator MORTON. I am talking about the 300,000 that were under $200 that were affected. The other 700,000 would not be affected by this House bill.

Mr. FLUES. If these people stayed under a $100 declaration, that would be true.

Senator MORTON. So we are talking about oral declarations of $50 each on 300,000, which is $15 million; is that correct?

Mr. FLUES. That is correct.

Senator BENNETT. There is another interesting angle at this point. In your testimony you point out that this privilege of having a $100 duty-free allowance was set up in 1930, and that it was changed immediately after the war.

I have sent out and got some figures indicating the shrinkage of the dollar between 1946 and 1961, which is roughly one-third.

So if this bill passes, we are saying to the American tourist:

"You can only bring back two-thirds as much in value as you could in 1946."

When you are reducing back to a $100 allowance, you are, in effect, reducing him below the level that was permitted when the law was changed, not reducing him in actual value to the level at that time.

And this, I think, deserves serious consideration.

Mr. FLUES. Senator, in answer to that, of course, this $100 exemption goes back as far as 1897, I believe.

Seantor BENNETT. I am not only taking you back to 1946, when the law was changed.

Mr. FLUES. I also point out in that connection that your rates of duty today are less than half of what they were in 1930 and earlier. I would also point out that there is a much greater number of Americans traveling abroad than in those early days, so that their volume of purchases becomes much more significant.

Senator BENNETT. This is interesting collateral information, but if a tourist went abroad in 1946, and stayed within the $100 limit, he did not have to pay any duties. By passing this law today we are saying to a tourist:

"You can only bring back two-thirds of the value that you could bring back in 1946 duty free."

And we are doing this because we are hanging on to a figure and not taking into consideration the changes in the value of the dollar. I wanted to get this point in the record because I think it is significant and indicates the trouble we can get into when we make quick judgments.

The administration apparently is trying to solve this outflow of gold problem by upsetting the present pattern and returning to some previous pattern without taking into consideration many changes that have occurred since the previous law was passed.

Mr. FLUES. I might also make the observation, Senator, in line with your observation, that while the purchasing power of the dollar may have gone down to the figure you say, the number of dollars earned by an individual today is considerably greater on the average than back in 1930.

Senator BENNETT. But this has nothing to do with the fact that he goes abroad and has a right to bring a certain value of goods back with him duty-free, whether that individual scraped for 6 months to save the money or whether he was rich and could go whenever he was so motivated.

Mr. FLUES. Certainly, it has a bearing on his capacity to buy.

Senator BUTLER. Is there a sales tax you are going to put on these boys?

Senator BENNETT. I do not think that is involved here, because some people, as I say, are going to have to scrape to go abroad, and they are going to spend their money very, very carefully.

To other people it has no real significance.

Senator SMATHERS. Mr. Chairman, may I ask a question?

I am curious to know if you have this broken down into areas of the world as to how much would be saved. In other words, if we applied this proposal to travelers who go to Europe, how much would be saved, whereas, if you applied it to travelers who traveled in this hemisphere, how much would be saved, and if you applied it to travelers who traveled in the Caribbean and the Bahamas, how much would be saved?

Do you have figures that would indicate the savings in those areas?

Mr. FLUES. I have no present breakdown by area, Senator.

Senator SMATHERS. I notice you make reference to the strength of Germany and Japan and the European nations. You make no reference to the strength of the countries to the south of us.

You are aware that we just got through with a $500 million aid program for Latin America, are you not?

Mr. FLUES. Yes, Senator.

Senator SMATHERS. Do you think this is a consistent program, then, when we say that we are going to appropriate $500 million for aid to Latin American countries, and at the same time stop American tourists from buying goods in those countries? Is that consistent?

Mr. FLUES. Well, sir, if you start making exceptions, if you try to favor this nation over that, of course, you run counter to our most-favored-nations treaties.

Senator SMATHERS. Let us refer to the $500 million appropriation for the Latin American nations. I am just trying to relate this specifically to the Latin American nations.

We have said that we must do more for them—that is the position, is it not, of the State Department?

Mr. FLUES. I believe Mr. Martin is here and could testify on that very statement later.

Senator SMATHERS. If I said it was the official position, would you disagree with me?

Mr. FLUES. I am sure we are trying to do all we can to help Latin America.

Senator SMATHERS. Do you see any inconsistency in the fact that we want to help by appropriating these sums of money, and, yet, at the same time propose to stop American tourists from buying in those areas? If they did buy, it would obviously be of some help to them?

Mr. FLUES. I will point out that, of course, the very, very great volume of tourist traffic is to the countries of Europe, and Japan also gets a very sizable portion of this traffic.

These are the very nations which no longer need this unilateral concession on our part which is embraced by these high exemptions.

Senator SMATHERS. I agree with you on that almost completely.

Maybe this measure should be directed only to the countries that, as you indicate, no longer need any unilateral help from us, such as the Western European countries and Japan.

Mr. FLUES. I say again, I do not believe that we could make exceptions in this bill to this nation or that.

Senator SMATHERS. Have you not proposed an exception——

Mr. FLUES. I did not make an exception, sir. I was making a point that the great expenditure of tourist money abroad is not made in

Latin America and is not made in Africa or some nations of the Far East; it is made in the very countries that need this help the very least, and no longer need it.

Senator SMATHERS. So there is a difference, is there not?

You recognize that there is a difference in the economic conditions of those countries?

Mr. FLUES. I simply state a fact:

That there is this——

Senator SMATHERS. That is right.

Now, if that is a fact and you recognize it, then why should we apply this rather restrictive rule to everybody, without recognizing the fact that you just got through admitting?

Mr. FLUES. Well, you run immediately counter to your most-favored-nations treaties, the GATT regulations, and so forth. You cannot in our estimation make these differentiations.

Senator BENNETT. Will the Senator yield?

Senator SMATHERS. Yes, I will yield.

Senator BENNETT. I would just like to pursue that same question. Can you give this committee a breakdown of the countries from which this $420 million is purchased?

Mr. FLUES. We would have to make another survey for that purpose.

Senator SMATHERS. How long do you think it would take you to make that survey?

Mr. FLUES. It would take us quite some time. This particular survey we have here took quite a while.

Senator SMATHERS. Are you familiar with the fact that the Congress just passed a bill designed to encourage travel in the United States?

Mr. FLUES. Yes.

Senator SMATHERS. Do you think there is any inconsistency, for example, in the Senate having voted for that particular proposal, the creation of a new department, so to speak—

for the purpose of promoting tourist travel in the United States by residents of foreign countries, and, among other things, the Congress is to conduct a promotion program to encourage the development of tourist facilities and the reduction of bars to travel and the facilitation of international travel generally.

Do these things seem to be inconsistent to you?

Mr. FLUES. No.

The fact of the matter is, that is one of the very measures that we are trying to effect in order to improve the dollar payments situation, and the very objective we have for this bill.

Senator SMATHERS. Do you think that you can make it more difficult for people to purchase goods in foreign countries and bring them here, and at the same time, by so doing, encourage them to purchase goods here and take them back over there?

Mr. FLUES. Of course, you appreciate, sir, that these exemptions are not applying to nonresidents.

Senator SMATHERS. I appreciate that.

Do you think that we can undertake a program of encouraging people to travel in the United States and buy here, while at the same time putting greater restrictions on what our people are able to purchase over there?

Mr. FLUES. I may say that compared to the other nations of the world, our exemptions have been very much higher, as you know, than what their people have when they return from our country, or from other countries.

Senator SMATHERS. But the pending measure falls in the category of being a rather drastic decrease of the exemptions that we have previously allowed? It comes at the same time, does it not, when we are endeavoring to encourage greater travel here to our own country; is that not right?

Mr. FLUES. Yes; we are certainly trying to do all possible to encourage tourism to this country from abroad. I do not think that is inconsistent with what we are trying to do here.

Senator SMATHERS. You do not think it is inconsistent?

Mr. FLUES. I do not, Senator.

Senator SMATHERS. How long would it take you to get the figures as to how much is purchased, for example, by American citizens in the Bahamas group? Do you have any idea of how much money is spent by American citizens in the countries of the Bahamas group?

Mr. FLUES. As I say, I have no breakdown. I will inquire of the Assistant Commissioner if he has any such figure.

He has no such breakdown.

Senator SMATHERS. Are you aware that about 80 percent of all goods bought by the Bahamian people, are bought in the United States?

Mr. FLUES. I am not aware of that fact. It could be.

Senator SMATHERS. If it were true, would it cause you to make any change? Would you recommend any exemption in this particular proposal?

Mr. FLUES. No, it would not.

Senator SMATHERS. Do you think that it would make sense for us to cut out the tourist trade to the Bahamas group and then have them come in and make an application for a loan and get it through the Department of State rather than to let them conduct this trade?

Mr. FLUES. First of all, I do not believe that this bill would cut off the tourist trade into the Bahamas. I do not believe that people go to the Bahamas or Bermuda or the islands of the West Indies for the purpose of making purchases.

I think that is incidental. I think they go there to enjoy the scenery and the blue skies, and have some fun and relaxation.

Senator SMATHERS. I think that is right. But I think, if you look at the figures, you will find that they make considerable purchases. So I think we are shooting in the dark here when you people have access to the figures and ought to get them in so that we can substantiate that fact or not. That is why I say I think it is important that we see from what countries most of these goods come from.

Mr. FLUES. The Assistant Commissioner tells me that one reason this was not broken down country by country, area by area, was because they did have in mind the most-favored-nations situation and the GAAT situation, and they did not believe that such figures would have a bearing on the problem before us.

Senator SMATHERS. Do you mean to say that we do not have any kind of a program in which, for example, with Mexico, we do not give Mexico some particular advances that we give to other countries?

Do you mean to say that we treat all these countries the same?

Mr. FLUES. As to imports we do.

Senator SMATHERS. How about if we enter into bilateral agreements with respect to the importations of their nationals? We would make a different contract with Brazil than with Argentina, would we not?

Mr. FLUES. The importation of nationals? Do you mean labor force coming in?

Senator SMATHERS. No, we enter into bilateral air agreements with foreign countries and grant air rights of entry and departures at various cities and also grant certain routes to them over U.S. airspace. Do you mean that they are all treated alike?

Senator BENNETT. Will the Senator yield before he answers that?

Senator SMATHERS. Yes.

Senator BENNETT. In the testimony Mr. Flues has given us, he points out that while a tourist going to any other country must stay 48 hours before he can get any exemption, you can go across to Mexico and get an exemption in 10 minutes, except in Lower California where you have to wait 24 hours.

So that is a specially favored consideration.

Mr. FLUES. But we have to bear in mind that he can only get up to $200 every 30 days.

Senator SMATHERS. Do all the other countries have that same thing?

Mr. FLUES. No.

Senator SMATHERS. Then does not that pretty well destroy the argument of uniformity?

Mr. FLUES. As to the amount of the value of the exemptions it does not.

As to the time in which he can obtain these exemptions, yes.

Senator SMATHERS. My whole argument is—I do not believe, if you will look at the contracts that we make and the treaties that we make with these various other countries, that we treat them all alike; in fact, I know that is not the case.

Now, let me ask you this question. How much additionally will it cost the Customs people to enforce this particular proposal if it becomes law; how much additional money would it cost in manpower, salary, and so forth, to enforce this particular provision that you are recommending, if it becomes law?

Mr. FLUES. $1,135,000.

Senator SMATHERS. That is a year?

Mr. FLUES. Annually, fiscal year.

Senator SMATHERS. I have no further questions.

Senator DOUGLAS. Mr. Chairman, may I ask a question?

What are the restrictions imposed by Great Britain on the amount which their nationals traveling abroad can bring back into the home countries?

Mr. FLUES. I will get that, if I may.

Senator, in the United Kingdom no exemption is allowed.

Senator DOUGLAS. No exemption?

Mr. FLUES. No exemption.

Senator DOUGLAS. You mean that if a person brings back $25 worth of goods from the United States, he would have to pay——

Mr. FLUES. He would have to pay duty on it.

Senator DOUGLAS. And that applies to Canadian citizens?

Mr. FLUES. No, sir; they have a different rate.

For Canadian citizens, it is $100.

Senator DOUGLAS. The same amount that you are proposing for the United States?

Mr. FLUES. No, sir.

We will still be more generous than Canada under this bill, because we allow this $100 under the present bill every 30 days.

The Canadians allow the $100 every 4 months.

I want to add one other thing. For the Canadian citizen who travels outside the North American Continent, an additional exemption of $200 is allowed.

Obviously, this has no bearing as to the United States. It favors the Canadian citizen who goes outside the continent; it does not favor the one who comes to this country.

Senator DOUGLAS. And in Canada it is only $100 every 4 months?

Mr. FLUES. That is correct.

Senator DOUGLAS. Does this apply to wealthy residents of the Bahamas who come to the United States?

Suppose Harry Oakes made a trip——

Senator SMATHERS. He is dead.

Senator DOUGLAS. I know, but suppose he was living and made a trip to Miami. How much could he bring back duty free?

Mr. FLUES. I do not have a figure on that.

Senator DOUGLAS. Let me ask you this. Does the British rule apply—are the Bahamas a crown colony?

Mr. FLUES. They are a crown colony.

Senator DOUGLAS. Does the British rule apply to British nationals resident in crown colonies?

Mr. FLUES. I believe the State Department would have to answer that. Mr. Martin is here.

Senator DOUGLAS. Mr. Martin, can you answer that question?

Mr. MARTIN. No, I cannot. I can get the information.

Senator DOUGLAS. Will you supply an answer for the record?

Mr. MARTIN. Yes.

(The information requested was subsequently read into the record by Mr. Martin and appears on pp. 51 and 52.)

Senator SMATHERS. On that point, if the Senator would yield, I think there was something just recently in the papers that they are no longer a crown colony; they are achieving their independence.

Is that not true, Mr. Martin?

Mr. MARTIN. There are a number of the Caribbean Islands which are going together in a federation and achieve independence next year.

But the Bahamas are not included in that.

Senator MORTON. Hong Kong is a crown colony.

Senator DOUGLAS. May I ask what the limitation is that is placed on the amount of currency which British nationals can take abroad?

Mr. FLUES. Senator, we will have to supply that for the record. That is another question, of course.

(The following was later received for the record:)

*Tourist allowances for residents of various countries*

| Country | Foreign exchange allowed per tourist | | Local currency that tourist may take (in addition to foreign exchange allowance) | |
|---|---|---|---|---|
| | U.S. dollars | Frequency | U.S. dollar equivalent | Frequency |
| Germany | (1) | | (1) | |
| Austria | 385 | Annually | 385 | Per trip. |
| Belgium-Luxembourg | (1) | | (1) | |
| Denmark | (1) | | (1) | Do. |
| Spain | 275 | Annually | 50 | Do. |
| France | 304 | do | 51 | Do. |
| Italy | [2] 800 | Per trip | 80 | Do. |
| Norway | 280 | Annually | 49 | Do. |
| Netherlands | 829 | Per trip (2 weeks).[3] | 53 | Do. |
| Portugal | (1) | | (1) | |
| United Kingdom | [4] 700 | Annually | 140 | Do. |
| Sweden | 1,160 | Per trip | 1,160 | Do. |
| Switzerland | (1) | | (1) | |

[1] Unlimited.
[2] Larger amounts may be granted in particular cases.
[3] Additional $41 per day for longer trips.
[4] On request, additional amounts may be granted if justification is provided.

Source: Treasury Department, June 22, 1961.

Senator DOUGLAS. May I ask:

What is the value of goods which citizens of the Netherlands can bring back into the home country duty free after traveling abroad?

Mr. FLUES. No exemption, sir.

Senator DOUGLAS. Does this apply to residents of Curacao and the Dutch Islands of the West Indies?

Mr. FLUES. This, again, is in the area where I would have to ask the State Department.

Senator DOUGLAS. I will ask the State Department.

Does that apply to the Dutch Islands of the West Indies?

Mr. MARTIN. Not necessarily. They are an independent government territory. I could not tell you what the rules are.

Senator DOUGLAS. Will you supply that for the record?

Mr. MARTIN. I will.

(The information requested was subsequently read into the record by Mr. Martin and appears on pp. 51 and 52.)

Senator DOUGLAS. How much can citizens of France bring back to the home country duty free?

Mr. FLUES. It runs out roughly according to our calculation at about $10.

Senator DOUGLAS. How much can citizens of Germany bring back to the home country after traveling abroad?

Mr. FLUES. $12.50, sir, in our money.

Senator DOUGLAS. How much can citizens of Italy bring back to the home country after traveling abroad?

Mr. FLUES. No exemption, sir.

Senator DOUGLAS. What about the amount which citizens of Sweden can bring back to the home country?

Mr. FLUES. $50.

Senator DOUGLAS. Norway?

Mr. FLUES. $50.

Senator DOUGLAS. Denmark?

Mr. FLUES. $50.

Senator DOUGLAS. Belgium?

Mr. FLUES. $6 when imports are from Luxembourg and the Netherlands, and $3 from other countries.

Senator DOUGLAS. What about the amount that citizens of Luxembourg can bring back?

Mr. FLUES. Sir, I have no figure on Luxembourg.

Senator DOUGLAS. What is the amount that the citizens of Andorra and San Marino can bring back?

Mr. FLUES. I have no figures on that.

Senator DOUGLAS. Does not the evidence indicate that even with the $100 restriction, we will be infinitely more generous in the amount which our citizens can bring back than foreign countries are?

Mr. FLUES. That is true, Senator.

Senator DOUGLAS. How do you account for the fact that the foreign press has been criticizing this bill and has not been saying that there should be reciprocal liberalizations abroad?

I subscribe to a number of the foreign papers, particularly the British papers, and I think it would be well if they heeded this themselves before making these criticisms.

Mr. FLUES. I think that is a very cogent observation.

Senator BUTLER. Would the Senator yield at that point?

Senator DOUGLAS. Certainly.

Senator BUTLER. Would the Senator be willing to introduce an amendment to this bill to bring it down to the $3 average?

Senator DOUGLAS. No.

America has always been more generous and will continue to be more generous. But I do not see any reason why it should be insisted upon that we have excessively generous standards when there is danger of excessive flow of gold into the foreign exchange abroad.

Senator BUTLER. Will the Senator yield?

Senator DOUGLAS. Certainly.

Senator BUTLER. I felt that the comment of the foreign press touched on the former generosity of the United States, and they could not understand why we were not becoming so penurious.

Senator DOUGLAS. We are not becoming penurious; we are adopting certain measures in self-defense which I think our foreign friends should understand.

And, personally, I have resented this criticism from the foreign press very much.

Senator BUTLER. Mr. Chairman, may I ask a question of the witness?

Senator KERR. I want to say that I have resented certain criticism from the foreign press that does not come from England.

Senator DOUGLAS. So have I.

Senator BUTLER. Mr. Chairman?

The CHAIRMAN. Senator Butler?

Senator BUTLER. Mr. Flues, how many additional employees will it take to administer the bill now pending before this committee?

Mr. FLUES. 160.

Senator BUTLER. And how much will that cost per annum?

Mr. FLUES. That is included in this figure that I gave previously of $1,135,000. Actually, this figure, of course, includes the labor cost, and it also includes the cost of printing up some 9 million new customs forms and some 1,300,000 customs pamphlets which go under the name of "Customs Hints."

Senator BUTLER. And almost everybody that gets off the ship will have to stand on the pier 3 or 4 hours, except maybe 10 percent of them?

Mr. FLUES. We hope not, sir. We are trying to improve our procedure constantly to assist people to go through customs expeditiously.

Senator TALMADGE. Mr. Chairman?

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. I want to return to the matter the chairman asked you a question on a moment or two ago, and that is the dollar deficit.

As I understand from your testimony, you stated the dollar deficit last year was $1.9 billion, and there were other figures, I believe you quoted, or one of your assistants, of $3.8 billion. You made a distinction there with reference to short-term credits.

Give us a little more detail about what you had in mind on that, will you?

Mr. FLUES. As we all know, there is now an outflow of what we call short-term assets.

Senator TALMADGE. You are talking about investments there of a short-term nature that are seeking a higher return on the investment?

Mr. FLUES. Yes, that is what we call in considerable part volatile money which seeks a higher interest rate abroad than what it can find here.

Senator TALMADGE. Something similar to our 90-day certificates, in other words?

Senator KERR. Would the Senator yield?

Senator TALMADGE. Delighted, sir.

Senator KERR. That is actually an outflow of gold, is it not?

Mr. FLUES. No, sir, not always.

Senator TALMADGE. It is an outflow of dollars and can command gold?

Mr. FLUES. That is right. It is an outflow of dollars.

Senator KERR. It is just as much a part of the deficit for the time involved as though it were originated in some other way, is it not?

Mr. FLUES. It certainly puts dollars in the hands of foreigners.

Senator KERR. That is all any of this does, is it not? That is the only way you create a deficit?

Mr. FLUES. It is part of the balance-of-payments picture, sir.

Senator KERR. It is just as much as any other part, is it not, for the time it lasts?

Mr. FLUES. That is true, Senator.

Senator KERR. Well, is it "Yes" or "No"?

Mr. FLUES. Yes, I would say so.

Senator KERR. Then your actual deficit was $3.8 billion, of which a certain amount was caused by the situation referred to by the Senator from Georgia?

Mr. FLUES. That is true, the actual deficit of the balance-of-payments was 3.8.

The CHAIRMAN. And in the settlement of that deficit the banks abroad can demand gold or dollars at their choice?

Mr. FLUES. The government can.

The CHAIRMAN. That is what I mean.

Senator KERR. The central bank of any government?

Mr. FLUES. Yes.

The CHAIRMAN. The central bank of any government, that is where the transactions are finally equalized; is that right?

Mr. FLUES. That is true.

The CHAIRMAN. They can demand gold or dollors. So I would like more information along the lines of what Senator Talmadge was saying—not now, because it would probably take too much time—to show exactly how much money leaves this country, so far as you can. Take the past year.

Mr. FLUES. The past year?

The CHAIRMAN. How much American money leaves this country, is spent abroad, in other words, and then how much comes back?

Mr. FLUES. Last year, in 1960, as I have said, the total that went out as deficit was $3.8 billion.

Senator KERR. That is the total deficit?

Mr. FLUES. That is the total deficit.

The CHAIRMAN. And I would like an explanation, and certainly the committee would like it, of exactly the difference between the $3.8 billion and $1.9 billion; they are both deficits.

Mr. FLUES. Mr. Chairman, Mr. Schaffner of the Office of International Finance of the Treasury is sitting on my right, and he can give you the explanation of this very quickly, I am sure, and save your time in doing so.

Senator TALMADGE. Mr. Flues, let us get to the present—unless the chairman wants to put that in the record.

Senator LONG. Might the witness explain it for the record? I would like to know the answer myself. While your assistant is putting it in the chairman's ear, some of us are not hearing it.

Senator DOUGLAS. Yes, I think there should be a statement of it.

The CHAIRMAN. Suppose you explain it to the committee. You have two kinds of deficits, one is basic, but both are deficits.

Senator LONG. You are just as broke, whether you are broke in a business way or some other way.

Mr. SCHAFFNER. The difference between these two concepts is simply that the concept of an overall deficit, the $3.8 billion that the Senator referred to, does have included in it short-term capital outflow, which, as Mr. Flues has said, may be seeking higher interest returns abroad, or it may be in connection with financing trade, or other reasons. It is considered of a rather short-term type.

Senator BUTLER. What is the dollar value of that?

Mr. SCHAFFNER. Last year that was $1.3 billion.

Now the $1.9 billion deficit which has been referred to as the basic deficit excludes this short-term capital movement. It is a deficit that results from all of our other recorded transactions on the import side and on the export side.

Senator KERR. Do 1.3 and 1.9 total 3.8?

Mr. SCHAFFNER. No.

Then there is also what we have listed as an unrecorded outflow. This is sometimes referred to as errors and omissions. This would be an example of the kind of a transaction, Senator Kerr—and I think the easiest way to explain it would be this: Normally an export that leaves the United States is recorded in the customs statistics, and those are entered in the balance-of-payments.

Now the foreigner, very likely, will pay for that export by drawing on his bank account, say, in New York. He will draw on his dollars. So we get a report which indicates that dollars held by foreigners have gone down in an amount equal to the value of the exports which were sent to them.

Now suppose the foreigner, instead of paying for those exports by drawing down his dollar bank account, sent over a bundle of dollar bills in an envelope to the American exporter. That transaction we would be unlikely to catch. So we would have exports going out, but no indication of how they were paid for.

So the fact that we did not have that part of the transaction would mean there would be an item of that amount in what we call errors and omissions.

Senator KERR. And you put it in there because a deficit has occurred which you cannot explain any other way?

Mr. SCHAFFNER. That is right.

Senator KERR. But the deficit last year was $3.8 billion.

Mr. SCHAFFNER. That is right.

Senator KERR. And it was just as much that, including the 1.3 in short-term investment, as though that had been an excess of spending of dollars abroad for goods and payment therefor in dollars—that would not have created any more of a deficit than the short-term investment did for the time of 1960?

Mr. SCHAFFNER. You are correct, sir.

Senator KERR. So insofar as the balance of payments is concerned, in order that the record reflect the accurate situation, any interpretive definition or differentiation between items in this deficit is merely for the purpose of generating some comfort in the hope that the circumstances in 1961 would be different and bring it back.

Mr. SCHAFFNER. And there has been, sir——

Senator KERR. I know, that is the reason, but, basically, the deficit is $3.8 billion.

That is what the Senator from Georgia was trying to bring out.

Senator TALMLMADGE. That is exactly correct.

Mr. SCHAFFNER. That is correct.

Senator TALMADGE. Now, what will the deficit be for the first 6 months of this year, which is 8 days hence?

Mr. FLUES. We only have the first quarter reckoned so far, Senator, and that comes to $300 million.

Senator TALMADGE. That is the total, now, of all kinds of deficits?

Mr. FLUES. That is correct; that is the overall deficit.

Senator TALMADGE. So if that figure continues that way for the entire year, the deficit this year will be $1,2 billion?

Mr. FLUES. That is correct, sir.

Senator TALMADGE. Now, I want to ask you about something else, getting back to the bill as before.

It is my understanding that troops that have been stationed overseas, or American civil officials that have been overseas, get some kind of special exemption. What is that exemption?

Mr. FLUES. There is, for military personnel stationed overseas, a $50 exemption which they can send back in gifts. They can do this every day, if they wish. However, that exemption expires June 30 of this year.

Senator TALMADGE. June 30.

And you are not making any recommendations that it be extended?

Mr. FLUES. No, sir.

Senator TALMADGE. Now, how about the American service personnel in embassies, the ICA, or otherwise, what is their exemption overseas?

Mr. FLUES. For instance, a person who has been 140 days or more on foreign assignment can come back into the country and bring in duty free his personal and his household effects when his foreign assignment is terminated.

Senator TALMADGE. That is military or civilian?

Mr. FLUES. That is correct, sir, either military or civilian.

Senator TALMADGE. Is there any restriction on that now?

Mr. FLUES. No.

The only restriction, I might say, would be on the amount of liquor he could bring back in.

Senator TALMADGE. That is one of the things I had in mind.

Now and then I read articles in the paper about some serviceman coming back with a large quantity of liquor, lots of antiques, and one thing and another, and I see a lot of service personnel returning with new Mercedes. Do they bring that back under the household effects proposition?

Mr. FLUES. They could.

Senator TALMADGE. Does this bill change that in any way?

Mr. FLUES. No, sir.

Senator TALMADGE. In other words, that law will remain the same. Does it all expire on June 30, that relating to military and civilian personnel?

Mr. FLUES. The only exemption that expires on June 30 is the exemption not exceeding $50 for a gift.

Senator TALMADGE. That is what they would send back in lieu of bringing back with them?

Mr. FLUES. That is right, sir.

Senator TALMADGE. And that is the only expiration that you are not recommending?

Mr. FLUES. Correct, Senator.

Senator TALMADGE. And then this household effects law will remain as it is?

Mr. FLUES. Yes, sir.

Senator TALMADGE. Thank you, Mr. Chairman.

Senator BUTLER. Would the Senator yield?

Senator TALMADGE. Certainly; I have concluded.

Senator BUTLER. They not only bring that in, but it is brought in at Government expense, and the Government pays for it, does it not?

Mr. FLUES. When we talk about bringing back things at Government expense, they can still do it with the exception of the automobiles.

Senator BUTLER. All the household and personal effects—some of them bring it in at values in excess of $100,000, valuable antiques that they picked up all over the world, and if anything happens to them in transit, the Government pays for it?

Mr. FLUES. These have to be in the category of household effects for their own personal use, of course; they cannot bring these things back in to sell them in the United States.

Senator BUTLER. Of course, you can buy a tablecloth that may cost as much as $1,500 or $2,000 and call it household effects, if you want to do it; I agree it is a household effect, but, nevertheless, it is very valuable property coming into this country, and millions and millions of dollars of property are coming in without any duty at the expense of the Government of the United States, tapestries and paintings, almost anything they could get in under household effects.

Mr. FLUES. I would like to add one thing. This exemption for household effects, the 140-day stay, that exemption, when a person is in the service of the United States, will expire next year on July 1, unless this Congress decides to continue it.

Senator KERR. Or terminate it sooner.

Mr. FLUES. Or if you desire to terminate it sooner.

Senator KERR. An amendment would be in order to this bill to terminate it July 1 of this year, or September 30 of this year, instead of June 30 next year, would it not?

Senator SMATHERS. May I ask the Senator whether he would approve such an amendment?

Senator KERR. I could; yes, sir.

Senator SMATHERS. Do you believe that you could stop the deficits in some respect if you amended it as has been suggested by the Senator from Georgia so that there would be a limit on what these personnel could bring back?

Mr. FLUES. Senator, I wish you would address that question rather to Mr. Martin.

Senator SMATHERS. I wonder how Mr. Martin feels about it.

Senator KERR. You mean that Mr. Martin determines your position?

Mr. FLUES. I say that because, of course, it gets right into the area of our State Department personnel who are on assignments abroad.

Senator KERR. Are you saying, then, that the Treasury has no position in the matter, other than that of the State Department?

Mr. FLUES. No, sir, I am not saying that.

Senator KERR. What do you say?

Mr. FLUES. I am only answering the Senator by suggesting that Mr. Martin probably has some comment on this point.

Senator KERR. You are only answering his question by referring to somebody else.

Mr. FLUES. All right, sir, I will say we have no new position on these household effects; we are not recommending that it be withdrawn.

Senator TALMADGE. If the Senator will yield at this point, there has just been handed to me a clipping from the New York Times, "Important Notice About Liquor to Oversea Travelers, Save Up to 65 Percent Duty-Free Liquor Delivered Directly to Your Home."

I ask unanimous consent that it may be inserted in the record.

The CHAIRMAN. Without objection the insertion may be made.

(The document referred to is, as follows:)

[From the New York Times]

IMPORTANT NOTICE ABOUT LIQUOR TO OVERSEA TRAVELERS—SAVE UP TO 65 PERCENT DUTY-FREE LIQUOR DELIVERED DIRECTLY TO YOUR HOME

If you are planning a trip to Canada, Mexico, Caribbean, Europe, the Pacific, South America * * * anywhere outside the United States of America * * * take advantage of the Windsor duty-free liquor plan.

Imagine, five fifths of world-famous scotch of your choice only $17. Or a mixed gallon pack of the finest brand-name liquors (retailing in United States for $39) only $17.50.

It's simple—it's so convenient—all you do is fill out a checklist order form and drop it in the mail. Your purchase is shipped directly to your home by Railway Express; you pay for liquor only. No lugging, no breakage, no excess air freight—and it's duty-free.

Ask your travel agent for free Windsor order form or write to Windsor, Ltd., Department 89, Delaware Trust Building, Wilmington, Del.

Senator BENNETT. Mr. Chairman, I would like to return to the question that Senator Douglas raised. He went through a long list of countries, and he listed for the record the relatively small amounts that citizens of those countries could bring back in.

Senator DOUGLAS. And in some cases, nonexistent amounts, nothing.

Senator BENNETT. None or very small.

Now, I would like to ask you if in most, if not all, of those countries there is not also a limit on the amount of money the citizen can take abroad to spend when he goes out as a tourist?

Mr. FLUES. Restrictions on foreign exchange for tourist traffic are still maintained by certain countries. For instance, 13 European countries have such restrictions.

Senator DOUGLAS. Which countries are they?

Mr. FLUES. In Austria, Denmark, France, Ireland, Italy, the Netherlands, Sweden, and the United Kingdom, the regulations are not considered restrictive on travel to the United States. In most cases they are designed——

Senator BENNETT. There are restrictions, however. Are there any countries in that list about which you were questioned by the Senator from Illinois—which allow their nationals to take an unlimited amount of local currency out of the country?

Mr. FLUES. I mentioned, for instance, Sweden, the Netherlands, Italy, the United Kingdom, Denmark, France—those were mentioned.

Senator BENNETT. They have no restrictions?

Mr. FLUES. Their regulations are not considered restrictive.

Senator BENNETT. That is not my question. You are trying to play the same trick with me that you were playing with Senator Kerr.

Do these countries have any restrictions; whether they are considered restrictive or not, do they have restrictions?

Mr. FLUES. There are restrictions. But they are restrictions not in the sense of trying to prevent the tourists from taking out money to buy; they are designed to prevent unauthorized capital movement, which is simply something in another area.

Senator BENNETT. Are you saying to me, then, that a British citizen may now come to the United States as a tourist and bring all the money he wants, as an American citizen can go to Britain and carry all the money he wants?

Mr. FLUES. No, I would not say that.

Senator BENNETT. That has not been the case since the war. So as far as the tourist is concerned, no matter what the motive may be, there are restrictions?

Mr. FLUES. Yes. Certainly after the war they were quite strict, but they have been loosened a little in the years that have gone by.

Senator BENNETT. The point that I am leading up to:

Could you give me a figure showing the total amount Americans spend on tourism abroad?

Senator KERR. Could the question be asked, the total amount that American tourists spend abroad?

Senator BENNETT. Yes, the total amount that American tourists spend abroad.

Mr. FLUES. I have this figure from the Department of Commerce, the Census Bureau. It does not include the travel to and from the foreign country.

Senator KERR. You mean the transportation costs?

Mr. FLUES. They are excluded. But the expenditures within these countries were as follows:

In 1960, $1,744 million was spent by American tourists abroad.

In the first quarter of 1961, $275 million have been so spent.

This compares, roughly, Senator, with the first quarter of 1960 when $278 million were spent.

Senator KERR. How much this year?

Mr. FLUES. $278 million in the first quarter of last year; $275 million in the first quarter of this year.

Senator BENNETT. This excludes travel to and from the country, and, yet, the American going abroad must dig that money up and spend it; that is part of his cost.

Do you have any figure which shows the cost of travel to and from these foreign countries?

Mr. FLUES. I do not, sir, for 1960 and 1961. I can get it, of course.

Senator KERR. For the question to be as informative as it should be, it might need to include the element of how much of the transportation cost was paid to American transportation companies.

Senator BENNETT. Let us get the overall cost.

Mr. FLUES. Senator, in answer to your question, I cannot give you figures for 1960 or any portion of 1961. I can point out that in 1959 fares paid to foreign carriers amounted to $382 million; and to the U.S. carriers, $388 million.

Senator SMATHERS. That was what year?

Mr. FLUES. 1959.

Senator BENNETT. So adding the money paid to foreign carriers—assuming that these occurred in this same year—to the figure given for money spent abroad, does the money spent abroad include the money paid for the merchandise that the tourist brought back?

Mr. FLUES. That is right, everything except automobiles.

Senator BENNETT. Well, ignoring that exception, then American tourists spent better than $2 billion abroad, and if this bill passes, we will put under a cloud an expenditure of $167 million, or about 8 percent.

The tourist would have no difficulty in translating that $167 million which he is prepared to spend abroad into a couple of days more on the Continent, on a little better hotel—in other words, this bill does not have any restrictions on the total amount which the tourist can spend abroad; it simply says to him: "If you are going to spend your money, you had better spend it on room and board and entertainment; do not buy merchandise."

Now if we are really serious about this problem, would we not follow the lead of the other countries and put a limit on the amount of money that the tourist can take out? Then we could really expect to control the deficit.

But under this bill there are two glaring loopholes. One is that the tourist can say: "Well, this is $167 million that we will spend abroad, but we will not spend it in the shops; we will spend it in the hotels and in the Lido and other places."

Senator KERR. Where?

Senator SMATHERS. On the Left Bank.

Senator BENNETT. And the other thing is that we are saying to these tourists: "For a tax of $25 million you can spend the same amount for merchandise. This would not affect our balance-of-payments problem. The gold will still go out, but we will tax you $25 million for the privilege."

And I think if I were a tourist, in spite of the fact that I have got 19 grandchildren and it is pretty hard to take care of all of them——

Senator KERR. What relation does that have to tourism?

Senator BENNETT. Well, with 19 grandchildren I have got to bring back quite a lot of merchandise to prove that I went abroad.

So I think that, as I say, these two loopholes, we do not follow the lead of our foreign friends and put some limit on the total a tourist can spend, and we say to him: "If you are willing to pay a $25 million tax, you can spend just as much as you have been doing," and I do not think we are really getting at the problem.

Of course, I do not think that this is the way to get at the problem anyway, Mr. Chairman.

Mr. FLUES. Senator, I might say that this Nation has not sought—and I do not believe in—foreign exchange control.

Senator BENNETT. I do not either.

Mr. FLUES. And we have to remember that the nations, particularly of Europe, Japan, which were very hard hit during World War II, in the recovery period following sought to conserve their dollars by putting on these restrictions.

Senator BENNETT. The British sought to conserve their pound by preventing them from taking British pounds abroad to the Continent, not just their dollars.

Senator DOUGLAS. Does this reason still exist? Does it still exist for Germany, which has, I believe, balances of something like $7 billion? Does it exist for Great Britain? Does it exist for the Netherlands, Belgium, or for Great Britain?

Mr. FLUES. They have been relaxing their restrictions, as I said earlier. But in some instances they still exist.

Senator DOUGLAS. But still you cannot bring back anything.

Mr. FLUES. On the exemptions, that is true.

Senator DOUGLAS. In your own statement you say:

The leading countries of Western Europe, as well as Japan, have accumulated large gold and liquid dollar holdings as a result of their strong export position in world markets.

Mr. FLUES. That is true.

Senator DOUGLAS. I reviewed yesterday in another committee the holding of gold and foreign exchange by the various countries, and certainly no one can say that West Germany has a shortage of gold and foreign exchange holdings.

Yet what is the limitation on the amount that a German national, West German national, can bring back?

Senator BENNETT. If my memory serves me right it is $10.

Senator BUTLER. $12.50.

Mr. FLUES. It is $12.50.

Senator DOUGLAS. Will you answer this question: Do they have any legitimate ground for complaint if we permit our nationals to bring as much as their nationals can bring back?

Mr. FLUES. I see no legitimate complaint, Senator.

Senator DOUGLAS. I hope there are some foreign correspondents in the room who will carry this message to the papers abroad.

If not, I hope the information is supplied.

Senator BENNETT. Would you also ask him whether West Germany has any limit on the amount of exchange a person can take out?

Senator DOUGLAS. Do they have?

Senator LONG. May I just develop this?

Why do you people not give some consideration to these big drains on the gold; I mean the $3 billion in military abroad, for example; the net outflow—you have an antiquated plan, and times change rapidly nowadays; you have an old 1949 plan when nobody did what they were supposed to do but us. We stationed troops over there, and if everybody had done their share, we could have stopped a Russian land assault. But some, like France, do not have enough in there to defend against the paratroopers coming back from Algeria. We are the only ones—and the plan is outmoded because there is no prospect of having enough ground troops to stop any Russian land assault in the absence of a full, all-out use of atomic weapons.

My understanding is that we put all those troops over there because we hoped we would not have to resort to atomic warfare in the area.

Now we have got those troops over there by the hundreds of thousands, draining out most of this $3 billion for this military item.

I have tried to persuade the military that when we send people over, it would take a lot less people than you are asking for if someone would look over the personnel lists and not send men with a wife and five children where you must spend a lot extra.

I saw a picture of one sergeant going over where it was going to take half an airplane to fly over his wife and children and all the household effects, plus a dog and cat.

Any personnel officer who would for a moment even think about this would go through his divisions and check off, himself, a considerable number of people who have these large families.

Most of the young men you draft now are not even married.

Senator BUTLER. That would be discrimination.

Senator LONG. It would sure help on your gold reserves, deciding who you would send overseas. But you cannot get these people to even think about these things:

(1) In reducing the number of forces there; or,

(2) If you are not going to reduce the forces, do not send these large families over there.

But you cannot get the military to even think about that. You think about it one way in one area of Government and another way in another.

You say here $2.5 billion represents investments abroad. You say you do not consider it restrictive practice for the British to impose restrictions on the outflow of British capital for investments abroad.

If you do not consider that restrictive, I would be curious to know why we have not considered some limitation on investments in Europe where these large gold holdings are held.

I know the previous Secretary of the Treasury was concerned about that.

Senator DOUGLAS. Will the Senator yield?

Senator LONG. One moment, please.

I cannot understand why is not some consideration given to protecting our gold balances in the area where the big outflows, the $3 billion items, are concerned?

Instead, you eliminate all consideration of doing something about those, apparently, and go down here for the item that, when all is said and done, is only about a $167 million item.

Why do you not touch some of these enormous sacred cows and make some real savings, because this is not going to protect it, obviously?

Mr. FLUES. Senator Long, I think we should bear in mind that the bill which is before you is only one measure in a program to improve the balance of payments situation.

Senator LONG. Let me get down to the next one that makes no sense at all.

Senator KERR. Do you not want him to answer that? All he has done so far is filibuster.

Mr. FLUES. As you know, there are a number of bills pending before the Congress, and there are other Executive measures being taken in an effort to assist and improve this balance of payments situation.

Senator LONG. What is the most substantial of them? Is this the most substantial one, or are there any more?

Mr. FLUES. This, I would say, is one of the smaller ones, certainly.

Senator LONG. What is the biggest one?

Mr. FLUES. You can say that $167 million or $140 million to $175 million, the range in which we have been talking as to saving, compared to some of these large amounts of expenditures abroad, looks insignificant.

Senator LONG. What is your largest item?

Mr. FLUES. Yet, it is still that amount of money. And it does contribute to the program of bettering our balance of payments situation.

Senator LONG. What is your largest item down there of these items that are supposed to protect our situation?

Mr. FLUES. I have a list of 14 of them here, if you would like me to read them off.

Senator LONG. Suppose you provide them for the record. But what is the largest one, aside from this?

Mr. FLUES. It is pretty hard to——

The CHAIRMAN. It will not take long; read them.

Mr. FLUES. Let me say something like this. We are trying very, very hard to improve our exports picture. Now, that could be one of the largest items.

Senator LONG. Suppose you read the ones that you can count on; this thing of including imports against exports——

Mr. FLUES. Export promotion would be one.

Senator LONG. Ho much money do you have down there beside that?

Mr. FLUES. We do not have any sums. These are things that we do not know.

Senator LONG. Go head, that is No. 1.

The CHAIRMAN. I thought you were going to read some legislation on imports?

Mr. FLUES. No.

The CHAIRMAN. When it comes to exports and imports, you get into another field. We have raised our wages far above the world level.

And I want to ask you this one question. We have a favorable balance on our trade now of around $1 billion.

Senator KERR. That is, we had that last year.

The CHAIRMAN. Last year.

Is that not likely to drain with the wages constantly being raised in this country?

Mr. FLUES. Yes, and this, again, is important——

The CHAIRMAN. That is going to give you some real trouble on this imbalance of payments?

Mr. FLUES. That is correct, sir.

The CHAIRMAN. What are your plans to increase the exports? You have not proposed any legislation have you?

Mr. FLUES. The President has recommended measures to improve the balance-of-payments situation which include export promotion and which include legislation. I shall transmit to you at an early date a summary of these measures, 4 to ease the short-term-demand problem, and 14 to correct the basic-payments deficit and achieve longer term equilibrium.

The CHAIRMAN. Do you think there is a probability that this favorable balance in our export and import trade will decline?

Mr. FLUES. I didn't catch the last word, Senator.

The CHAIRMAN. I asked about the possibility of a decline in this favorable $5 billion balance between exports and imports. I understood you to say that it is possible that that will decline.

Mr. FLUES. Yes, sir; I say that because, while we have had——

The CHAIRMAN. What are the figures this year?

You have one quarter, merchandise imports are 3.4, and the exports are 5.

Mr. FLUES. We had merchandise imports in 1960 of 14.7 billions of dollars.

The CHAIRMAN. I am speaking of the first quarter of this year.

Mr. FLUES. And exports of 19.4 billions of dollars.

The CHAIRMAN. There has been a decline in the favorable balance in the first quarter, hasn't there?

Mr. FLUES. And——

Senator KERR. How does the first quarter of this year compare with the first quarter of last year?

Mr. FLUES. All right, sir. In the first quarter of this year we have merchandise imports of $3.4 billion.

Senator KERR. The balance?

Mr. FLUES. And merchandise exports of $5 billion.

The CHAIRMAN. But Senator Kerr wants to know what it was a year ago.

Mr. FLUES. If you project merchandise exports out on the same basis through the year 1960, it would come to $19.4 billion; subtracting the 1960 import figure of $14.7, you would have a plus on the merchandise export side of $4.7 billion.

Senator DOUGLAS. A plus on the export side?

Mr. FLUES. On the export side.

Senator LONG. Why don't you project both figures, you are projecting one figure, why don't you project both figures, and compare it to last year, why don't you project the figure below that—you project one figure to get $19.6 billion, suppose you project the other, what do you get?

Mr. FLUES. If we project the first quarter in 1961 on exports of 5 billion—you appreciate we don't have it broken down as to quarters for 1960, we have only the total for the year, but it was $4.7 billion on the plus side of merchandise exports in 1960 as I have said.

Senator LONG. You gave us two first-quarter figures, if you multiply that by four you should have a projection of what you would do if it keeps going this way; $19.4 billion is one figure, and multiply the other figure by four and see what you get.

Mr. FLUES. To multiply your imports in the first quarter of 1961 of $3.4 billion, you get $13.6 billion for the entire year, projecting it through the entire year.

Now, then, if we take exports of $5 billion for the first quarter of 1961 and project it for the entire year, we will get $20 billion. So the difference between your imports and exports will run $6.4 billion.

The CHAIRMAN. Run what?

Mr. FLUES. $6.4 billion, plus——

Senator KERR. Mr. Chairman, I don't see how it is they can give you the figures for the first quarter of 1961 and can't give you the figures for the first quarter of 1960.

Mr. FLUES. We can supply that, sir, we just took the year as a whole.

Senator KERR. If you did that, the committee might do its own figuring.

Mr. FLUES. Yes, sir.

(On June 28, 1961, the Secretary of the Treasury submitted to the chairman a letter commenting on the balance of payment statistics, and transmitting for inclusion in the record of this hearing a standard table of the Department of Commerce for the years 1959 and 1960, as it appears on pp. 12 and 13 of the Survey of Current Business for June 1961, and a revised table by the Department of Treasury giving the balance of payments of the United States, 1957 through the first quarter of 1961. On July 7, 1961, the Secretary of the Treasury submitted another letter to the chairman giving an analysis of improvements in the U.S. balance of payments during the first quarter of 1961. The letters and tables referred to appear in the record beginning on p. 118.)

Senator KERR. In connection with the question you have asked about the $5 billion favorable on balance between exports and imports last year——

Mr. FLUES. It is $4.7 billion.

Senator KERR. $4.7 billion—it would be pertinent to ask how much of that was the result of the Government's export, of Government sponsored exports, of military products, lend-lease, goods that were given by this Government to other governments, and included in the total of exports.

Mr. FLUES. That would be somewhat over $2 billion.

Senator KERR. So that in order to get the real balance you would have to deduct that from the $4.7 billion, would you not? You did not get dollars back for it, did you?

Mr. FLUES. That is correct.

Senator KERR. So that as far as the dollar balance is that transferred on the one hand by us for that which was imported and on the other hand by foreign countries for which you exported, there was not a $4.7 billion balance.

Mr. FLUES. If you are making that deduction, that is correct.

The CHAIRMAN. What about the food we give away, is that included?

Senator KERR. That is part of the $2.7 billion.

The CHAIRMAN. Is the food we give away included in the $2.7 billion?

Mr. FLUES. In the $2 billion-plus figure, not in the $2.7 billion.

The CHAIRMAN. How do you figure, then——

Senator KERR. There was not a $4.7-billion surplus as between exports and imports, that is a fictitious figure.

The CHAIRMAN. Do you not think the food is especially fictitious, because we get nothing whatever for that. You mean you included value of all the wheat and everything we send abroad, for which we get nothing?

Mr. FLUES. That is included, sir.

Senator KERR. Then the answer is "Yes," is it not?

The CHAIRMAN. Is that included in the other figure you gave, the food?

Mr. FLUES. Among these grants and credits.

May I have Mr. Schaffner comment on that?

The CHAIRMAN. Let's start with the $4.7 billion, it is what your paper shows here. What should we deduct?

Senator KERR. For the things for which we didn't get any dollars.

The CHAIRMAN. For which we didn't get any money, how much should we deduct from this favorable balance of $4.7 billion?

I think it is very deceitful to do this, to publish figures on a dollar basis when we didn't receive any dollars.

Mr. SCHAFFNER. Mr. Chairman, the $4.7 billion figure is, as you point out, the difference between this $19.4 billion, our export, and the $14.7 billion of imports.

Now, in the $19.4 billion of exports are these goods that you referred to for which we have not received dollars.

The CHAIRMAN. Yet you put a dollar mark on it and said that we did receive it in dollars, or indicated it.

Mr. SCHAFFNER. The way this is handled is this. On the other side of our balance of payments here is this item, U.S. Government grants and credits. So that you have an offsetting entry under that item for the exports that go out without our getting payment.

Senator TALMADGE. How much do the grants amount to?

Mr. SCHAFFNER. Well, the total here for U.S. grants and credits last year gross was $3.4 billion.

The CHAIRMAN. If that is $3.4 billion, and the other figure was $4.7 billion, we actually had a cash income above the outgo of $1.3 billion, then.

Mr. SCHAFFNER. Sir, the U.S. Government grants and credits takes other forms than commodities. The $4.7 billion is a commodity surplus figure, whereas the grants and credits item includes services and other things.

Senator KERR. The chairman asked you how much of the $4.7 billion was not paid for or did not—was not reflected in returning dollars, that is the question that he asked you.

Mr. SCHAFFNER. And the answer, sir, is somewhat over $2 billion.

Senator KERR. How much over $2 billion?

In the neighborhood of $2½ billion, $2¾ billion?

Mr. SCHAFFNER. Between 2 and 2½, sir.

Senator KERR. So the minimum, the $4.7 billion, shoud be reduced before you get to the grants that might have come back would be $2¼ billion, is that a reasonable statement?

The CHAIRMAN. In other words, it cuts the figure practically into half, and I do not know if any of these grants have come back. We rarely collect anything on the money we loan abroad.

I would like to ask you about that. How much money last year did we collect on those grants, and what was spent back here?

Senator KERR. The reporter does not act to the shaking or nodding of the head.

The CHAIRMAN. I think we ought to get a full statement of that. Anybody that would read this record would think that we had a favorable balance of dollars on our export and import trade of $4.7 billion. Now, it appears that a part of it is involved in gifts and other things and we get nothing in return, and yet you put the dollar value on it.

Mr. SCHAFFNER. Sir, as I said, of this amount that is sent out, this somewhat over $2 billion that is sent out, we do show that we do not get dollars back for that in effect by putting up on the other side of our balance of payments, this item of U.S. Government grants and credits.

The CHAIRMAN. Where does it come from? Do you have a list? What nation is paying us anything back? Who is giving us anything back on foreign aid?

Mr. SCHAFFNER. There are the items, as you say, sir, for which we did not get at least an immediate return. In some cases, there is a longer run return, it is loan transaction which eventually——

The CHAIRMAN. I understand that is what you thought it should be. There should be some credit here on what you call the U.S. grants and credits in this statement, is that correct? In other words, some of that comes back?

Mr. SCHAFFNER. Over a period of time, where it is a loan, a U.S. Government loan.

The CHAIRMAN. What came back last year, and what nation paid it? I do not know of any nations that are paying us back anything. We have given $80 billion away to these nations, and if any of them have paid it back except maybe a few loans they have made, I do not remember it.

You do not use the word "loan" here, you said "credits and grants." You certainly do not get anything back on grants.

Mr. SCHAFFNER. That is correct, sir. On loans there was roughly $600 million repaid last year.

The CHAIRMAN. What is $600 million out of $80 billion? That is what we have spent in foreign aid since we started.

Senator KERR. $84 billion.

The CHAIRMAN. $84 billion, Senator Kerr says.

We went over there and got Germany to pay $600 million back, didn't we, a year in advance, and she thought that she was doing us a great favor by trying to get us out of a hole which these payments that we have made abroad put us into. And that is all I know that has come back.

What else has come back? If Germany owes some more money maybe she will pay, because Germany is much sounder today than the United States, the German mark is sounder. We have got $100 million of German marks in our portfolio, because the Treasury thinks that they are sounder money than the American money, and we are not getting any interest on them.

Is that right?

Mr. SCHAFFNER. I think the Export-Import Bank has had a very good record of collection on its loans, sir.

Senator KERR. Now what is the answer to the Senator's question on how much interest we get on these marks in our portfolio?

The CHAIRMAN. Is it true we have got $100 million of German marks in our portfolio?

Mr. SCHAFFNER. I am not familiar with that figure, sir.

The CHAIRMAN. That is not in your department.

Mr. Flues, do you know about that?

Mr. FLUES. No, sir; I do not.

The CHAIRMAN. Who does know?

Senator KERR. That is an unfair question.

Pardon me, Mr. Chairman.

The CHAIRMAN. And we have invested $100 million of our money in German marks, we are entitled to know, Congress is, if it has been done, and why it has been done, and so forth.

So I would like to ask somebody in the Treasury to make an explanation to this committee of whether that is true or not true. I understand it is true.

Senator SMATHERS. Mr. Chairman—have any of you arrived at a net figure as to what actually our balance—do we have a plus factor on balance of payments?

The CHAIRMAN. I do not know what we have, I thought we started with a plus factor, but it seems we have reduced it over half.

Senator LONG. Might we just get the rest of that list read in the record, Mr. Chairman, and then ask any questions we want to ask about these other items?

How much do you expect these items are going to save? You said at first that you hoped that you are going to expand your exports over imports. I am not at all persuaded that the first quarter showing indicates that you are going to do that.

Please read the rest of them.

(The following was later received for the record:)

SUMMARY OF MEASURES RECOMMENDED IN CONNECTION WITH BALANCE OF PAYMENTS

I. MEASURES TO EASE THE SHORT-TERM DEMAND PROBLEM

1. Measures to improve international monetary institutions—under active study by Treasury staff under direction of Under Secretary for Monetary Affairs.

2. Use of U.S. drawing rights in the International Monetary Fund—consideration of exercise if and when appropriate, and efforts to facilitate drawings by other Fund members in convertible currencies other than the dollar.

3. Special interest rates for dollar holdings by foreign governments and monetary authorities—legislation to exempt from regulation the rates of interest paid by banks on time deposits held in this country by foreign governments or monetary authorities; legislation to encourage foreign dollar holdings by unifying the tax treatment of foreign central banks' earning assets in this country.

4. Prohibition of holding of gold abroad by Americans—enforcement plans put into operation; Bureau of Mint licensing procedures promulgated for foreign branches of U.S. companies using gold abroad for industrial, professional, or artistic purposes.

II. MEASURES TO CORRECT THE BASIC PAYMENTS DEFICIT AND ACHIEVE LONGER TERM EQUILIBRIUM

1. Action by the Senate to approve the organization for economic cooperation and development—favorable action taken.

2. Export promotion—regional expansion committees active in organizing clinics, workshops, and trade meetings on this subject; U.S. foreign trade centers organized and planned; followup procedures established.

3. Cost and price stabilization—Advisory Committee on Labor and Management created to encourage productivity gains, advance automation, and encourage sound wage policies and price stability, and other measures designed to make American goods competitive in international markets.
4. Export guarantees and financing—program developed by Export-Import Bank comparable to those offered by foreign countries, designed to place our exporters on a basis of full equality with their competitors in other countries.
5. Foreign travel to the United States—legislation to encourage foreign travel; promotional campaign underway.
6. Agricultural exports—program to expand under active implementation by Department of Agriculture.
7. Policy on economic assistance—emphasis placed on procurement of American goods.
8. Tariffs, restrictions and discriminations against American exports—continuance of efforts toward removals of remaining restrictions against American exports, and negotiation in GATT for tariff reduction by foreign countries for the benefit of our exports.
9. Promotion of foreign investment in the United States—enlisting interest of foreigners who may wish to invest in the United States, and efforts toward achieving higher degree of liberalization of laws and regulations of European countries with strong reserve positions to facilitate such investment.
10. Abuse of "tax havens"; taxation of American investment abroad—legislation to prevent abuses and consideration of whether present laws unduly stimulate capital flow abroad through special preferential treatment.
11. Foreign assistance contribution to the less-developed countries and the common defense—conferences and special missions undertaken with this end in view.
12. Reduction of customs exemption for returning American traveler—legislation to lower tourist duty-free exemption from $500 to $100.
13. Centralized review of dollar outlays—active consideration by Bureau of Budget and Treasury, in consultation.
14. U.S. military expenditures abroad—reductions planned in dollar expenditures abroad in various fields, including smaller purchases by military personnel of foreign goods and facilities; prohibiting transportation of foreign cars at Government expense; stepping up savings bond drive; allowing special $50 gift duty-free legislation to lapse June 30, 1961.

Mr. FLUES. Here is one item guaranteeing exports, helping to finance them where needed, that is one effort to improve our export picture.

And, then, as you know, we are trying to attract foreign tourist travel to the United States.

The Department of Agriculture is seeking to increase the amount of agricultural exports.

We are trying in GATT and other places to get tariffs and restrictions and discriminations against American exports removed.

Senator WILLIAMS. How long have you been trying that?

Senator BUTLER. How long has that been going on? For years and years, hasn't it?

Mr. FLUES. Yes.

Senator BUTLER. Any hope of succeeding?

Mr. FLUES. I would hope so.

Senator DOUGLAS. Do you propose to reduce imports of textiles from Hong Kong?

Senator LONG. Might I just ask, Mr. Chairman, that prior to these other questions we let the witness read this list, because I would like to know what they are, and then I would be glad to yield for the other questions.

Mr. FLUES. We are seeking to promote foreign investment in the United States, and this gets back to trying to relieve the pressure on Western European—trying to relieve the pressure, in effect, in Western European countries in the form of restrictions against capital investment abroad. The Department of Commerce has a program to stimulate that form of investment.

Senator SMATHERS. Isn't that completely inconsistent with what you are now talking about?

Mr. FLUES. No, sir; I don't believe it is.

Senator SMATHERS. Read that again.

Mr. FLUES. What we are seeking to do is to get the European countries to loosen or eliminate their restrictions on foreign investment, with the hope that we can attract some of that foreign investment to the United States. And we are also seeking to correct the situation of tax havens.

Senator BUTLER. Mr. Flues, you said something about encouraging exports.

Mr. FLUES. Yes, sir.

Senator BUTLER. But you didn't complete it. What was that? What is the program?

Mr. FLUES. One is, of course, an export guarantee; and assisting in financing is one measure of helping.

Senator BUTLER. But that is one point I wanted to bring out. You are going to increase your exports by having the Government of the United States guarantee the bill of the domestic producer; is that the program?

Senator LONG. Might we just get the rest of these items?

Mr. FLUES. If you are trying to meet the foreign competition, that is done, as you know, by many foreign countries.

Senator BUTLER. I know it is. I am just pointing out what the program is, the guarantees of credit would be guaranteed by the Government of the United States.

Mr. FLUES. That is correct.

Senator BUTLER. And then anybody that makes anything could go over with a free hand and sell anything they wanted to sell and pass the bill on to Uncle Sam. That is a good way to get exports, but it is not profitable.

Mr. FLUES. Now, you ask how also in other ways we are helping our export picture. We are seeking to improve and increase the number of commercial representatives abroad and their facilities. The State Department and the Department of Commerce are in a joint effort to do that.

The CHAIRMAN. You have not come to any legislation yet, have you?

Mr. FLUES. No, sir.

The CHAIRMAN. Go ahead.

Mr. FLUES. These are all measures that are being considered and worked on now.

Senator LONG. Is that all of them, or do you have some more?

Mr. FLUES. For instance, there are two new foreign trade centers to be built at London and Bangkok, items like that which, we hope, will increase our export trade.

Senator LONG. But of all these items, out of all of them there is not one on which you can place a reliable dollar estimate, or even a reasonable dollar estimate. All of them are speculative, they guess at something, they encourage something; but what is going to come out of it you don't know?

Mr. FLUES. That is right; we don't know at this time.

Senator LONG. I am not going to argue about the thing because I am on the same team you are on, at least I would like to think so. But here if Senator Douglas had an amendment on the Sugar Act, that would with less trouble save more money than all the rest put together.

But the administration defeated that——

Senator DOUGLAS. Yes; we faced the opposition of the administration on that.

Senator LONG. And that was $150 million extra as a bonus payment on sugar when we are already paying a good price for the sugar, and the people would have been happy to sell it at the existing price, at the worth price—would have been glad to move the sugar to us.

And then we look down here and see all these big items, where you would have had some control.

Now, if we are really running short—if our bank is not solvent—it looks like that is how it is getting to be—there are some items we have real control on. We have control—for example, we can't control our export portfolio, but we can surely control our import; that we have some power over. We can control the amount of grants-in-aid that we are voting away from here; we can say something about the investments abroad, how much we are going to let go out of here. We can say something about this $3 billion item for these military expenditures, troop payments; and also some of these nonmilitary services are being paid for by the U.S. Treasury under various acts to ship things here and there in foreign bottoms.

You have items where you really have some power to control them, and the big ones it seems to me you are not touching. You are dealing in terms of all these speculative things that might work and might not.

Now, I would like to ask you about this aspect. We are told now that we have to hold interest rates high, to encourage foreigners not to ask us to pay them in gold, not to ask for gold payment on these dollars, hold the interest rates high on short-term securities—and most of our securities are short-term securities. Isn't that about the same thing as having a bank that is insolvent and telling the investor there that "If you leave the money in the bank we will pay you a higher interest rate," when the real answer would be that you ought to conduct your business in such a way that the bank is solvent whether they make a run on the bank or not? Isn't that about what that amounts to?

Mr. FLUES. Senator, you are covering a rather wide spectrum.

Senator LONG. Let's just take this last issue.

Mr. FLUES. I came up here to testify to the exemption bill.

Senator LONG. If you are running a bank, shouldn't you run your bank in such a manner that if the investors want to call for payment yau can pay them?

Mr. FLUES. If I were a banker, I would certainly want to be in that nice position.

Senator LONG. Now, wouldn't it be an unsound concept to operate you bank in such a fashion that you have to tell these fellows you will pay them higher interest rates if they will leave their money in your bank because you can't come up with cash?

Mr. FLUES. Well, sir, there are many differences between running a bank and running a nation.

Senator LONG. Well, we haven't gone off the gold standard for international payments, have we? We still recognize it, don't we, and isn't gold the only international currency that is recognized by all nations? We can't make them take dollars, can we? They are entitled to demand gold payments.

Mr. FLUES. That is true; at least the central banks and foreign governments.

Senator LONG. Then, as a practical matter, doesn't it mean that we are saying we will pay high interest rates in order to urge people to leave their gold here? Doesn't that amount to the same proposition as a banker having his bank in such shape that he can't pay up and urging people to leave the money there on the theory that he will pay higher interest rates if they will leave the cash there; isn't it the same principle?

Mr. FLUES. Well, I say, again, sir, that this is in a different area than the private bank. And, furthermore, it is a little outside, I believe, the current inquiry on this bill.

Senator LONG. I see I am not going to get a direct answer to that question.

But if you are operating as a bank you should do it in such a manner that you would be solvent whether the other guy wants you to be solvent or not.

Mr. FLUES. That is correct.

The CHAIRMAN. Mr. Flues, I have got a question I would like answered.

Mr. FLUES. I have not completed my statement, if you would like me to finish it.

The CHAIRMAN. I would like to get this in.

Senator Douglas wants to ask you some questions tomorrow morning.

Mr. FLUES. All right, sir.

The CHAIRMAN. Now, on this balance of trade—and this is a statement you have made here—isn't it true that the imports are on foreign value, is that correct? In other words, the imports of $14.7 billion are not on landed value, they are on foreign value, are they not?

Mr. FLUES. That is dollar value, $14.7 billion is dollar value.

The CHAIRMAN. It is foreign value translated into dollars?

Mr. FLUES. That is correct.

The CHAIRMAN. And the exports are on the American or U.S. value?

Mr. FLUES. Correct.

The CHAIRMAN. Now, would that make any difference in this comparison?

Mr. FLUES. No. Each, after all, is being expressed in American dollars, each figure.

The CHAIRMAN. Are they on an equal basis?

Mr. FLUES. The foreign values have been translated into American dollars. When the transaction is handled, it is converted at that time into American dollars at the official rate.

The CHAIRMAN. Now, there is one other question that I would like to ask, and if you can't answer it today you can answer it tomorrow morning.

Are there any American firms that have established businesses abroad and shipped back into this country their products?

Mr. FLUES. Yes, there are a number that have done that.

The CHAIRMAN. They are getting concessions by reason of going abroad in the field of taxation, and then by reason of the lower labor rate abroad and lowering the tariff, they are able to ship back into this country and compete with American industry, although they are American companies, is that correct?

Mr. FLUES. They certainly have been shipping back to this country, sir.

The CHAIRMAN. Have you got a list of those that do that?

Mr. FLUES. No, sir, I do not.

The CHAIRMAN. Could you explain to the committee or get somebody to do it as to whether or not they do that by reason of any tax advantages that these foreign companies receive as compared to American companies?

Mr. FLUES. We will do our best to at the earliest practicable date.

The CHAIRMAN. The reason I asked that question is that I think the unemployment is one of the greatest dangers this country has, and if we encourage American industry to go abroad and use the cheap labor rates abroad, and then reduce the tariffs and have them shipped back to this country and thereby deny this particular work to the American worker, we certainly are going to increase the unemployment, isn't that right?

Mr. FLUES. That could be the result.

The CHAIRMAN. Of course I recognize the right of the companies to go abroad, but I think if there is any tax concession that entices them to go abroad and send back goods to this country, that that should be investigated.

Mr. FLUES. I understand that there is legislation pending now tending to correct some of these situations abroad. I previously referred to the tax haven situation as one.

The CHAIRMAN. Is there any substantial shipments from abroad from those American owned factories?

Mr. FLUES. Coming to this country, sir?

The CHAIRMAN. Coming to this country, yes.

Mr. FLUES. I have no figures on the size of those imports into the United States from such sources.

Senator SMATHERS. You can get that, can you not? Do not General Motors and all these automobile companies have foreign subsidiaries which ship back to the United States that which they manufacture overseas?

(The following was later received for the record:)

*Exports of U.S. companies abroad to the United States, by area 1957*

[Millions of dollars]

| Areas: | Exports to U.S. |
|---|---|
| Canada | 1,363 |
| Latin American Republics | 1,563 |
| Western Hemisphere dependencies | 114 |
| Europe | 195 |
| Africa | 104 |
| Asia | 291 |
| Oceania | 17 |
| International (oil tanker services) | 120 |
| Total | 3,770 |

NOTE.—Will not add to total due to rounding.

Mr. FLUES. Senator, the advent of the compact car in the United States has substantially halted the importation of foreign made automobiles. The only foreign company that has been able to do much in the way of the foreign imported car is still the Volkswagen.

Senator SMATHERS. Are you saying that there is no longer any competition from foreign made cars?

Mr. FLUES. There will always be competition. I imagine that they will try to improve their export situation in order to create a big demand on the American market.

Senator SMATHERS. I think the Volkswagen is pretty much foreign owned.

I think what the chairman has reference to, isn't it a fact that the Chrysler Corp., for example, has an investment in an automobile concern in Germany?

Mr. FLUES. Yes, and Ford has investments in England,. But those foreign cars have been pretty well met in the competition by the compact automobile.

Senator SMATHERS. Can you establish that fact?

Mr. FLUES. Yes; we can establish that fact; we will be glad to give you some figures on it.

There are some foreign cars, for instance sports cars, like the MG, that have no competition in the United States because the American manufacturers don't produce a similar type of car. There is an American market here, therefore, that is not met by anybody but this foreign manufacturer.

But we will get these figures for you.

The CHAIRMAN. Would it be possible to have them tomorrow morning?

Mr. FLUES. We will do our very best, sir.

(The following was later received for the record:)

*Imports of passenger automobiles*

| | Number of automobiles | Value |
|---|---|---|
| 1959 | 668,070 | $734,916,974 |
| 1960 | 442,622 | 513,650,137 |
| 1st 3 months of 1960 | 177,027 | 196,956,916 |
| 1st 3 months of 1961 | 66,089 | 73,561,364 |

The CHAIRMAN. Understand, what the chairman has in mind is not a criticism of American industry going abroad. But it is a criticism if by our own laws, tax laws and reductions of the tariff, we create a situation whereby these American companies that go abroad can use cheap labor abroad and ship back into this country in unfair competition with American labor.

That is what I have got in mind.

I submit for the record a letter and accompanying statement from Mr. S. G. Tipton, president of the Air Transport Association. Mr. Tipton advocates an amendment which would make no change in the present allowance on purchases in Canada and Mexico but would reduce from $500 to $200 the allowance on purchases elsewhere in the world for a 2-year period.

(The letter and statement follow:)

AIR TRANSPORT ASSOCIATION,
*Washington, D.C., June 21, 1961.*

Re H.R. 6611.
Hon. HARRY F. BYRD,
*Chairman, Committee on Finance,*
*U.S. Senate,*
*Washington, D.C.*

DEAR MR. CHAIRMAN: We wrote you on May 24 expressing some concern that the House bill seemed to impose an unduly severe restriction in the amount of duty-free goods returning residents might bring back into the United States.

The attached memorandum amplifies somewhat our views on this subject, pointing out that in some respects it seems to work in the opposite direction of the bill just passed by Congress, S. 610, encouraging foreign visitors to spend more money in the United States. The amendment we have suggested would treat our next-door neighbors, Canada and Mexico, as at present, while reducing the duty-free allowance on goods purchased elsewhere in the world.

We appreciate the committee's continuing consideration of these views and request that our memorandum be made a part of your record.

Very truly yours,

S. G. TIPTON.

The Air Transport Association of America represents substantially all of the certificated scheduled airlines of the United States. Whether engaged in domestic or foreign commerce, all of the airlines have a vital interest in the determination of government policy related to international travel.

The airlines are concerned about some of the effects of H.R. 6611 and object to it in the form in which it was passed by the House. They recommend a modification of the bill.

If enacted in its present form, H.R. 6611 would reduce by 80 percent, the value of purchases our returning residents are permitted to bring back from abroad duty free. Under paragraph 1798 of the Tariff Act of 1930 as amended, returning American residents are today permitted to bring back personal possessions purchased abroad valued up to $200 duty free once every 30 days if they are absent from this country at least 48 hours. In addition, such returning residents may claim an additional $300 duty-free allowance once every 6 months if they are absent at least 12 days. Since the American tourist is not likely to take more than one foreign trip in any one year, the combined $500 duty-free allowance is usually available to him at one time.

H.R. 6611 in its present form would remove both the $200 and the $300 allowance until July 1, 1963, and would substitute in lieu thereof a $100 allowance for all returning American residents who have been abroad at least 48 hours. The purpose of this legislative proposal, as explained in House Report No. 384, is to provide a temporary reduction from $500 to $100, in the amount of purchases abroad that a returning resident of the United States may bring back into this country free of duty, as part of a program to counteract our present unfavorable balance-of-payments position. House Report No. 384 goes on to explain that the reduced amount of tourist exemption called for by H.R. 6611 will, "still leave the United States in the position of extending to its returning tourists more favorable duty free treatment of articles purchased abroad than do most other countries of the world, and that the enactment of the bill will be of assistance in the present efforts to reverse the unfavorable balance-of-payments position of the United States."

In another such effort to curb the balance-of-payments deficit, Congress recently favorably considered a bill, S. 610, to establish a U.S. travel service for the purpose of encouraging increased travel to the United States by residents of foreign countries. In order to carry out the purpose of this legislation, the Secretary of Commerce was directed by Congress to, among other things, conduct a comprehensive promotion program; to encourage the development of tourist facilities; and encourage the simplification, reduction, or elimination of barriers to travel, and the facilitation of international travel generally.

During the course of the hearings on the travel bill, S. 610, expert witnesses testified at length as to the urgent need for removing barriers to travel. Amongst the various barriers mentioned in this connection were currency restrictions and other related economic controls imposed by certain foreign countries restricting the travel of their citizens. There was general agreement that to persuade foreign governments to eliminiate or ease such restrictions, would be one of the principal activities our Government should undertake to increase the flow of travel to the United States.

While currency restrictions affecting travel to this country have been considerably eased in recent years, much work remains to be done in order to persuade foreign governments to ease duty-free allowance restrictions.

In other words, while citizens of many foreign countries can acquire the necessary exchange for a trip to the United States, restrictions are imposed on the value of goods purchased here, or on specific American commodities, which they may bring home without paying duty.

It would, therefore, seem inconsistent to so drastically reduce our own duty-free alowance at a time when we are engaged in a program to promote and stimulate travel to the United States by citizens of other countries, and the purchase of our goods by such foreign tourists. This is especially true if the proposed reduced duty-free allowance contributes little toward a solution of our balance-of-payments position.

The Bureau of Customs has indicated that less than 3 percent of all returning American tourists in 1959 purchased articles abroad valued at more than $500, and that less than 13 percent had purchases valued at more than $200. In hearings before the House Appropriation Subcommittee on March 6 of this year, the Bureau of Customs estimated that spending abroad may only be reduced between $140 and $175 million if the allowance is cut to $100, and about $80 million if the allowance is cut to $200. Customs officials have reiterated that these are estimates in every sense of the word, since no one is in a position to say definitely to what extent spending abroad will be reduced if duty-free allowances are lowered.

While the question of duty-free allowances may warrant consideration at this time, the reduction to $100 provided for in the House bill is rather severe, both from the point of view of the American public and reaction abroad. We urge the committee to consider the proposed reduction in the light of efforts to liberalize similar foreign customs allowances in connection with the program to promote travel to this country.

Current duty-free allowances here stem from legislation enacted in 1948 and 1949 for the purpose of encouraging foreign travel as well as to provide a realistic dollar value allowance in terms of actual purchasing power. From 1897 to 1948, the duty-free allowance was $100—the same amount as is being proposed today. If this amount was unrealistic in 1948 in terms of purchasing power, it is even more so in 1961. Further, our national policy of encouraging foreign travel by American citizens should not in any way be compromised unless national security or national economic requirements far outweigh other public considerations.

We urge the committee to give consideration to the attached amendment which would make no change in the present allowance on purchases in Canada and Mexico but would reduce from $500 to $200 the allowance on purchases elsewhere in the world for a 2-year period.

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AIR TRANSPORT ASSOCIATION OF AMERICA,
*Washington, D.C., May 24, 1961.*

Hon. HARRY F. BYRD,
*Chairman, Committee on Finance,*
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: It is our understanding that H.R. 6611, which passed the House on May 17, has been referred to your committee. If enacted in its present form, H.R. 6611 would reduce by 80 percent the value of purchases our returning residents are permitted to bring back from abroad duty free.

Under paragraph 1798 of the Tariff Act of 1930, as amended, returning American residents are today permitted to bring back personal possessions purchased abroad valued up to $200 duty free once every 30 days if they are absent from this country at least 48 hours. In addition, such returning residents may claim an additional $300 duty-free allowance once every 6 months if they are absent at least 12 days. Since the average American tourist is not likely to take more than one foreign trip in any one year, the combined $500 duty-free allowance is usually available to him at one time.

Although the Bureau of Customs has indicated that less than 3 percent of all returning American tourists in 1959 purchased articles abroad valued at more than $500, and that less than 13 percent had purchases valued at more than $200, there are those who believe that some temporary reduction in the duty-free allowance might well contribute toward a solution of our balance-of-payments problem.

However, in hearings before the House appropriations subcommittee, the Bureau of Customs estimated that spending abroad may only be reduced between $140 to $175 million if the allowance is cut to $100, and about $80 million if the allowance is cut to $200. Customs officials have reiterated that these are estimates in every sense of the word, since no one is in a position to say definitely to what extent spending abroad will be reduced if duty-free allowances are lowered. Furthermore, the Commissioner of Customs has indicated that he will be required to ask Congress for an additional $1 million in order to hire about 150 additional customs employees to carry out the provisions of the House bill.

We agree that the matter of duty-free allowances may warrant consideration at this time, but we are of the opinion that the reduction to $100 provided for in the House bill is rather severe, both from the point of view of the American public and reaction abroad. Reaction abroad is particularly noteworthy in this respect, since we are now engaged in a program to promote and stimulate travel to the United States by citizens of other countries and the purchase of our goods by such foreign tourists.

Current duty-free allowances stem from legislation enacted in 1948 and 1949 for the purpose of encouraging foreign travel as well as to provide a realistic dollar value allowance in terms of actual purchasing power. From 1897 to 1948, the duty-free allowance was $100—the same amount as is being proposed today. We submit that if this amount was unrealistic in 1948, it is even more so in 1961.

We urge the committee to reconsider the reduction proposed by the House and, in the event some temporary reduction is determined necessary, to give consideration to the amendment contained in the attachment.

Very truly yours,

S. G. TIPTON.

PROPOSED AMENDMENT TO THE TARIFF ACT

That paragraph 1798(c)(2) of the Tariff Act of 1930, as amended (19 U.S.C. 1201, par. 1798(c)(2)), is amended by striking out "$300 in addition, if such person" in subdivision (B) and inserting in lieu thereof "300 in addition, if such person arrives from a contiguous country before July 1, 1963, or $300 in addition, if such person arrives from any country on or after July 1, 1963, and in either case he * * *."

The Chair will have to go to the floor because there is a bill pending from the Finance Committee. And we will recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 10 a.m., Friday, June 23, 1961.)

# DUTY-FREE ALLOWANCE OF RETURNING RESIDENTS

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**FRIDAY, JUNE 23, 1961**

U.S. Senate,
Committee on Finance,
*Washington, D.C.*

The committee met, pursuant to notice, at 10:10 a.m., in room 2221, New Senate Office Building, Hon. Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Douglas, Williams, Carlson, and Bennett.

Also present: Elizabeth B. Springer, chief clerk.

The Chairman. The committee will come to order.

Mr. Flues, will you continue reading your manuscript.

## STATEMENT OF HON. A. GILMORE FLUES, ASSISTANT SECRETARY OF THE TREASURY; ACCOMPANIED BY DAVID B. STRUBINGER, ASSISTANT COMMISSIONER OF CUSTOMS—Resumed

Mr. Flues. In general, the $100 exemption provided for in the proposed bill is far more generous than that provided for by other countries for their returning residents. Duty-free allowances in the European countries which grant them range from $12 to $50. In Latin America the usual range is from $50 to $100. Canada grants $100 every 4 months—as compared with our proposed $100 every 30 days. (Canada grants an additional $200 every 12 months but only with respect to Canadians returning home from outside of the North American Continent.)

Of course, one cannot be generous, as we have been, over a period of years without getting people used to such generosity and coming to expect it as a matter of right. Consequently, you are likely to hear complaints that the return to a $100 exemption after 13 years of more luxurious treatment will cause hardship.

But no traveler to foreign lands can claim he has an inherent right to purchase large amounts of merchandise, which shall be duty free, especially when those who stay at home—whether they travel within the United States or stay in one place—must pay duty on everything they import. We figure that the average rate of duty charged returning tourists on what is brought in over the exemption is about 15 percent. This means that with a $100 exemption the tourist can bring back $500 worth of personal purchases if he pays about $60 in duty. I do not see why, under the circumstances we have before us today, he should not be asked to pay the $60 in duty if he wants to make these purchases.

Indeed, our figures show that well over 90 percent of returning tourists claim $200 or less in exemption. Their sacrifice, therefore, on passage of this legislation would average $15 per person if they purchased abroad up to this top $200 figure.

I do not feel this is a very large sacrifice to ask of persons who are fortunate enough to afford a trip abroad, especially when viewed against the background of the other expenses of such a trip.

Furthermore, well over 50 percent of our returning tourists bring in not more than $100 of foreign purchases. They are not called upon by this bill to make any sacrifice at all.

We still have a balance-of-payments situation that must be brought under control. Here is one method that can help. I recommend that it be so used.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Any questions?

Senator CARLSON. Just one or two thoughts, Mr. Chairman.

I believe you just stated that 90 percent of these tourists bring in $200 or less; and 50 percent, $100 or less; and, therefore, the 50 percent would not be affected at all by this bill?

Mr. FLUES. Yes, sir.

Senator CARLSON. Under the proposal it is $100, as I read the bill, if you are out 48 hours, is that correct?

Mr. FLUES. That is correct.

Senator CARLSON. What would you think if we tried to—if the committee should decide to increase this to $200 providing they stayed 7 or 10 or a certain number of days, and not leave it at just the one figure, $100 for 48 hours; what would happen?

Mr. FLUES. As I understand your question you are asking what would be the results if we were to cut the figure down only to $200 rather than to $100; is that it?

Senator CARLSON. Well, my thought is that these folks that go over and stay for some length of time, spend considerable money over there, they are willing to spend it, whether they bring it back in goods or not, and I do not think, just reading the statistics, that this $100 to $200 increase for these people that stay a certain length of time would make much difference in the balance of payments.

That was my point in raising this.

Mr. FLUES. Well, sir, if we had an exemption of $200 rather than the $100, roughly, this would cut down on the number of conserved dollars, as we may call them, by approximately 50 percent.

This would be 50 percent, let us say, of the figure of $167 million, which Senator Bennett calculated yesterday on his statistics, or 50 percent of the area in which we calculated it—between $145 million and $175 million.

Roughly, it would cut down that amount by 50 percent. So you can say that somewhere between $65 million and $80 million would be conserved in dollars if we were to have the exemption figure of $200 rather than $100.

Senator CARLSON. I agree with you, Mr. Flues, that would be true. But, as I see it, if a person can spend 48 hours over there and bring back $100 worth of goods, and he has to spend 30 days in order to bring back $200, the difference in the balance of payments is that the man spends money over there for 30 days, as distinguished from the man who stays over there for 48 hours, in addition to this $100 worth of goods that he brings back. That is the point I can't quite get clear in my mind.

Senator BENNETT. Are you through?

Senator CARLSON. Yes.

Senator BENNETT. Just to clear up one little problem that remained in my mind after yesterday's discussion, if an American resident of El Paso goes across the bridge to Juarez, is he now limited to $100 every 30 days?

Mr. FLUES. That is correct, under the new bill.

Under the present law, it is $200.

Senator BENNETT. Every 30 days?

Mr. FLUES. Every 30 days; yes, sir.

Senator BENNETT. Now, I have only crossed that bridge once, but I was very interested to see that nobody seemed to stop and date anything. I had the impression that people could go across the bridge and buy what they wanted unless they brought back $200 worth, they just passed through.

And how do the customs people know that this man was there 20 days ago?

No names are taken.

Mr. FLUES. Well, of the millions of people that pass back and forth across the borders of Mexico and Canada, and the number is approximately 100 million per year—Customs by its examination of people, of the declarations which are filed, has figured out that only about 1 million of that 100 million are in the category of tourists. These are the people that go across the borders to buy something and bring it back into the United States.

Obviously, with the tremendous flow of people back and forth across the borders, customs has a tremendous job of sorting these people out. But they do the best they can. And their experience has shown pretty well that their calculations are correct.

Senator BENNETT. As I remember it, when I crossed the border to Canada and came back, I had to go through the same routine as when I went abroad to Europe, I had to have a health certificate, and I had to have—I don't think I had to have a passport, did I?

Mr. FLUES. No.

Senator BENNETT. No, I didn't have to have a passport, but I went through customs, but when I crossed the bridge into Juarez I was just one of a line that finally passed a window, and nobody stopped to ask me for any documents or anything.

Now, it seems to me that this must be a situation in which people can go back and forth freely and nobody knows whether it is one day or 20 days since they went over there.

Mr. FLUES. Senator, you are an honest man, and you look like an honest man. The customs people have a pretty good size-up on those who seek to abuse the privilege.

Senator DOUGLAS. What is the mark of an honest or dishonest man?

Mr. FLUES. First, a man who is trying to abuse his rights does it more than once, and quickly acquires a record of this kind of thing. And from that point on, customs has him indexed and is looking for him when he crosses the border.

Senator BENNETT. That is all, Mr. Chairman.

Senator CARLSON. I should state there, Mr. Chairman, that having flown and landed coming out of Mexico into the United States, you do go through customs, and the regular procedure when you are flying and land in a plane and come across the border that way. I might have been one of the suspicious characters.

The CHAIRMAN. Mr. Flues, as I understand it, this duty of 15 percent will bring in a revenue, you estimate, of $25 million, is that correct?

Mr. FLUES. No, sir.

Senator BENNETT. That was my estimate, Mr. Chairman.

The CHAIRMAN. I say, the difference between the $100 and $500 of duty free, by having it $400, you pay the duty, it brings in a revenue of $25 million, is that correct?

Senator BENNETT. May I reply to that?

The CHAIRMAN. That is what I understood you to say yesterday.

Senator BENNETT. Because I produced the figure of $25 million.

If you take the $167 million that represents the amount that would come in over the $100 exemption, and calculate that at an average duty of 15 percent, you get a $25 million revenue that would be produced if people did the same amount of purchasing under a new law that they did under the only law and brought in the same amount.

The CHAIRMAN. The point I am making, I don't care about the amount, is that that has nothing to do with the balance of payments, because that $25 million that was paid was paid in this country.

Mr. FLUES. That is correct.

The CHAIRMAN. Now, you depend on the balance of payments, helping the balance of payments on this 15 percent to purchasers abroad up to $500, is that correct?

Mr. FLUES. Yes, sir.

The CHAIRMAN. Of course, it seems to me that there are a good many ifs in that.

Now, the 15 percent, is that an average—here is a watch that I bought in Switzerland last July; it is a very fine watch and very cheap according to the prices here—I could have afforded to pay 25 or 30 percent on this watch and bring it in.

Mr. FLUES. That is the average, Mr. Chairman.

The CHAIRMAN. What is the duty on watches?

Mr. FLUES. This is a very complicated tariff, Mr. Chairman. Watch movements over 17 jewels are assessed $10.75 each. Cases are assessed at 10 cents each, plus 25 percent ad valorem.

The CHAIRMAN. In other words, the duty is fixed by what is in the watch?

Mr. FLUES. Yes, sir.

The CHAIRMAN. I only make that point because I think that we should understand it clearly that so far as the balance of payments are concerned, the only effect of the legislation you propose is to deter American tourists from buying abroad above $100.

Mr. FLUES. Mr. Chairman, that is correct.

The CHAIRMAN. By reason of the fact that they pay a duty above $100?

Mr. FLUES. Correct. That is one method to conserve these dollars and keep them in this country.

The CHAIRMAN. The fact that you get a revenue from this duty has nothing to do with the balance of payments?

Mr. FLUES. That is true, sir.

The CHAIRMAN. Thank you very much, Mr. Flues.

The next witness is the Honorable Edwin M. Martin, Assistant Secretary of State.

## STATEMENT OF HON. EDWIN M. MARTIN, ASSISTANT SECRETARY OF STATE

Mr. MARTIN. I am Edwin M. Martin, Assistant Secretary of State for Economic Affairs.

I have a very brief statement, if I might read it, Mr. Chairman.

Reduction of the duty-free exemption of returning U.S. residents was proposed to help alleviate the unfavorable balance-of-payments position of the United States.

The duty-free exemption of returning U.S. residents, as provided for in the Tariff Act of 1930, was originally $100 but was raised to $400 in 1948 and to $500 in 1949 as one of the many measures taken by the United States to assist foreign countries in earning dollars at a time when they were undergoing serious balance-of-payments problems.

It is only reasonable that the exemption should be lowered at this time as a possible aid in meeting our balance-of-payments problem.

H.R. 6611 would make such a reduction for a period of 2 years, at which time its effect or need could be reviewed.

Some countries have evidenced their concern that this bill will affect tourist travel to their countries. It should be emphasized that the bill is not intended to reduce the number of Americans traveling abroad. In fact, it is not expected that the bill will, in any way, affect the number of American tourists going abroad. But the reduction in the duty-free allowance of returning U.S. residents is expected to affect their expenditures for personal purchase of goods to be brought to the United States.

Even at the reduced level of $100, the U.S. duty-free allowance is more liberal than the allowance of most other countries. In response to a circular instruction from the Department which was transmitted to all Foreign Service posts on December 6, 1960, the Department learned that only about a half-dozen countries have a duty-free allowance which might exceed $100.

For the above reasons, the Department supports the enactment of H.R. 6611.

Also, Mr. Chairman, I was asked yesterday to provide information on two points. (See pp. 19 and 20 for previous discussion and request.)

I don't know whether you would like me to read that into the record at this time or not.

The CHAIRMAN. What were the points?

Mr. MARTIN. One was the question of what is the tourist exemption which now applies to returning residents of the Netherlands Antilles.

The other was the same question as applied to the Bahamas.

The CHAIRMAN. Just read it in the record.

Mr. MARTIN. I have been told to indicate what we now know.

We are informed by our consulate in Curacao that at present there is no duty-free allowance for returning residents in the statutes, but customs officials are extremely liberal in their interpretation of the laws and regulations.

Many items are admitted free, but duty is generally assessed on liquor, cigarettes, and unaccompanied baggage.

With respect to the Bahamas, I regret to say that we have somewhat conflicting information.

According to the British Embassy here, there is no specific exemption for returning residents, but they may bring in small quantities of liquor, cigarettes, and perfume duty-free.

On the other hand, from other information given us, it is indicated that in fact there is a tourist exemption of about $200 a year.

I would expect this is like a good many other cases in which there is a general law or regulation, but customs officials have or exercise, or both, considerable discretion, and it is difficult to be precise about what is happening.

Senator DOUGLAS. What about Bermuda?

Mr. MARTIN. I do not have information on Bermuda.

I do not know whether the Treasury does or not, they have those statistics.

Senator DOUGLAS. Mr. Flues has just given a memorandum to me saying there is no exemption on Bermuda.

Mr. MARTIN. That would be consistent with what I know.

I don't know if it is correct.

But if Mr. Flues has that information, I am sure it is.

Senator BENNETT. One British area—I don't know how to describe it—has no exemption, but permits the officers to use their judgment. Maybe that is done in Bermuda, too.

Mr. MARTIN. That is possible.

I haven't had experience there for a great many years.

The CHAIRMAN. Any questions?

Senator Douglas?

Senator DOUGLAS. Mr. Martin, you feel very strongly that although the proposed rule would be of some inconvenience to tourists, it is in the national interest?

Mr. MARTIN. Yes, sir.

Senator DOUGLAS. Now, do you place any restrictions on the amount of foreign commodities which members of the State Department can bring in duty-free?

Mr. MARTIN. There are certain restrictions, I am not sure I am familiar with all the details, there is, of course, a limit to the weight which can be brought in and paid for by the Government.

Senator DOUGLAS. Is there any limit to the value?

Mr. MARTIN. There is no limit as such to the value.

Senator DOUGLAS. So it would be possible for a State Department official to bring in large quantities of liquor, a great many boxes of cigars, oriental prints, persian rugs, Louis XIII furniture, and so forth, duty free?

Mr. MARTIN. I don't think it is quite the same for all articles.

By arrangements with the Treasury, I was going to add, with respect to liquor, tobacco products, and automobiles, there are special limitations placed upon State Department personnel as well as others.

Senator DOUGLAS. Can State Department personnel bring in automobiles duty free?

Mr. MARTIN. Only if title has been taken and has been utilized abroad. In other words, they can't have them shipped to them in this country.

Senator DOUGLAS. Suppose a car has been purchased abroad and driven once, can it be brought in duty free?

Mr. MARTIN. It is my understanding that it can.

Senator DOUGLAS. Do you think that is proper?

Mr. MARTIN. It has been felt so. It depends on——

Senator DOUGLAS. You say the restriction should be placed upon American citizens. Should you have privileges given to Government personnel which you don't accord to the rest of the citizens?

Mr. MARTIN. I think you should add that as part of the balance-of-payments program the State Department has now amended its regulations so that foreign cars cannot be brought in on Government transportation, that is, the individual has to pay his own transportation costs.

Senator DOUGLAS. But they can be brought in duty free?

Mr. MARTIN. They can be brought in duty free.

Senator DOUGLAS. And is it not true that a great many of them are?

Mr. MARTIN. Many have been in the past, but having to pay the transportation costs, I don't think this will any longer be the case. Transportation costs are equally as important as the duty in many cases.

Senator CARLSON. Are they more important to a Government official, the transportation charge, to a Government official, than to a tourist?

Mr. MARTIN. I wouldn't think so. The same charges are involved; it costs the same.

Senator DOUGLAS. The tourist pays both, does he not?

Mr. MARTIN. He will at the present time; yes.

Senator DOUGLAS. And the State Department person does not?

Mr. MARTIN. I would point out, as I think Mr. Flues mentioned, that this exemption is only available to people who stay abroad for a certain period of time and may have a requirement to purchase a car abroad to satisfy a transportation need. American cars abroad are very expensive.

Senator DOUGLAS. But a State Department employee can buy a car, drive it once, and bring it back duty free?

Mr. MARTIN. I have no evidence that that is a common practice.

Senator DOUGLAS. Isn't that a frequent practice?

Mr. MARTIN. I have no evidence to indicate how frequent it is.

Senator DOUGLAS. Isn't this a matter of common knowledge?

Mr. MARTIN. It is not as far as I am concerned.

Senator DOUGLAS. Have you made any estimate of the average value of goods brought back by officials of the State Department?

Mr. MARTIN. No, sir. I would point out that in your illustration you mentioned antiques, Louis XIII chairs, and so forth. It is my understanding that true antiques and works of art are duty free in any case.

Senator DOUGLAS. Say imitations, then, Chippendale.

Mr. MARTIN. Imitations are another matter. Of course, they don't have the same value in this country for resale if that is what you are concerned with.

Senator DOUGLAS. Are they duty free?

Mr. MARTIN. No, sir, but they don't have the value for resale.

Senator DOUGLAS. I know, but do not State Department personnel bring them in duty free?

Mr. MARTIN. Yes, for their personal use.

Senator DOUGLAS. Even though such goods have not been used abroad?

Mr. MARTIN. I believe the understanding is that they have been used and they are for their personal use.

Senator DOUGLAS. Personal use in this country?

Mr. MARTIN. In this country, yes.

Senator DOUGLAS. Is it required that they have been used abroad?

Mr. MARTIN. I am afraid I can't answer that question. I will have to secure the information.

Senator DOUGLAS. Will you supply it for the record?

Mr. MARTIN. I shall.

(The following was later received for the record:)

Duty-free entry is accorded both the used and unused effects of State Department personnel returning from an extended overseas assignment provided the effects are not being imported for resale or for the account of another person. The regulations which apply to the entry of such effects are summarized in a memorandum which has been inserted at a subsequent point in Mr. Martin's testimony.

Senator DOUGLAS. What are the travel regulations on State Department personnel going to and coming from this country? Are they limited to using American ships and American airlines?

Mr. MARTIN. At the present time, they are limited to American ships and airlines unless there is an overriding reason or public interest why a traveler has to be in a particular place at a particular time and there are no American ships or airlines which can get him there; otherwise there is no exemption.

Senator DOUGLAS. When did this go into effect?

Mr. MARTIN. The order has been in effect with respect to ships for a number of years, and it went into effect with respect to airlines as a part of this balance of payments operation last fall.

Senator DOUGLAS. How stringently is this enforced?

Mr. MARTIN. My impression is quite stringently.

Senator DOUGLAS. Quite stringently?

Mr. MARTIN. Yes, sir.

Senator DOUGLAS. Are you in charge, or is the Under Secretary for Administration responsible for travel orders and transportation?

Mr. MARTIN. It is under Administration.

Senator DOUGLAS. You have nothing to do with that?

Mr. MARTIN. Not directly, no, sir.

Senator DOUGLAS. What are the provisions regarding first-class passage compared to second-class passage or ordinary cabin transportation on boats, and regarding first-class compared to tourist travel on airlines?

Mr. MARTIN. I am not an expert on this, and I would like to be able to examine the record. But it is my understanding that Congress has required that first-class passage be provided on boats. With respect to airlines——

Senator DOUGLAS. For all members of the State Department?

Mr. MARTIN. I believe so.

Senator DOUGLAS. I think that is correct.

Now, let me ask you this: How many classes are there in the State Department, Foreign Service classes?

Mr. MARTIN. Foreign Service classes, there are 10.

Senator DOUGLAS. A class 10 Foreign Service officer would correspond to a second lieutenant in the Army?

Mr. MARTIN. I would suppose roughly, sir, yes.

Senator DOUGLAS. Or would he rank close to a warrant officer?

Mr. MARTIN. Roughly— I don't really know that it is comparable— I would say the lowest Foreign Service class is comparable to a second lieutenant, and probably not comparable to the warrant officer, it is above that rank.

Senator DOUGLAS. Now, he would be entitled to first-class transportation?

Mr. MARTIN. On board ship. On aircraft, there have been new regulations. I am not sure of the details. But tourist class is now required on trips below a certain number of hours.

Senator DOUGLAS. Since Congressmen are sometimes accused of traveling luxuriously, I might say that I make it a practice wherever I can to travel tourist class or coach class on airplanes. So I don't want you to think that I am urging something that I don't do myself.

Classes I, II, and III, which I support would correspond to lieutenant general, major general, and brigadier general, would certainly be entitled, because of the dignity of their office, to first-class travel. But I doubt whether it is sound practice to have this right to first-class travel extend to the lower ranks of the State Department.

Now, I have been quietly trying to effect changes in this for years, but I can find no evidence that the State Department has moved the slightest in the matter.

Mr. MARTIN. I might point out, Senator, if I may, that 2 years ago I was traveling with a party, the other members of which were on military orders. I was a class I officer. We flew back from Madrid to New York and we were separated because I could only travel tourist class while their orders provided first class. Under State Department rules I could only travel tourist.

Senator DOUGLAS. I congratulate whoever wrote your orders in that respect.

Mr. MARTIN. It is the same today.

Senator DOUGLAS. I think the military also abuses this principle too much. But I think there is a great field for economy here, if I may say so, and I do not think Government personnel have taken this seriously.

Now, we are asking sacrifices from the civilian population, and very properly so. But it is a good rule that you cannot ask sacrifices from others with good conscience unless you practice it yourself.

I want to urge very strongly, first, that travel on foreign boats and foreign airlines be restricted as much as possible, and, second, that for the lower grades of the Foreign Service the right to unlimited first-class travel be done away with. And in a similar fashion, I would say that when they move from place to place, people in the lower grades should go to second-class hotels wherever practical. I follow that practice myself—not hotels of the first order, but hotels of the second order.

Mr. MARTIN. Of course, this is a matter which is taken out of their own pockets, because they get a per diem, and they have to pay for it themselves, but I will be glad to convey this information to those who are responsible.

Senator DOUGLAS. I think you should scrutinize very carefully the rulings about amounts which can be brought back to see if there are abuses which can be checked and reduced.

Mr. MARTIN. Thank you.

Senator DOUGLAS. And one trouble, I think, is that Congressmen frequently travel more luxuriously abroad than they should. Partly, this is our own fault, and partly this happens because members of the State Department, when we write ahead for accommodations, always insist on putting us up at first-class hotels, and then you have to insist in order to get in second-class hotels.

The CHAIRMAN. Any other questions?

Senator WILLIAMS. Mr. Martin, would you have any objections to this bill being amended to include the State Department officials on the same terms as you lay down for other tourists?

Mr. MARTIN. Insofar as they are traveling as tourists, I think, without consulting my superiors, my personal reaction would be, we wouldn't object. But insofar as our people are living abroad and coming back from residence, I think there are a number of special problems involved in bringing back things for their own use.

Senator WILLIAMS. I recognize that. But could you not put the burden of proof on them to prove that it was not being brought back just for resale in contemplating of coming back?

Mr. MARTIN. I think that is certainly worth careful study to see whether that can be worked out and enforced.

Senator WILLIAMS. Would you furnish a memorandum to the committee about the advisability?

Mr. MARTIN. I certainly will.

(The following was later received for the record:)

MEMORANDUM ON IMPORTATION OF EFFECTS BY STATE DEPARTMENT PERSONNEL

The household and personal effects of Foreign Service personnel returning to the United States from extended oversea assignments are granted free entry into the United States under the provisions of Public Law 126 (84th Cong.) and amendments thereto. This law is also applicable to any employee of the U.S. Government returning his effects to the United States under Government orders following an extended foreign assignment.

There is no limitation on the value of the effects which may be imported duty free under Public Law 126. Establishment of such a limitation on the value would pose many problems with regard to administration and enforcement. Returning Government employees are subject to the same quantitative limitations as American tourists with regard to the importation of liquor and tobacco. The Department of State has recently amended its regulations governing the shipment of personal property of employees to provide that alcoholic beverages in excess of one wine gallon per traveler may not be forwarded through official channels. Employees are required to arrange clearance personally, or through customs brokers, paying duty and internal-revenue tax as assessed by customs officials. The regulation is quoted for the committee's information:

"Section 19 (CFR 54.2(c)) (see 1 FSM III 156.21) provides for importation free of duty of one wine gallon of alcoholic beverages for each traveler. All personnel are hereby notified that henceforth alcoholic beverages in excess of one wine gallon per traveler are not to be combined with household effects for shipment against travel orders.

"Alcoholic beverages in excess of one wine gallon per person shall be forwarded through commercial channels and not in care of dispatch agencies. Owners will be responsible for clearance and payment of import duties as well as Federal and State taxes to the customs authorities without the assistance of dispatch agencies.

"Dispatch agencies will assume that household effects shipments contain not more than the legal limit of alcoholic beverages and will arrange customs clearance on this basis. Certificates covering alcoholic beverage content of shipments, therefore, will no longer be required.

"It is important to note, however, that U.S. customs authorities reserve the right to examine all shipments entering the United States. If a shipment is found to contain alcoholic beverages exceeding the legally authorized quantity of one wine gallon per traveler, the owner will be subject to penalties prescribed by law. The Department will take no action to assist the employee in such circumstances and will be obliged to cooperate fully with the prosecuting authorities. In addition, the Department of State may impose administrative penalties against any employees who violate this regulation."

State Department employees returning from temporary duty abroad are subject to the same regulations as American tourists with regard to the importation of effects.

The State Department has recently amended its regulations, as quoted below, to prohibit shipment at Government expense of foreign-manufactured automobiles purchased after March 1, 1961:

"No foreign made motor vehicle purchased by employees (or their dependents) of the Department of State, USIA or ICA on or after March 1, 1961, shall be transported at Government expense to or from the United States, between posts or, in the case of Service separation, to the employee's designated place of residence.

"An exception to this prohibition will be in cases where it is established that adequate facilities do not exist at the new post of assignment for the maintenance and repair of motor vehicles produced and assembled in the United States. When such a condition exists at a post, a full report of the circumstances shall be submitted to the Department by February 1, 1961. Personnel, however, will be authorized to transport to their next post of assignment at Government expense the foreign made motor vehicle they owned and operated while assigned to such a post. Particular care should be taken to include offices not co-located with a regular diplomatic or consular establishment. This information will be consolidated and distributed to all posts for the guidance of personnel. A negative report is not required.

"When a foreign vehicle is to be shipped, appropriate notation will be required on the travel order that the vehicle was acquired prior to March 1, 1961, or that the point of origin or destination is included in the list promulgated by the Department as not having maintenance or repair facilities for motor vehicles of U.S. manufacture."

Although this regulation was designed primarily to reduce gold outflow, it serves the dual purpose of discouraging purchase of foreign-made automobiles immediately prior to an employee's return to the United States.

The Department's regulations covering free entry of effects into the United States cite the provisions of Public Law 126 and the regulations pursuant thereto prescribed by the Secretary of the Treasury, including the following: "The privilege (free entry) does not apply to articles imported for sale, or for the account of any person not specified in the act." The Department intends to strengthen this regulation in accordance with the committee's findings and recommendations.

Senator WILLIAMS. Perhaps this has nothing to do with it, but do you think our buying molasses from Castro has any effect on our balance of payments in general? Should we do something about it?

Mr. MARTIN. This has been commented on from higher quarters. I think it does have an effect on our balance of payments. Anything we buy abroad does.

Senator WILLIAMS. Do you think something should be done in connection with that?

Mr. MARTIN. I think something is going on at the present time in connection with that particular transaction.

Senator WILLIAMS. About stopping the buying of Cuban products?

Mr. MARTIN. More in respect to this particular transaction. The question of stopping buying Cuban products is a matter which I think the President has to decide.

Senator WILLIAMS. Approximately, today, what is our trade with Cuba amounting to a month?

Mr. MARTIN. I would like, again, to have the chance to check the figures. My recollection is that on the basis of the first quarter figures, the annual average was running $30 to $40 million each way. But I would like to check that. I don't know offhand whether that is right, but that is my recollection.

Senator KERR. In that regard, will you furnish comparable figures for a year ago for the four quarters of last year as well as the first quarter of this year?

Mr. MARTIN. I would be very glad to, sir.

Senator WILLIAMS. And break them down for commodities.

I would appreciate it.

Mr. MARTIN. Insofar as we have the data, yes.

Senator WILLIAMS. As near as you have it.

(The following was later received for the record:)

*Quarterly and yearly U.S. imports from Cuba, 1960 and 1st quarter, 1961*

[In thousands of dollars and by commodity subgroups]

| Subgroup and description | 1960 | | | | | 1st quarter, 1961 |
|---|---|---|---|---|---|---|
| | 1st quarter | 2d quarter | 3d quarter | 4th quarter | Total | |
| 00 Animals and products, edible | 1,084 | 318 | 1,290 | 900 | 3,592 | 876 |
| 0 Animals and products, inedible | 398 | 444 | 271 | 164 | 1,277 | 122 |
| 1 Vegetables and products, edible | 95,377 | 132,149 | 38,546 | 4,419 | 270,491 | 2,952 |
| Vegetables and preparations | (3,843) | (804) | (236) | (241) | (5,124) | (777) |
| Fruits and preparations | (1,294) | (2,171) | (2,265) | (1,093) | (6,823) | (609) |
| Cocoa, coffee, and tea | | (12) | (259) | (86) | (357) | (21) |
| Sugar, including molasses | (90,015) | (128,994) | (35,631) | (2,874) | (257,514) | (1,520) |
| 2 Vegetables and products, inedible | 7,338 | 7,720 | 8,685 | 7,515 | 31,258 | 6,667 |
| Tobacco and manufactures | (7,325) | (7,605) | (8,623) | (7,489) | (31,042) | (6,667) |
| 3 Textile fibers and manufactures | 870 | 945 | 541 | 144 | 2,500 | 149 |
| 4 Wood and paper products | 36 | 6 | 6 | 15 | 63 | 8 |
| 5 Nonmetallic minerals | 402 | 27 | 21 | 16 | 466 | 5 |
| 6 Metals and manufactures | 9,502 | 3,804 | 12,418 | 2,165 | 27,889 | 383 |
| Ferroalloys, ores, etc | (504) | (273) | (582) | (53) | (1,412) | (111) |
| Copper and manufactures | (1,161) | (2,343) | (287) | | (3,791) | (266) |
| Nickel and manufactures | (7,733) | (1,157) | (11,516) | (2,090) | (22,496) | |
| 7 Machinery and vehicles | 27 | 92 | 133 | 24 | 276 | 12 |
| 8 Chemicals and related products | 1,171 | 187 | 144 | 31 | 1,533 | 2 |
| 9 Miscellaneous | 945 | 907 | 601 | 418 | 2,871 | 285 |
| Total, all subgroups | 117,150 | 146,599 | 62,656 | 15,811 | 342,216 | 11,461 |

Source: Official statistics of the U.S. Department of Commerce.

*Quarterly and yearly U.S. exports to Cuba, 1960 and 1st quarter, 1961*

[In thousands of dollars and by commodity subgroups]

| Subgroup and description | 1960 | | | | | 1st quarter, 1961 |
|---|---|---|---|---|---|---|
| | 1st quarter | 2d quarter | 3d quarter | 4th quarter | Total | |
| 00 Animals and products, edible | 7,804 | 8,516 | 7,507 | 6,036 | 29,923 | 6,177 |
| 0 Animals and products, inedible | 899 | 385 | 472 | 140 | 1,896 | ........ |
| 1 Vegetable products, edible | 17,978 | 15,601 | 9,299 | 5,123 | 48,001 | 691 |
| 2 Vegetable products, inedible | 2,269 | 2,301 | 2,457 | 1,299 | 8,326 | 11 |
| 3 Textile fiber and manufactures | 4,177 | 5,280 | 4,354 | 788 | 14,599 | 12 |
| 4 Wood and paper | 4,892 | 5,737 | 4,724 | 1,748 | 17,101 | 17 |
| 5 Nonmetallic minerals | 3,472 | 3,477 | 1,696 | 967 | 9,612 | 178 |
| 6 Metals and metal manufactures | 4,513 | 4,888 | 2,998 | 647 | 13,046 | 5 |
| 7 Machinery and vehicles | 13,392 | 8,818 | 10,107 | 3,916 | 36,233 | 464 |
| 8 Chemicals and related products | 8,726 | 11,396 | 9,231 | 4,521 | 33,874 | 1,480 |
| Medicinals and pharmaceuticals | (2,389) | (3,323) | (2,734) | (1,356) | (9,802) | (1,452) |
| 9 Miscellaneous | 2,536 | 3,131 | 2,181 | 915 | 8,763 | 224 |
| Total, all subgroups | 70,718 | 69,530 | 55,026 | 26,100 | 221,374 | 9,259 |

Source: Official statistics of the U.S. Department of Commerce.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. Our contributions to the United Nations in substantial funds that naturally get out into other countries, what effect does that have on the balance of payments?

Mr. MARTIN. Insofar as our aid money is made available through international organizations like the United Nations, we have no trade requirements which demand that the money be spent in the United States. Some of it is and some of it isn't. It is a little hard to track down, when the United Nations is taking funds from a variety of countries, whose money is being spent where.

We do get an appreciable proportion of United Nations aid money spent back in the United States, but I could not give you an exact figure.

Senator CARLSON. Do we get substantial sums of U.S. money spent in other countries?

Mr. MARTIN. Yes, sir.

Senator CARLSON. Do you have any idea as to the amount that might be?

Mr. MARTIN. I really couldn't tell you about the United Nations. For the same reason, I can't tell you how much is spent in the United States; I can't tell you how much is spent elsewhere. You just can't track down and identify where U.S. money in particular is spent, because it is mixed up with other money from other countries when it is actually spent.

Senator KERR. If you could determine either question it would answer the other, would it not?

Mr. MARTIN. That is right, sir.

Senator WILLIAMS. To the extent that any of our lending programs are loaned in the form of dollars repayable in the currencies of respective countries, that results in a complete loss as far as the balance of payments is concerned, does it not?

Mr. MARTIN. No, sir. At the present time, we are requiring with respect to nearly all such loans that the proceeds be spent in the United States, so that the money doesn't leave this country.

Senator WILLIAMS. Are you making that requirement on all such loans from the Development Loan Fund, and so forth?

Mr. MARTIN. Yes; the Development Loan Fund makes almost no exceptions at the present time. There are a few occasions in which small funds are made available to meet local currency costs. In those cases, it may not come back here immediately.

But in all other cases—and this is much the greater bulk of the lending—it must be spent in this country. This has been a rule for a year and a half now.

Senator WILLIAMS. If the loan is for a utility in a foreign country, or if the loan is for the construction of a dam, how can you spend it here in the United States?

Mr. MARTIN. In general, what we do is require that the country itself put up the local currency cost, and we will cover the foreign exchange costs.

For example, on a utility plant, we will cover the cost of the generator and the boilers, the heavy equipment of this character, and require that that be purchased from here.

And the country itself is required to secure the local currency to meet the local expenditures for labor and local materials.

The CHAIRMAN. Suppose that generator can be brought cheaper in Europe or some other place, do they pay more in this currency?

Mr. MARTIN. In some cases, they have to pay more because they are required to buy it in this country.

The CHAIRMAN. Isn't it true that contracts have been let by the Government for generators and big machinery abroad?

Mr. MARTIN. There have been such cases.

The CHAIRMAN. And come back here for Government projects in this country?

Mr. MARTIN. There have been such cases.

Senator WILLIAMS. Did not the TVA just a few months ago buy generators abroad?

Mr. MARTIN. That is right. There is a Buy American Act which provides that there has to be a substantial cost differential before a contract can be let abroad, but if there is one it can be done.

Senator WILLIAMS. To that extent, it is a contradiction of the rules you are enforcing; isn't that right?

Mr. MARTIN. To some extent. However, in general, we in the balance-of-payments policy do not want to interfere with trading through regular channels. We feel that this would invite retaliation and have an overall adverse effect on our balance of payments and restriction of our exports.

Senator WILLIAMS. Even to the extent of interfering with the right of the Government itself to buy from our own people here in this country?

Mr. MARTIN. For use in this country; yes, sir.

The CHAIRMAN. Thank you very much, Mr. Martin.

Senator KERR. Mr. Chairman, may I at this point put a statement into the record?

The CHAIRMAN. Without objection, it may be placed in the record.

Senator KERR. Yesterday the Honorable Ralph M. Paiewonsky, Governor of the Virgin Islands, attended our hearings and sought the opportunity to be heard with reference to the position of his government on this legislation. Due to circumstances beyond his control but which were so apparent as to eliminate the necessity of explanation, he was not permitted to appear before the committee yesterday.

He left a statement and asked that it be inserted in the record.

The CHAIRMAN. Without objection, the insertion will be made.

(The statement referred to is as follows:)

STATEMENT OF HON. RALPH M. PAIEWONSKY, GOVERNOR OF THE U.S. VIRGIN ISLANDS, JUNE 23, 1961

My name is Ralph M. Paiewonsky and I am Governor of the Virgin Islands of the United States.

I am happy to have the opportunity to express to you the manner in which present proposals for reducing the tax exemption of tourists returning to the United States after having visited the Virgin Islands will affect the economy of these islands.

Let me say first that we in the Virgin Islands understand the overriding considerations for the national economy which have brought the present proposed legislation before the Congress.

We, in the Virgin Islands, are an integral part of the United States and an unfavorable balance of trade for the entire Nation affects us just as it affects any other section of our Nation.

We do feel, however, that there are certain aspects of the economy of the Virgin Islands that should be considered in arriving at a new standard of tax exemptions for tourists returning to the continental limits of the United States.

These considerations are of particular importance to the economy of the Virgin Islands, dependent to a very large degree on tourism. However, those considerations offered here today do not change the basic intent of the President or the Congress in enactment of the proposed law.

The House of Representatives has considered the problem of the time factor under which tourists may claim the suggested $100 exemption from tax.

Under the Tariff Act of 1897, paragraph 697, the $100 exemption was available regardless of the time a tourist spent abroad. In 1938, Congress added the 48-hour requirement to avoid the abuse of Americans driving to Canada to shop for furs, etc.

Later the 48-hour requirement was modified in respect to certain Mexican ports of entry.

The effect of the House-approved removal of the 48-hour requirement for tourists visiting the Virgin Islands is to place the U.S. Virgin Islands, a territory of the United States, on a par with Mexico.

This does not lead to the possibility of abuse by residents of Puerto Rico; for exemption from Puerto Rico excise tax is limited to $100 per annum. Section 10 and section 49A of the Excise Act of Puerto Rico, January 1956, cover these points.

Further, the costs of transportation to the Virgin Islands from Puerto Rico serve to limit any abuse of the proposal. Round trip transportation from San Juan to St. Thomas amounts to $18. Limousines, or taxis would raise this 1-day cost to $20 making prohibitive the cost of seeking to save the tax on the $100 tax-free exemption.

Tourists vacationing in Puerto Rico for 1 or 2 weeks typically go to the Virgin Islands for return the same day. Rarely do they stay overnight for the islands do not have the necessary hotel accommodations to take care of the traffic. Elimination of the 48-hour period as provided in H.R. 6611 would mean a partial offset to the overall impact of this change in duty-free exemptions for tourists on the economy of the Virgin Islands.

As Governor of the Virgin Islands, I recommend that a further measure of relief from the overall proposal to limit tax-free exemptions to $100 be given.

Our businessmen propose and I heartily agree that the tax-free exemption as regards visitors to the Virgin Islands be set at $200.

In making this proposal, I wish to call attention to the following:

A $200 exemption to visitors to the Virgin Islands is roughly equivalent to $100 to tourists visiting foreign ports.

This is true because approximately 50 percent of tourist expenditures in the Virgin Islands returns to the U.S. economy and in no way affects the balance of trade. In this way, the identical degree of reduction in the movement of U.S.

dollars abroad would be achieved and at the same time ease the effects of the changed exemptions on an island economy delicately attuned to tourism.

The U.S. Virgin Islands are always at a disadvantage in competing with prices in Caribbean ports under control of other nations.

Costs of operations in the U.S. Virgin Islands are higher because they are geared to American mainland standards which include payment of social security, Federal minimum wages, and Federal income taxes.

In this connection, it might be well to point out that hourly wages in the Virgin Islands are at about the daily wage level of competing foreign areas.

I feel that the Government of the United States should not, in effect, lean over backward to reduce our ability to compete with our foreign neighbors.

As the responsible official of the U.S. Government in the Caribbean area, I must state that it is vital to the economy of the U.S. area in the Caribbean to be bolstered in light of the developments in Cuba, in Dominica, and lesser trends in other islands.

On more detailed matters of how the tourist traffic applies to our islands:

About 80 percent of tourist purchases are for foreign liquors and perfumes and other gift items. Only substantial American product purchased is cigarettes. Therefore, the Virgin Islands profits from the importation and sale of foreign goods.

Tourists tend to purchase mainland liquors by about 25 to 1 over Virgin Islands rum because the volume of savings is greater on these mainland liquor purchases.

Tourist purchases of goods manufactured in the Virgin Islands with 50 percent or less component of foreign material are negligible.

Finally, there arises the question of whether giving the Virgin Islands a $200 exemption while limiting the exemption for tourists visiting foreign islands to only $100 will cause resentment in the foreign islands.

It is my judgment that it will have no adverse affect.

To my own personal knowledge there is a current manipulation of currency now being carried out in most foreign islands that gives merchants in those islands a definite advantage. This is done by manipulating the discount rate, for instance, of traveler's checks. In many, many of the islands to the south, premiums are given for such checks thereby hurting the competitive position of the U.S. islands.

In addition, the national governments controlling such islands have long given special currency concessions to merchants in the tourist trade. Therefore, all concerned will understand such an action on the part of the U.S. Government.

Finally, let me say that there is an overriding problem of a declining tourist trade caused currently by the continuing crisis in Cuba, the problems in Dominica and the resulting newspaper publicity which suggests that such critical areas might be broadened.

This factor plus the effects of the 1960 recession in the United States has served to reduce tourists revenues.

We have not suffered as much as some other areas, but we have had a marked decline.

For the above reasons, gentlemen, I strongly urge that the proposed change in tax-free exemptions for tourists allow a $200 exemption for visitors to the Virgin Islands.

This would not change the intention of limiting the outflow of American dollars, which is the purpose of this legislation, for as I have pointed out 50 percent of the $200 exemption would remain in the American economy.

It would prevent a further decline in the present tourist-oriented economy of the islands, already suffering from the impact of international crisis in the Caribbean and suffering, too, from cutbacks resulting from the economic recession in the United States.

Finally, it would bolster the position of the United States in the Caribbean at a time when our prestige is somewhat suspect. This would be accomplished without harming the overall friendly trade relationships now in existence.

But, most important of all in my opinion is that we would allow Americans in the Virgin Islands to continue to do business on the same basis of other Americans and not at a penalty level below that of merchants doing business in islands under foreign control.

The CHAIRMAN. The next witness is Mr. R. F. Kerr, of the American Society of Travel Agents.

## STATEMENT OF ROBERT F. KERR, PRESIDENT, AMERICAN SOCIETY OF TRAVEL AGENTS, INC., ACCOMPANIED BY ROCCO C. SICILIANO, GENERAL COUNSEL

The CHAIRMAN. Are you any relation to the Senator Robert Kerr?

Mr. KERR. No, I am not, sir. The same first name, however.

The CHAIRMAN. You may proceed.

Mr. KERR. Mr. Chairman and members of the committee, my name is Robert F. Kerr. I am a travel agent from Beverly Hills, Calif., and own and operate the Kerr Travel Service. I am here as president of the American Society of Travel Agents, Inc., an international organization of professional travel agents in the United States and Canada.

I have with me also our vice president, Mr. Milton Marks of Dayton, Ohio, and our treasurer, Mr. Irvin Frankel, of Atlanta, Ga.

Our society has 1,450 active members operating more than 2,000 travel agency locations throughout the United States and Canada, as well as nearly 500 active nonresident travel agency members located throughout the rest of the world. In addition, we have several hundred allied members from the airline, steamship, hotel and resort, and car hire industries associated with the society.

Prior to establishing my own travel agency in Beverly Hills, Calif., in 1946, I was employed in both sales and executive capacities by Thomas Cook & Son for more than 20 years in various posts in Europe and the United States. My own travel agency is basically a "retail operation." That is, my travel agency actually services the travel needs of individual travelers and tourists traveling to various parts of the world. My travel service acts as an agent for the various domestic and international airlines, as well as the steamship companies, hotels, and resorts. The gross sales of my agency for transportation and services amount to approximately $1.5 million per year. I have been active in the affairs of my professional society for many years at both the chapter and national level.

We greatly appreciate the opportunity of appearing before this distinguished committee to comment on H.R. 6611, a bill which would temporarily cut from $500 to $100 the amount of duty-free merchandise returning American tourists are permitted to bring back into this country. I would like to comment on this bill as the president of the American Society of Travel Agents and also as a travel agent with many years of experience in the field of international travel and tourism.

Basically there are four points that concern us.

First and foremost, it is our considered opinion, and I emphasize it is only an opinion, that the basic purpose of this bill which is to counter our present unfavorable balance-of-payments position would not be accomplished by temporarily cutting the amount of duty-free merchandise a returning American tourist can bring back to the United States. This opinion is based on our collective experience as travel agents dealing with American tourists traveling abroad. We have found that the vast majority of American tourists plan their vacations abroad on a fixed amount of dollars. In cost cases, I might add, they invariably feel the amount of money available to them is insufficient. The major portion of most European holidays is the cost of transportation to and from Europe. The next major portion is hotels and meals. After that the individual tourist will have to decide how he wants to spend his remaining money, be it on gifts, sightseeing, sports, nightclubs, or other forms of entertainment. Reducing the amount of duty-free goods the tourist may bring home with him will merely cause the average tourist to reallocate the funds he has set aside for gifts or other purposes. We seriously doubt if this measure will have much impact on the balance-of-payments position.

In other words, the amount spent on returned goods in any case is a small proportion of the total amount spent abroad. What we are considering now is a small proportion of the total.

Another point I would like to make is—and I feel that this is an important one—is that we are considering a thing that will bring a hardship to the trip-of-a-lifetime person: the schoolteacher, the clerk, and the vast majority of the travelers abroad, and not on the people who can afford to travel repeatedly.

I did want to bring this most important point in, because I feel that we would be bringing a hardship to those trip-of-a-lifetime people.

We have carefully reviewed the House reports and debates on H.R. 6611 to determine if there is evidence indicating the way in which the bill would be effective in accomplishing its objective. The House report on this legislation is a very interesting historical review of the duty-free allowance, but it appears devoid of any pertinent economic data except for the "feelings" of the committee and the "estimates" of the Treasury Department. The key paragraph of the House report states:

> Your committee feels that the enactment of the bill would be of assistance in the present efforts to reverse the unfavorable balance-of-payments position of the United States. While the amount of dollar outflow which this measure will curb cannot be stated with exactness, the Treasury Department estimates that it will probably be about $150 million per year. It is also estimated that there will be an annual increase in revenue of about $5 to $10 million.

The sponsor of this legislation in the House stated that the Treasury estimate, "is their best guess. That is about all we can say." The sponsor also went on to say—

> maybe this does not have as much effect on the balance-of-payments as some other actions that could be suggested or recommended.

Correspondence by Members of Congress with the Bureau of Customs indicates that only 4.5 percent of returning American tourists declare goods valued at more than $500 and, in another report, only 13 percent declare goods valued at between $200 and $500. And Mr. Flues has testified that well over 90 percent claim $200 or less.

We believe, then, that the proposal to reduce the duty-free allowance will have only a minimal effect on our balance-of-payments deficit.

Though we have pointed out that there is little likelihood that the American tourist will spend less abroad than planned because of the tax duty—provided that he makes the trip—there is a negative influence this bill has on travel plans in general. I am referring to the public relations effect of the bill itself.

Administration officials have stated specifically that this is not intended. Yet, we believe such actions are causing Americans to be hesitant to travel abroad. Passport applications have dropped sharply. I am not suggesting that it is entirely due to this. But in February applications were off 13 percent as compared to February 1960. By contrast, February 1960, had been up 25 percent over February 1959. Over a longer period, a few days ago the Passport Office of the U.S. State Department estimated that American departures during the first 7 months of this year will total about 3 percent less than in the same period a year ago. We are not, of course, saying that this decline is only because of the legislation before this committee.

We do feel, however, that recent publicity of this kind has contributed to an attitude that it is unpatriotic for Americans to go abroad. There are other factors, of course, including high fares, and we have in this connection urged year-round low-fare 23-day excursion tariffs.

I should also like to point out that the Acting Commissioner of Customs, in a letter to Representative John V. Lindsay, concerning H.R. 6611, stated:

> We foresee the need for intensifying our examination of passengers' baggage * * *.

As you know, there has been much concern expressed over the treatment Americans and foreign visitors receive from customs and immigration inspectors at U.S. ports of entry. We certainly would not want to intensify what is already acknowledged to be a poor situation, and perhaps increase the expense of operating this kind of extended review which would be necessary.

This leads me into my second point, and that is, the effect that the enactment of H.R. 6611 would have on President Kennedy's visit U.S.A. program and the work of the new U.S. Travel Service in the Department of Commerce. The purpose of the visit-U.S.A. program is to develop two-way international travel so that the more than $1 billion deficit ascribed to American international travel—of a reported $3.6 billion balance-of-payments deficit in 1960—would be reduced or eliminated. The American travel industry and the American Society of Travel Agents supported this measure before the various committees of both Houses of Congress.

As this measure is about to become law, and the efforts begun to stimulate foreign nationals to visit our country, the proposed reduction of duty-free goods appears a poor prelude to the institution of a dynamic new program. Certainly it cannot be argued that restrictions placed on our own tourists are unnoticed by foreign governments or are meaningless as it might affect their actions. This is not meant to suggest, at the same time, that a U.S. interest should be governed or unduly influenced by foreign governments concerned. However, we have, on the one hand, a new program designed especially for the specific purpose of affecting the nationals of foreign countries by attracting them to visit our country. On the other hand, we are taking another action—almost simultaneously—to undercut the effectiveness of the first program. We sincerely believe the enactment of H.R. 6611 would impede the progress of the visit U.S.A. program.

Thirdly, we are concerned about the bill's effect on international travel as it affects our foreign relations. Specifically, this proposal has already brought complaints to our national headquarters—that is, to ASTA's headquarters—from some of our nonresident members located in the Caribbean Islands. We have encouraged tourist travel to these islands. Hotels and shops have been and are being built in great numbers. A drop in tourist traffic to this area—caused already of course by events in Cuba—will only add to the worries of our Nation. Debate on the floor of the House indicated that representations against the measure were received from the Netherlands and Haiti. Canada has expressed the hope that nothing would be done to further aggravate an unfavorable balance of trade. Though the press reported Mexico's concern, no official representation had been received as of March 21, 1961. We can only hope that our goodwill will not be further injured.

Finally, we are concerned about reaction and possible retaliation from other nations. It is no answer to say that the U.S. duty-free allowance is presently more generous than that of most other countries having a similar allowance unless we are willing to make other comparisons as to standard of living, wage scales, and so on. Further, as indicated, we are now about to undertake, at an initial cost of $3 million, a U.S. Travel Office designed to bring foreign nationals to our country as tourists. Certainly, in order to make a success of this effort it will be necessary to urge these countries to drop their currency restrictions. This action would move in the opposite direction.

In summary, the American Society of Travel Agents believes that:

(1) The bill will not accomplish its objective of reducing the balance-of-payments deficit;

(2) The bill is inconsistent with President Kennedy's visit U.S.A. program;

(3) It will cause difficulty or, at the least, raise questions as to our efforts to maintain and improve good relations with other nations, particularly Mexico, Canada, and friendly neighboring countries in the Caribbean;

(4) It could bring about a slowdown or halt in our efforts to convince other nations to relax currency restrictions which have made it difficult for foreigners to travel abroad.

And, finally, I would like to say that for the last 2 years we have had a slogan which is "Peace and prosperity through travel." This, in effect, has been supported by President Kennedy and Secretary Hodges in their efforts in connection with the U.S. Travel Office, and this bill in no way encourages that philosophy.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Kerr.

You have made a clear statement.

Any questions?

Senator DOUGLAS. Mr. Chairman?

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. You were here yesterday?

Mr. KERR. Yes.

Senator DOUGLAS. You heard the testimony that virtually all the major European countries permitted no exemption whatsoever?

Mr. KERR. For their returning nationals?

Senator DOUGLAS. For their returning nationals.

Mr. KERR. That is correct.

Senator DOUGLAS. Do you believe that to be correct?

Mr. KERR. I think so.

Senator DOUGLAS. Has your society ever protested against these restrictions imposed by foreign countries?

Mr. KERR. I would not know, Senator, whether we have done it specifically.

But in our various off-the-cuff discussions which are carried on repeatedly, this is the kind of thing that we try to do, yes.

Senator DOUGLAS. Have your protests had any effect on policy?

Mr. KERR. Very little.

Senator DOUGLAS. Do you think it is quite fair for the press and the diplomatic representatives of these foreign countries to protest against this proposed American action when it will result in far more liberal treatment than they permit their own nationals to have?

Mr. KERR. Frankly, Senator, I think that it is not so much a question of our comparing our situation with theirs, but in the present instance our discussing the change that is occurring.

Senator DOUGLAS. I may say I voted quite enthusiastically for the earlier increase, because this was at a time when the European countries were in great difficulty, and, believing in travel myself, I thought this was a very constructive step.

But the roles have now been reversed. The European countries hold large dollar balances, and about $3 billion of these balances were called last year.

It is in response to the danger created by these short dollar balances that we are acting now.

Can we not act in self-defense against these wastes which are engineered two-thirds abroad, and one-third by Americans?

I have watched the foreign press very carefully, and there was a good deal of open exaltation on the part of many foreign papers that we were in difficulties; that we were not the colossus that they had imagined.

And I think our difficulties were enjoyed, not universally, but partially, by Europeans.

Now, can we take steps to defend ourselves? Do you think it is good grace for these people to protest, even when the proposed restrictions are infinitely more liberal than the restrictions these European countries have themselves?

Mr. KERR. Senator, what I gather that you are saying is that the image of the American abroad, not only the tourist abroad, but the American, as reflected in the foreign newspapers, is one thing or another. Can we affect it—if I may ask a question in answering yours—can we affect it by merely lopping off something that is now existing and making a change in the law; are we taking the whole image of America and affecting it adversely or favorably in a bill of this kind?

I feel that the image of America has been created and is continuing to be created, and the fact that these foreign newspapers will say and even gloat over the fact that we are in difficulties can in no way be affected favorably, but it certainly can be affected unfavorably, by an action of this kind.

I feel that you have stated the case very nicely about the image of Americans abroad, but I do not think that this bill will necessarily react in favor of the American image abroad.

Senator DOUGLAS. You heard me, in my questioning of the representative of the State Department, say that the State Department should not ask for sacrifices of American citizens that it does not impose on its own personnel.

I feel the same way about Members of Congress. We should not ask the American people for sacrifices which we are not willing to perform ourselves.

But do you think European countries ought to ask us to grant favors which they are not willing to accord? This is not merely a question of tourists; it is a question of volume of purchases.

But the protests of European countries come, in part, because they feel that this will diminish the purchases which Americans make abroad; hence, it will decrease their dollar balances.

Now, in the period when there was a shortage of dollars and they were in great difficulty, America poured out its Treasury to help them; that was fine.

But now the role is reversed. Is there not a reciprocal duty upon them to help us?

We have contributed from $75 billion to $85 billion for the free world. And our performance of this duty is going to continue. We shall bear our burden.

But we do not want jeers and reproaches from those who sit on the sidelines and criticize our every act. And I think it is about time for European countries and other countries to realize that cooperation is a two-way street.

Mr. KERR. May I comment on that, Senator?

Senator DOUGLAS. Surely.

Mr. KERR. You said that should the European countries or other countries abroad ask us to do something. I do not think it is so much a question, especially in our discussion today, as to what they are asking us to do.

It is true that your image of Americans abroad is affected in this question. Moreover, it is not only a question of what these countries are asking us to do; it is what we might consider should be to our own interest.

Let me refer to two words that you used—not against you, of course—but I want to refer to $85 billion spent somehow.

What we are talking about is to relieve a billion dollar question, with a letter "b," with a million dollar answer, with a letter "m," and then only a very small percentage of this.

We are merely questioning the enactment of a bill which will affect a small proportion off the top of something, and then only a small proportion of that, if any, as against the possible adverse effect at this time—I repeat "at this time"—when the U.S. Travel Office is trying to encourage other nationals to come to this country.

Senator DOUGLAS. When I was a boy, I read Poor Richard's Almanac. It had a lot of cogent expressions, one of them being, "Take care of the pence and the pounds will take care of themselves."

This is not fully applicable here; but it is partially applicable. There is a common tendency to say, "This is only a small amount; this does not count." So we allow an accumulation of small wastes to build up, which in the aggregate becomes very great.

And we say, "This does not amount to much; there is no use dealing with this."

The point is: It does amount to something. When you are walking, you have to move step by step. A step is only 33 inches, roughly. But it is 33 inches.

Mr. KERR. Yes, Senator. I agree that if we were talking about whether we should save a million, and if we could save a million, I would say let's do it. My point is twofold in this case in answer to your question.

I would say that we are speaking about possibly small amounts, and, yet, offsetting those are the image of America abroad, which is also affected. Also, whether we are not, by bringing about this change in the returning customs regulations, affecting the people we may not want to affect: the one-time travelers, as against the people that can travel repeatedly, as somebody said—the rich men traveling abroad. I wonder if we are not affecting those adversely and putting on to that industry, the travel industry, as it were, the onus of relieving the balance of trade when it is not only this—it is only that one small proportion—when our other considerations should be the image of Americans abroad.

Senator DOUGLAS. Now, I will take up this phrase that you have used, "the image of Americans abroad."

I agree that American tourists are extremely unpopular abroad.

Mr. KERR. I would like to debate that with you.

Senator DOUGLAS. I think we are unpopular abroad, and to the degree that we are unpopular abroad, it is partly due to our lack of knowledge of languages and to an alarming number of tourists coming to one community—and this is not always welcome—and possibly because of the less gentlemanly tourists.

But much of it, I think, is due to tourists' rather elaborate expenditures which in contrast with the residents' low income stir up feelings of envy.

I think it would improve the image of Americans abroad to have Americans buy less, and, hence, seem less affluent and more like the Europeans. They might then be accepted rather than regarded as good-time Charlies. You may like to make money out of the good-time Charlies but you do not respect them.

Also, perhaps if we get a greater degree of thrift, forced or otherwise, on the part of tourists, Americans would seem more human, trouble would be lessened and, therefore, a big contribution would be made to international friendship. I am sure greater thrift would make tourists more popular in Scotland, where my ancestors came from.

Mr. KERR. That would be a very noble effect, I think, except that I think we overlook the fact that we are merely talking about this percentage on the top, which is the amount of returned goods, which is such a small proportion of everything that will be spent.

We are still going to spend millions of dollars abroad, regardless of whether we are allowing people to bring back $100 or $500.

The expenditure of Americans abroad, if this is a contributing factor to the image of Americans abroad——

Senator DOUGLAS. It is very discouraging, and it is the type of discouragement that causes complaints. Europeans—and I hope there are foreign correspondents here—have an ambivalent attitude toward American tourists; on the one hand, they do not like them; on the other hand, they want them to come in great numbers and spend more.

I think the reactions to this bill bring out this ambivalence in the European's attitude toward Americans.

Mr. KERR. I believe our society could state very definitely that we feel that that would not be affected, and it would make so little difference in the total amount spent abroad——

Senator DOUGLAS. Then why do you object to it? If it is not going to have any effect on the volume of purchases, why do you have any complaint? If the same number of people are going to go abroad and if they are going to make the same number of purchases there, why all the opposition?

You can say it is useless, but how can you object to it? Why did you come all the way from beautiful California to Washington to object to this bill?

Mr. KERR. I would like to object to your objection, then.

What we are talking about is this proportion of from $500 to $100. And I stress the public relations aspect of it mainly. And I still say that we are going to spend many millions of dollars abroad, regardless of what you do on this particiular bill.

Therefore, I still say that our point still stands that this reduction from $500 to $100 will have other effects than saving a comparatively small amount.

Senator DOUGLAS. I cannot quite find out what these other effects are.

Mr. KERR. Particularly at this time during the period of the U.S. travel program, Mr. Kennedy's U.S. Travel Office, where we are trying to encourage two-way travel to the United States.

Senator DOUGLAS. I see.

The prospective European tourists to the United States would be discouraged from coming, because he would say that the United States is treating its own tourists more stringently than it did before. So the feeling of fellowship which the European tourist would have with American tourists would lead the prospective European tourist to say, "The Americans are treating their own nationals much more severely now, so we will discontinue the trip which we would otherwise take to the United States." I had never thought that there was this deep feeling of sympathy and compassion and brotherhood between the European tourists to the United States and their American counterparts.

You believe there is, however?

You think the European tourists would feel so badly at what America is doing to American tourists that they would say, "We are not going to travel"?

Mr. KERR. It is less that than the effect, the general effect on the—let me put it this way. One effect is the effect on Americans traveling abroad. Increasing the feeling that it is unpatriotic—and this can be quite serious—that it is unpatriotic, there is no better way to tell Americans that it is unpatriotic to travel abroad than to restrict their westbound allowances.

Senator DOUGLAS. We do not say that. We are just saying in view of the stringent circumstances to which the United States is exposed, due to the fact that we had a severe shock last fall, we want to somewhat restrict the claims of foreign countries and their dollar balances. The dollar balances which we hold against Europe are mostly in long-term securities, and the dollar balances which Europe holds against us have been short-term loans.

We had a very bad scare last fall, with $3 billion going out, and one-third of it by Americans, who are unworthy of the name, getting gold abroad—and I would like to find out who they were—but two-thirds by Europeans operating out of Zurich and London.

There was talk that we would have to devalue the dollar, and that America was in trouble.

I read the European press very closely, and I was pained to find that this brought some feelings of ill-concealed exultation and gloating.

Now, when we take steps to defend ourselves, it is said that we are ruining the image of America abroad. Is America always to be on the giving end? Is there not some reciprocity which is proper in an alliance?

I have voted for every foreign aid bill. I have voted for every bill to help our allies. I cannot be accused of being an isolationist. I campaigned in support of foreign aid in a State which is supposed to be isolationist, against a press which has been almost unanimously opposed to it.

But I want to say—and I am not speaking to you, I am merely trying to speak the truth—I want to say that there should be some appreciation of our difficulties by our allies.

Well, Mr. Chairman, I have taken up a lot of time.

I want Mr. Kerr to know that he is in a noble profession. I hope he gets joy and satisfaction out of it.

We want more travel. But we want reciprocity.

And I hope that your society will ask the European countries to increase the duty-free amount which their nationals can take here, well, at least up to one-fifth of the American figure, up to $20.

Mr. KERR. We have passed resolutions repeatedly asking the foreign countries to drop their restrictions in many ways to travel both east and westbound.

Senator DOUGLAS. We don't ask them to do as much as the United States. We don't expect of them that they will do as much as we do, but at least go up to one-fifth or one-half.

Is that unreasonable? Would that hurt the image of America abroad if they would just do a fifth of what we are doing?

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett?

Senator BENNETT. May I ask one or two questions of the witness?

All of us have been sitting here enthralled by the discussion presented by our friend from Illinois, who thinks the American tourist image abroad is very bad.

Senator DOUGLAS. I correct that. I simply say that I think Europeans as a whole dislike American tourists as a whole.

Senator BENNETT. Accepting the correction, I would like to ask whether in your opinion it is the tourist standing at a counter to buy a souvenir to take home that creates that bad image, or is it the tourist spending money lavishly in night clubs and in affluent living which creates the contrast in the image?

Mr. KERR. I think you hit the nail on the head. If we assume that the image of America abroad is caused by his lavish spending, if we admit this—and there are other areas, perhaps—but if we admit that his lavish spending abroad is a part of the American image abroad, then it is in the dollar spent in the night clubs and in other ways, and living higher than he normally lives at home, in on all kinds of ways, in spending the total money abroad, rather than that little thinning off the top which we are talking about of the difference between the amounts that he brings back.

Senator BENNETT. Actually, wouldn't it be fair to say that the little shopkeepers and the people who sell the kind of thing that most tourists bring back are very happy with that kind of spending on the part of Americans and feel no resentment, whereas those same people probably feel resentment if Americans do the kind of lavish spending which I previously mentioned.

So if we are to be concerned in this bill with this question of making it more difficult for the American abroad to create the wrong kind of an image, we are not getting at the source of the creation of that image, and we are, in fact, working on another problem.

Senator Douglas, also, out of the depth of his experience as an economist, talked about gold balances and gold purchases and the basic problem is, does the average tourist have the background of knowledge and information, is he concerned with the fact that if he goes abroad he is helping to upset this balance? Isn't he going abroad for his own satisfaction and for some purposes that are personal rather than international? And isn't it a fact that the average tourist neither has the knowledge nor the concern to appreciate his effect on the gold balance? Wouldn't it be more reasonable to say to him, if you are going to appeal to him in terms of American international posture, and the question of outflow of gold, "Please stay home, because you are going to spend 10 times as much abroad as a tourist for food and sightseeing than you are for the trinkets that you will buy to bring home to your friends."

Now, it seems to me to be inconsistent to say that we are going to stop the outflow of gold in terms of the amount of merchandise that Americans buy to bring home and still make no attempt to put any restriction on the amount of money Americans can take abroad to spend in this sumptious living which creates the evil image.

I can't resist the temptation to tell the story for my colleagues of an experience I had abroad with American tourists which had a most damaging effect to the American image. Mrs. Bennett and I went in for lunch to a little Swiss inn one noon, and behind us came an automobile full of Americans who brought a packed lunch into a lovely restaurant and asked the proprietor to furnish them beer to drink with their lunch, which they proceeded to unwrap on the table. And the proprietor was asked "What kind of beer do you have?" And he only had Swiss beer, and they said, "None of this is fit to drink; if you had Schlitz or Pabst, we would enjoy our lunch that much more."

Now, that is my impression of American tourists abroad creating a damaging influence.

And I am impressed by the fact that we are attempting to solve a $4 billion imbalance by fooling with a privilege we have given to Americans which will affect less than $200 million. There was an old phrase that had more meaning 50 years ago than it has now, perhaps, but I think we are trying to save at the spiggot while we are perfectly willing to see the value lost at the bunghole in this kind of a proposition.

The CHAIRMAN. Thank you very much, Mr. Kerr.

The next witness is Clifton W. Housley, manager of travel research, Curtis Publishing Co.

## STATEMENT OF CLIFTON W. HOUSLEY, MANAGER, TRAVEL RESEARCH, CURTIS PUBLISHING CO., ACCOMPANIED BY B. C. JONES, MANAGER, WASHINGTON OFFICE

Mr. HOUSLEY. Mr. Chairman and gentlemen, my name is Clifton W. Housley. I am manager of marketing research for the Curtis Publishing Co., Philadelphia, Pa., and I am here today representing that organization. Accompanying me is Mr. B. C. Jones of Washington, D.C., who is manager of our office in this city.

First, I should like to thank you for the opportunity of testifying with reference to H.R. 6611. The Curtis Publishing Co., I might add, is directly concerned with the growth and expansion of travel and the travel industry both from a standpoint of the editorial content of the magazines we publish and also from the point of view of travel promotion as a potential source of advertising revenue in Holiday, the Saturday Evening Post, and other of our publications.

We believe that travel by U.S. residents in foreign countries can form the bases for improved international relations between the nationals of the United States and the people of other countries. It is because of the benefits which can be derived from international travel that I am appearing here today in opposition to the proposed legislation which has for its object the reduction of the duty-free allowances on purchases by returning U.S. residents.

My reasons for opposing H.R. 6611 are, as follows:

(1) I believe that the provisions of the subject bill would minimize to a considerable degree the benefits to be derived from legislation proposed in S. 3102 and S. 3162 which provide for the establishment of an Office of International Travel and Tourism by the U.S. Government and the encouragement of foreign travel to this country.

(2) I believe the subject bill would tend to generate further the belief by the people of other nations that we are not genuinely interested in reciprocal travel.

(3) I believe the provisions of the proposed legislation would not accomplish the implied objectives of the bill; namely, that it would help close the gap in our international balance-of-payments.

(4) I believe the proposed legislation would invite retaliation by other governments and thus choke off international travel as well as international trade, thereby resulting in further dislocation of our international balance of payments.

One of the prime motives for travel by U.S. residents to other countries is the ability of the traveler to purchase articles and products which are characteristic and representative of the countries visited. These purchases reflect the traveler's interest in the cultures and achievements of the peoples of other coutries. As the Randall commission in its report on international travel stated in 1958:

> The American who can go abroad but once or twice in a lifetime wants to buy what he wants to, where he wants to. His purchases are the remembrances of long-planned journeys.

I believe that the cultural implications and the good will benefits to be derived from international travel far exceed the economic aspects of travel purchases, particularly to a Nation such as ours. I am convinced that by reducing the duty-free allowances of our returning residents we will be discouraging international travel and thus lose an important psychological advantage in our efforts to portray our way of life and our culture to other peoples of the world. With restrictions on spending abroad, we are definitely discouraging foreign travel and thus penalizing to a considerable degree international travel by this country's citizens.

I want to state here and now that I am most sympathetic with the administration's efforts to close the dollar gap in our balance of international payments. I believe, however, that the provisions of this bill will accomplish very little in this direction. Rather, I think the proposed legislation is a negative action and one which will serve not only to slow international travel by residents of this Nation but antagonize other governments and invite retaliations in both the travel and other fields of international affairs.

Earlier this year officials of Curtis Publishing Co. were privileged to testify in favor of resolutions S. 3102 and S. 3162 which provided for the establishment of an Office of International Travel and Tourism and for encouraging foreign visitors to come to the United States. This proposed legislation, I might add, is most timely and its final enactment into law should substantially benefit our dollar exchange position; I only hope the good effects of this legislation will not be lessened by the provisions incorporated in H.R. 6611.

It is my understanding that our Government's attitude still is not to discourage American residents from traveling abroad; rather, it is our Government's policy to encourage more foreign visitors to come to the United States. Already the publicity attendant to H.R. 6611 has given many people in this country the idea that the Government is attempting to discourage foreign travel by U.S. residents. Many residents of this Nation at the present time are under the impression that it is not patriotic to travel abroad and as a result travel to the Pacific, Europe, and other parts of the world has eased noticeably. Thus, regardless of the stated objectives of H.R. 6611, the adoption of the provisions of the proposed legislation undoubtedly will immediately be interpreted by other governments as evidence that this country is setting up new barriers to international travel.

To repeat, it is to be hoped that the good effects of such positive legislation as that embodied in the international travel office bills will not be lessened by the provisions of the terms incorporated in H.R. 6611. Particularly is this true in view of this country's foreign aid program as set forth by the President. Most nations and most areas, I am sure, would prefer trade to aid. Let us encourage travel to their shores—let us make it possible for them to increase their trade, as well as ours.

Recognizing the cultural values which travel provides in our international contacts and dealings with other peoples, I am hopeful that existing provisions regulating the duty-free purchases of returning U.S. residents will not be changed. Aside from antagonizing our own residents returning from foreign travel through a much slower and more detailed examination of their baggage and personal effects at customs offices, this country will also be inviting retaliation and ill will from other countries, especially our nearest neighbors, Canada and Mexico, which permit their nationals to visit the United States, buy liberal quantities of U.S. made goods and products and return to their homes without the imposition of additional customs duties on their U.S. purchases.

Senator DOUGLAS (now presiding). Senator Williams?

Senator WILLIAMS. No.

Senator DOUGLAS. Senator Bennett?

Senator BENNETT. No.

Senator DOUGLAS. Mr. Housley, you were here yesterday and heard the testimony about the fact that virtually all of the European countries either permit no commodities to be brought back by their nationals free of duty or permit a very small exemption, but you say that for us to reduce our exemptions to $100 will invite retaliation?

Mr. HOUSLEY. That is right.

Senator DOUGLAS. What retaliation could they do more than they are already doing?

Mr. HOUSLEY. Well, there are retaliations in other fields, Senator, I might add, that I think almost day-to-day negotiations at the diplomatic level.

Senator DOUGLAS. Do you have such a low opinion of foreign countries that you believe when we merely put into effect far more liberal provisions than they have, then they would retaliate elsewhere?

Mr. HOUSLEY. Let me answer that by saying, Senator, that I would rather see us attempt to get them to liberalize their allowances rather than us cutting ours.

Senator DOUGLAS. You have heard Mr. Kerr state that his agency has been trying for years to get them to liberalize theirs, and has not been successful.

Mr. HOUSLEY. I think we must do that at the government level, although encouragement from private groups would certainly be helpful and appreciated.

Senator DOUGLAS. There is no indication that this would be successful.

Do you think that the European countries should be mindful of the fact that we have given them, with the other countries of the world, some $75 to $80 billion since the war?

I believe it has been said that the aid to Europe has amounted to something in the order of $35 billion, about $12 billion of military aid and $23 billion of economic aid. So far as I know, this is unprecedented in the history of the world. Wouldn't you think that their feeling of gratitude for this should overcome any resentment about our treating our own nationals more severely than we have been in the past?

Mr. HOUSLEY. I don't know how they feel, of course, Senator.

Senator DOUGLAS. How do you think they should feel?

Mr. HOUSLEY. I would hope that they would not feel too badly about it.

Senator DOUGLAS. Exactly. They are pretty decent folks that basically understand these matters. Don't you think they understand that we are merely proposing that we be infinitely more liberal than they are in this particular matter? And considering our generosity in other matters since the war, shouldn't this produce a feeling of friendliness rather than retaliatory action?

Mr. HOUSLEY. I hardly know how they would feel. I shouldn't think they would take it as a particularly friendly act on our part.

Senator DOUGLAS. You know, this is a very grave problem which runs through human life. When you spend yourself in aid to others, and others become dependent upon you, and then when you get into difficulties and those you helped take advantage of you in your difficulties, how long must you continue?

Mr. HOUSLEY. That is a very great problem, there is no doubt about it.

Senator DOUGLAS. I favor our continuing, but not to an unlimited degree.

I read editorials in your papers from time to time saying that we have been too generous. In fact, I think your paper has criticized me for being too generous in these matters.

And now you come urging that we be generous.

Mr. HOUSLEY. I don't know whether it was in this field that we were talking about, Senator.

Senator DOUGLAS. When, with my associates, I was supporting foreign aid, your paper—and I don't know whether it was the editorial brass or not—was most critical of American efforts to help European and other governments, and it made our task in Illinois much more difficult.

If you really believe in developing friendly relations with foreign countries, don't you suppose you might help to do so if you would use a little influence with the Curtis Publishing Co. in its magnificent home on Independence Square in Philadelphia?

Mr. HOUSLEY. I should hope that we could work on it from another point of view. And I look at it that we are penalizing our own citizens when we cut down on these purchases.

Many people don't go abroad every year, they go once or twice in a lifetime, and they like to buy articles or gifts that are representative and characteristic of a country they have visited.

Senator DOUGLAS. We all like to do that.

Mr. HOUSLEY. Furthermore, they——

Senator DOUGLAS. I like to do it. I expect to go abroad this fall. My purchases will probably be in excess of $100, not very much, but somewhat in excess of that. And I shall be very glad to pay duty on that. I think the average American, knowing the circumstances in which our Government is placed, will make a sacrifice.

But he believes in mutuality of sacrifice.

Mr. HOUSLEY. I agree with that.

Senator DOUGLAS. That is the point. The average American is willing to make any sacrifice, provided he is certain that others are making the same sacrifice. But let one person not make the sacrifice, and then the others will say, "There is no obligation on us to do it."

Mr. HOUSLEY. I agree with you.

Senator DOUGLAS. You know, every time we try to protect the country we step on certain toes: travel agents, publishing houses which handle advertising of resorts abroad, foreign airlines, foreign steamship lines, and so forth, they all rise in opposition. But I think you have to go on the principle that the general interest is primary.

Mr. HOUSLEY. Do you think, Senator, that this honestly will reduce the gap in our balance of payments?

Senator DOUGLAS. I think the measure, if passed, will reduce the volume of foreign purchases by an indeterminate amount, and hence to that degree will diminish the unfavorable balance of payments. You see, our unfavorable balance in the last 3 years has amounted to $11½ billions.

I think your journals have called attention to this matter and have emphasized the need for our protecting the dollar balances.

Now, we take a very little step toward doing so in this bill, and you come in and say, "No, don't do it to us," or "don't do it to the American tourist."

And it has a tangential effect upon you.

Mr. HOUSLEY. I would assume that if we are genuinely interested in correcting the international balance of payments, we should just cut off all travel, if you really want to do that.

Senator DOUGLAS. No; we are not interested in cutting off all travel, but merely in reducing, in the gentlest fashion possible, the number of American tourist dollars spent abroad.

Thank you very much.

The next witness is Mr. Cecil L. Delvalle, of the Economic Development Council of Curacao, Netherlands West Indies.

## STATEMENT OF CECIL L. DELVALLE, ECONOMIC DEVELOPMENT COUNCIL OF CURACAO, NETHERLANDS WEST INDIES

Mr. DELVALLE. Thank you, Senator Douglas.

My name is Cecil L. Delvalle, and I am a businessman in Curacao. I was Minister for Economic Affairs of the Netherlands Antilles and I am now vice president of the Curacao Chamber of Commerce and Industry. I am also a member of the Curacao Tourist Advisory Board and of the board of directors of the Curacao 10-year tourist development plan.

I have been authorized and instructed to speak in behalf of the Curacao Association of Trade and Industry, and the Curacao Chamber of Commerce and Industry, the Curacao Tourist Advisory Board, and the board of the Curacao 10-year tourist development plan. The latter three are semiofficial organizations of the island government of Curacao.

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Aside from representing Curacao, I have also been instructed to represent the Chamber of Commerce of the Americas, which is meeting in the Antilles.

For the record, we wish to state that on our behalf the Kingdom of the Netherlands has joined a number of other nations in expressing concern over H.R. 6611 to the U.S. Department of State.

Senator DOUGLAS. Do I understand that there has been an official protest by the Netherlands Government?

Mr. DELVALLE. That is correct, Mr. Douglas.

Senator DOUGLAS. Do you know what the other nations were that protested?

Mr. DEVALLE. I do not know.

Senator DOUGLAS. Is there a representative of the State Department here?

(No response.)

Senator DOUGLAS. A representative of the Treasury Department here?

(No response.)

Senator DOUGLAS. I will ask the clerk of the committee if she will try to get from the State Department a list of the nations which are protesting against H.R. 6611.

Thank you very much.

(The information subsequently obtained from the State Department follows:)

**Countries protesting:**

| | |
|---|---|
| Canada | Malaya |
| Netherlands for the Dutch Antilles | Ireland |
| Haiti | Mexico |

A resolution was adopted during recent ECLA meeting by Argentina, France, Netherlands, Mexico, Panama, and Peru—ECLA members to take into account in drafting legislation or regulations of a custom or other nature, the importance of encouraging the flow of tourists into other countries of the region and to avoid measures which may jeopardize this flow. In the discussion of the resolution the U.S. representative stated that the U.S. Government did not consider the reduction in the duty-free allowance of returning residents as being inconsistent with the resolution.

Mr. DELVALLE. Before I actually start my testimony, I would like to ask the gentlemen present, Mr. Bennett and Mr. Douglas, to actually look at my testimony in the light of very small figures when we talk about thousands. I have been in this room since yesterday, and I have heard millions and billions, and I realize that our amounts might seem quite insignificant.

I have come 2,000 miles to speak to you today for just two reasons:

1. We feel the future of our islands is gravely threatened by House Resolution 6611, and

2. Because the Netherlands Antilles are friends of the United States, we do not wish the United States to take any action which might harm its good will and the cause of democracy in our area.

As you know, Curacao is one of the Netherlands Antilles. We are just 38 miles off the coast of Venezeula—in the same geopolitical position relative to Venezuela, as Cuba is to the United States.

The Netherlands Antilles position is unique. An autonomous country which is politically part of the Kingdom of the Netherlands, we are economically part of the Western Hemisphere. We import about half of our nonoil goods from the United States. We have never discriminated against the United States in any form or manner. Imports from the United States pay the same low duties as goods imported from the Netherlands. Neither do we apply any exchange restrictions on trade with the United States.

During World War II the Antillian oil refineries produced enough to meet over 50 percent of all the Allied needs. American troops were stationed in Curacao; American warships patrolled out of St. Anna Bay a protect the refinery production. At the end of the war, the Shell refinery in Curacao emerged as the second largest in the free world.

Shell Curacao provided jobs for 12,000 workers. Other industries—shipping, construction, suppliers—prospered as the oil refinery drew on their services; 15,000 additional jobs had been provided through these industries.

The recent high standard of living in Curacao springs from the refinery. A healthy, happy working community found itself secure from the political unrest in the Latin American area. Today, we believe Curacao is most assuredly the best showcase of democracy in the entire West Indies.

But, historically, Curacao has suffered from dependence on a one-industry economy. Drought and soil conditions make agriculture impossible, and we have few other natural resources.

As early as the postwar reconversion period, plans were begun for a broader based economy.

The worldwide oil surplus and Curacao's own postwar population explosion added urgency to Curacao's economic development plan.

Growing competition forced Shell to turn to automation. Widespread layoffs were necessitated. By 1960, the number of workers had decreased 40 percent. By 1965, it is forecast that there will have been a 65-percent cut.

And in 1958, political and economic problems began to trouble our best next-door neighbor, Venezuela. A Venezuelan tourist trade of approximately 15,000 tourists in 1959 has decreased to an estimated 5,000 in 1961.

These figures for 1961 actually are forecast from the first 5 months of this year.

The Minister of Economic Affairs for the Netherlands Antilles has estimated that more than 10,000 new jobs will need to be created in the coming 10 years.

As a result of early planning by Curacao's leaders, accelerated by this falling of the oil economy, Curacao has adopted an economic development plan, aimed at broadening the economic base and providing more jobs.

The keystone to the success of the overall economic development plan is the 10-year tourist development plan. It is from the tourist plan that we expect to finance the economic plan. This tourist plan envisions the purchase of $15 million of material, goods, and services from the United States.

In addition to gifts and loans from the Dutch Government and general belt tightening of the local economy, Curacao economic planners look to tourist-generated income as a major source of funds for financing the overall expansion and broadening of the economy.

Tourism, however, plays a major role in Curacao's economy today.

One thousand five hundred people are directly employed in the tourist industry, and 1,875 work in other jobs generated by this income. A total of 13,500, or 10.4 percent of our population, are dependent on the tourist trade.

But it is important for you to note that of this number, 40 percent work in jobs catering to the American tourist. A total of 8,200 Curacaoans, 6.5 percent of our population, are members of families whose incomes are generated by U.S. tourists.

Curacao tourism reverses the typical Caribbean tourist income pattern. Most tourist-dependent economies derive their largest income from services to the tourist—hotels, restaurants, land tours, and so forth. This is not Curacao's position. Eighty-seven percent of all the money spent by American tourists is spent on purchases, while only 13 percent is used for tourist services.

Senator DOUGLAS. What do the Americans buy in Curacao?

Mr. DELVALLE. Mr. Douglas, I think you can state the range is anywhere from postcards up to possibly large and expensive pieces of jewelry.

Senator DOUGLAS. This is all?

Mr. DELVALLE. This is all.

Senator DOUGLAS. I had heard that there is a drink called Curacao. Is that purchased?

Mr. DELVALLE. It is purchased in very small quantities. We hope that it might be purchased in large quantities, but it is not.

Senator DOUGLAS. Does the tourist buy bottles of Curacao when he comes to Curacao?

Mr. DELVALLE. We do have a beautiful package of three bottles that sells for $5 or $6, but actually the sale of this is not large enough to contribute to broadening our economic base.

Senator DOUGLAS. I had always thought that this was one of the attractions which made trips to Curacao so attractive.

Mr. DELVALLE. Mr. Douglas, I do not doubt that it might be in the minds of Americans——

Senator DOUGLAS. I might say that I am not a prohibitionist, and I do not want to pose under false colors. Unlike my colleague from Utah, I am not a prohibitionist.

Senator BENNETT. Your colleague from Utah, who does not drink Curacao, observes that it is one of those liqueurs that is served in tiny quantities, after one has eaten and drunk so much that there is no room for much more.

So I do not think that it will replace Scotch whisky in the United States.

Senator DOUGLAS. I am very much surprised by this testimony that only a small proportion of American purchases goes for Curacao.

Mr. DELVALLE. The statistics show that this is true. Our dollar volumes do not come from that.

Senator DOUGLAS. I wonder if your statistics are correct?

Mr. DELVALLE. I would be happy to have our government send you a group of our statistics. I think you will find that they are the best prepared in the West Indies.

Senator BENNETT. What proportion of American purchases would be represented by this liquor, roughly?

Mr. DELVALLE. I would estimate that the sales would be, roughly, between $100,000 and $125,000 a year, out of total purchases of about $6 million.

Senator BENNETT. That is 2 percent.

Mr. DELVALLE. Yes.

May I go on with my statement?

I was saying that actually we reverse the pattern, because in Curacao the money actually goes on purchases. In the next few years Curacao cannot build any kind of tourist trade which is not based on shopping.

We are still in the midst of building up the other attractions which some of our neighboring islands already have.

The enactment of H.R. 6611 would be a death blow to our entire development and would forestall all of our carefully worked out plans.

This, in turn, would be a crippling blow to our entire economy.

We fear that the problems created will be of such a nature that our people easily could fall prey to the promises of those who want to alienate us from our traditional friendship with the United States.

The United States itself has had a greater income from Curacao purchases in the United States than Curacao has enjoyed from U.S. tourism. Curacao has to import almost everything consumed.

Despite partnership in the Kingdom of the Netherlands, Curacao has traditionally favored the United States in its imports. In his 1960 annual report to the State Department, the U.S. consul general in Curacao pointed out that the U.S. share in the total non-petroleum imports, for January to September 1959, was slightly more than 50 percent.

The Dutch Antilles, one of the most stable political influences in a volatile Caribbean area, import over $70 million of U.S. goods each year. Curacao—the Antilles' most important island—brings in $29 million of such stable goods as Detroit cars, Louisville refrigerators, Philadelphia air conditioners, and Florida foods each year, Louisiana rice, wheat, tobacco, even Virginia apples.

Against this, U.S. tourists paid out $6 million for tourist services and shopping trips in Curacao. Out of all U.S. public and private spending overseas, only $5.7 million was spent on purchases in what is generally regarded as the favorite shopping center of the Caribbean.

For every dollar laid out by the American tourist, $5 are spent by Curacaoans in the United States, or about $250 for every man, woman, and child.

Mr. Chairman, these amounts may appear insignificant in comparison with the entire U.S. economy, but I suppose there are some members of this committee—and, most certainly, of this Congress—from small towns where even small amounts of money can be of great importance for development.

It is difficult for us to explain to Antillians why the United States is willing to jeopardize its sizable nonoil trade with the islands and, by so doing, encourage the growth of antidemocratic forces.

In discussing H.R. 6611 at the recent Economic Commission of Latin America meeting at Santiago, Chile, U.S. Ambassador Robert R. Woodward told us that the program is designed, and I quote, "to have the least possible adverse impact on the earnings of less-developed countries."

Indeed, the enactment of H.R. 6611 will have severe adverse impact on the island of Curacao. We sympathize with the U.S. balance-of-payments problem. We understand that the $500 limit was originally enacted to aid the development of European areas, at a time when the purchasing power of the dollar was much higher.

Perhaps it is now time for you to consider use of this device to aid the Caribbean. Perhaps you can enact a special exemption for the Caribbean, Latin American, and other less-developed areas.

Perhaps some compromise can be found to assure equal treatment for all our needs.

What we do know is that—should the $500 to $100 cut become law, we expect the worst. The major portion of Curacaoans directly employed by the tourist industry would find themselves out of work because shopping has been the island's greatest tourist attraction.

Mr. Chairman, may I summarize by pointing out:

First. Curacao, a traditional friend of democracy, strategically situated in the Caribbean, must broaden the base of its economy.

Second, an economic development plan undertaken to create new jobs was to be financed by Dutch loans and gifts and by tourist-generated internal funds.

Third, tourism today in Curacao is the second most important industry, sustaining over 10 percent of our population. This becomes even more important with the deterioration of the oil economy.

Fourth, Curacao tourism income is 87 percent derived from the sale of goods, not from services.

Fifth, with Venezuelan tourism cut off, the American tourist is the keystone of Curacao's entire economic development plan.

Sixth, Curacao spends $5 in the United States for every dollar spent by American tourists in Curacao.

Finally, reduction of the duty-free allowance jeopardizes thousands of tourist-based jobs, undercuts the economic development plan, and undercuts Curacao's purchases from the United States.

Mr. Chairman, we appreciate the opportunity to have presented these facts in the spirit of friendship. May I request that they be made part of the record of this committee hearing, and may I invite the members of the committee to come visit us in Curacao.

Thank you.

And may we be your host with a bottle of Curacao some day.

Senator DOUGLAS. Senator Bennett?

Senator BENNETT. May I make this comment.

I have not been in Curacao, but I have been in Aruba, which has the same kind of problem, has it not?

Mr. DELVALLE. That is correct.

Senator BENNETT. I remember that our ship docked at midnight, and the shops kept open through the early morning hours so that the ship could sail again at 6, and so that those of us who had planned to make some purchases in Aruba would have that opportunity.

Isn't it true that you derive your tourist sales from Americans on cruise ships which cruise in the Caribbean?

Mr. DELVALLE. Mr. Bennett, according to the figures for last year, our total American tourism amounted to approximately 60,000, of which 54,000 came in by cruise ships, and 6,000 for so-called stayovers.

Now, you were referring to Aruba. I did not make too much mention of Aruba in this presentation because Aruba at this moment still is not as far developed as we are. But they are trying to reach our position. They have their own development plan which is coming along, again based, primarily, on the expansion of the American tourist trade.

I would like to mention in connection with Aruba, that as you are well familiar, Aruba has probably the free world's largest, if not the largest, then the second largest, refinery today. It belongs to Standard Oil, and of course it is American owned.

Senator BENNETT. But, basically, the Island of Curacao and the Island of Arbua share the same type of economy; they have the same relationship to tourism?

Mr. DELVALLE. That is correct.

Senator BENNETT. They get their tourist business from cruise ships that stop there for a brief period of time?

Mr. DELVALLE. That is correct, sir.

Senator BENNETT. Now, actually, the ship we were on did not stop at Curacao; it chose to stop at Aruba. So we had that choice.

Now, there is one clause in this prepared statement which you did not read. It is the last clause in the next-to-the-last paragraph on page 8. The copy I have says:

> This undercuts Curacao's purchases from the United States, and may force Curacaoans to ask for American aid.

Have these islands ever had any aid from the Government of the United States?

Mr. DELVALLE. No, Mr. Bennett, they have not. We have always kept our own house in order.

Senator BENNETT. Apparently, turning back to an earlier part of that same paragraph, you expect to get some aid from the homeland of the Netherlands in developing this adjustment from an oil economy to an economy in which tourism will play a more important part?

Mr. DELVALLE. That is correct.

But we do not call it the homeland any more. In our position, we are actually one of three autonomous partners in the Kingdom.

Senator BENNETT. You maintain just an emotional or a patriotic relationship with the Netherlands?

Mr. DELVALLE. Mr. Bennett, while our position is not as far as the British Commonwealth's, at the same time, it is much further than most of the other islands.

We only look to Holland today for defense, and for foreign affairs representation. For the rest, we take care of our own problems. But when we come along with a very large plan, as we have now, and this plan calls for an expenditure of what I think is about $26 million to $30 million, we feel that we cannot finance this by ourselves. We have to turn to someone.

And we think that it is only right that we turn to Holland and not to the United States, if we possibly can avoid it.

Senator BENNETT. But you have also made the point that for every dollar the American tourists spends in Curacao, the people on the island spend $5 in the United States.

Do you think the passage of this bill might have one of these two effects: Either have a tendency to turn that trade somewhere else in retaliation, or so reduce the economy of the island that the people in Curacao could not buy as much in the United States?

Mr. DELVALLE. The second is correct, sir. I do not think that we would turn away from the United States in our purchases. I just think that we would have less income. Out of plain necessity we would have to spend less, and I think every country would share in this.

This would not be a matter directed against the United States at all. We will just buy less from Holland, less from England and less from the United States, and less from any country that supplies us today.

Senator BENNETT. And is this true of the other islands in the Dutch Antilles?

Mr. DELVALLE. That is correct. It is exactly the same.

Senator BENNETT. I have no other questions.

Senator DOUGLAS. Are the customs regulations for Curacao determined in Holland or by Curacao itself?

Mr. DELVALLE. Mr. Douglas, I definitely want to make the point that in internal administration, which includes customs, we decide our own rules.

You know very well that as partners in the Kingdom of the Netherlands, we are tied to GATT. And so, when and if we want to make changes, we have to submit this through the official channels, and then it is taken up for us.

Senator DOUGLAS. Earlier, Mr. Flues, whose testimony I think you heard, gave me a memorandum, one item of which was in Curacao there is no exemption——

Mr. DELVLLE. That is correct.

Senator DOUGLAS. If I may complete the sentence—no exemption on commodities which native Curacaoans bring back from foreign countries.

Now, is this by decision of Curacao itself?

Mr. DELVALLE. Mr. Douglas, that is a matter of historical growth; it has never been otherwise.

However, I think that your question probably implies something else; in other words, you are trying to bring two things into relationship with each other. I would like to make this point: There is a very big practical difference when, first, customs officials are so liberal that they practically do not look at what you bring back; and, second, if you have to pay duty, that duty will be roughly 4 percent.

Senator DOUGLAS. I have always appreciated the low tariff attitude of the Netherlands, but do you think you can conscientiously ask that we keep an exemption of $500 on American purchases in Curacao, whereas you permit no exemption of Curacao purchases in the United States. Is that consistent?

Mr. DELVALLE. Mr. Douglas, I think that answer is not so easy to give. There are several things entwined in this. First, I agree that if you are in the difficult position that you are in today with your dollar balances, that this has to be corrected. I think that once we are a part of the free world, we have got to share in this with you. We are definitely not in any way indicating that we think that a compromise would be incorrect.

Second, I would like to point out that if one country has, let us say, 50 percent duty, in a way of speaking——

Senator DOUGLAS. I think your duty is much less than that now, if I may say so.

Mr. DELVALLE. Mr. Douglas, I know the American duties on certain specific items, and it is very possible that the statements of the gentlemen who were here yesterday and today are correct.

But I am also equally convinced that it does not apply to the purchases made in the Netherlands Antilles.

In other words, if you consider the articles which are most frequently purchased there and brought back here, then that average duty is not 15 percent, it is considerably more.

Senator DOUGLAS. What are those articles?

Mr. DELVALLE. Let us say on cameras it would be 15 percent. On watches, when they are really completed watches, as you heard this morning, they will run the whole gamut. They might be way up or way down.

On China it is very high.

Senator DOUGLAS. And on Curacao——

Mr. DELVALLE. On Curacao liquor you are allowed your usual quota, which, if I am not mistaken, is 1 gallon a person. And beyond that you would have to pay your duty. And I frankly am not aware of that duty here. I was trying to make the point that if you make this comparison—now, we go along with your 15 percent, though I frankly take the liberty of saying that it doesn't apply to goods most frequently purchased in our area—you have to take into consideration what we are paying. Because it is a lot different when a resident returns to Curacaco and pays 4 percent on the hundreds of dollars in American goods that he has purchased here than when an American goes down there and pays at least 15 percent on goods purchased in Curacao.

Senator DOUGLAS. He does pay 4 percent?

Mr. DELVALLE. Yes; he does pay 4 percent.

Senator DOUGLAS. Whereas in the United States an American tourist can go to Curacao, bring back $500 worth of purchases and pay nothing in duty, and even under this bill he could bring back $100 worth and pay nothing.

Senator BENNETT. Mr. Chairman, I would like to get my own thinking on that. I think Mr. Delvalle said earlier that there were many, many things on which the tourist paid nothing. I get the impression that in Curacao you had a bigger free list than we have in this country.

Mr. DELVALLE. Mr. Bennett, we have practically no free list at all. It applies only to books, periodicals, and educational things.

Senator BENNETT. I see.

Senator DOUGLAS. I want to congratulate the witness on very honest testimony.

Mr. DELVALLE. I couldn't be different, sir.

Senator DOUGLAS. I appreciate that. One of the strongest tests of character is whether you are willing to volunteer testimony adverse to yourself. I congratulate you.

Mr. DELVALLE. Thank you, sir.

Senator DOUGLAS. Have you ever made any efforts to liberalize the no-exemption provisions in Curacao?

Mr. DELVALLE. We have not, Mr. Douglas. But I think that we haven't, not because of any lack of willingness, but just because it was never a question that was raised.

Now, I understand from the previous discussions this morning that your Government—or at least you as Senator, seems to feel quite strongly that this should be a reciprocal sort of thing.

Senator DOUGLAS. Precisely, I do not mean that as the Government——

Mr. DELVALLE. I understand, you as a Senator. And I think the preceding gentleman from the State Department also mentioned something along this line.

And I can assure you when I go back I will be glad to take this up with our Prime Minister and see whether anything can be done and see whether this can be presented to GATT.

But, again, I must stress——

Senator DOUGLAS. You have to get a permit from GATT to liberalize trade? I thought you had to get a permit only when you restrict trade.

Mr. DELVALLE. It has been 9 years since I have been in the Government, and it is not clear in my mind. I would like to check on that.

If so, it is so much the better.

But it is something we should study.

Senator DOUGLAS. I don't think GATT is a contributing influence to the prevention of your liberalizing importation.

Mr. DELVALLE. Again, we must come back to this, Mr. Douglas. You must take into consideration not only the amount of our purchases but the low duty. In other words, if these duties amounted to 1 percent, it would be practically nothing at all.

Senator DOUGLAS. I notice you have not used the argument of the relatively strong economy of the United States and the lesser economic strength of Curacao, and I want to congratulate you on that.

Mr. DELVALLE. Thank you, sir.

Senator DOUGLAS. If I may say so, I have had some very unhappy experiences with a few of my British friends. I was having afternoon tea the other day with some English friends, and they spoke with great exultation of the fact that South Wales longshoremen had refused to unload American coal because they believed that this would deprive miners of employment in the coal mines of South Wales.

I said, "Well, this is very interesting. Now it will be possible for me to yield to the demands of American industry that we restrict the importation of goods from Great Britain."

And immediately a cry of terror and of anger came from these friends of mine, and they said, "Oh, no, you can't do that."

And I said, "Well, why do you hold us to more severe standards than you impose upon yourself? You say that you have the right, and glory in it, of shutting off imports from the United States by voluntary action. And yet you say that we have no reciprocal right."

They said, "Well, there is a great difference in strength."

Now, this raises the question as to just how long the colossus of the north can bear the burdens of the world upon its shoulders.

In a sense, I had hoped that our difficulties would produce an understanding feeling in other countries; that they would see that we, too, have our troubles, and that they would be anxious to come forward to assist us as we assisted them in their need. But I haven't seen many evidences of that.

I am not suggesting that Curacao bear the full load of the burdens of the United States on its frail shoulders. But I do think its reciprocal willingness is very important.

Mr. DELVALLE. Mr. Douglas, you could hardly expect us to feel something more favorable about you. We have always felt that our attitude toward the United States is one of friendliness from both sides.

Senator DOUGLAS. When you go back to Curacao, will you say you have been here and have argued that we should not place any restrictions upon the importation of Curacao liquor or upon the bringing back of the Curacao goods by American citizens, and that, therefore, reciprocally you feel that the Curacao Government should impose no restrictions upon Curacao citizens in bringing back American articles to Curacao?

Mr. DELVALLE. Mr. Douglas, I most certainly cannot answer for my Government.

Senator DOUGLAS. Can you answer as an individual?

Mr. DELVALLE. Definitely, most emphatically.

Senator DOUGLAS. Will you write to the Netherlands Government in the Hague asking that they act similarly, inasmuch as that Government allows no exemption, according to the testimony yesterday?

Mr. DELVALLE. Mr. Douglas, I think that is completely beyond anything that I could possibly recommend or do.

Senator DOUGLAS. Aren't you a citizen of the Netherlands?

Mr. DELVALLE. I am a citizen of the Netherlands Antilles.

Senator DOUGLAS. Aren't you also a citizen of the Netherlands?

Mr. DELVALLE. Our passport is a Dutch passport which bears the identification "Netherlands Antilles" on it. It is separate.

Senator DOUGLAS. Do you have a separate foreign service?

Mr. DELVALLE. We do not, sir.

Senator DOUGLAS. Do you have separate representation in the United Nations?

Mr. DELVALLE. We do not. We have additional representation.

Senator DOUGLAS. Don't you have the right to petition to the Netherlands Government?

Mr. DELVALLE. The right of——

Senator DOUGLAS. The right of petition. You see, we, as citizens, have the right to petition our Government, and this applies to Puerto Ricans and residents of the Virgin Islands, as well as to those in the continental United States. We protect that right by one of the amendments to the Constitution.

Now, Holland is, of course, a country of religious freedom and political freedom, and you have the right to petition, too, don't you?

Mr. DELVALLE. Yes, Mr. Douglas.

Senator DOUGLAS. Why aren't you willing to exercise this right of petition?

Mr. DELVALLE. Mr. Douglas, the problem is that I am not here as a representative of anyone that has to do with anything connected with

Europe or Holland, I am representing my island and my problem and my area.

Senator DOUGLAS. But dealing as one individual to another, if one of the ethical bases of life is that you should not ask from others that which you are not willing to accord to them—and I think this is a basic rule of life—then just as you make and we gladly receive your comments about the actions of the American Government, is there not also a similar obligation upon you to make similar representations to your own Government?

Or is the exercise of benevolence to be solely an American requirement, an ethical requirement upon America which calls for no reciprocal action by other nations?

Mr. DELVALLE. You are quite right, Mr. Douglas, but I must again say, I can only make this recommendation to my own Netherlands Antilles Government. Customs are something which we decide at home and Holland decides its customs. And this is something which I must represent——

Senator DOUGLAS. You will write to the Government of Curacao?

Mr. DELVALLE. I am going back to Curacao tomorrow. I will take this up as one of the feelings which was expressed at this hearing.

Senator DOUGLAS. We have lots of good things to have you take back from the United States, and we regret that you will not be able to purchase as many of these articles as you otherwise would if your Government had as liberal provisions as those which we are proposing to put into effect here.

Mr. DELVALLE. Well, Mr. Douglas, I think that there isn't a single citizen of the Netherlands Antilles who comes up here who doesn't go back with a considerable amount of purchases above the $100 average or the $150 average that was mentioned yesterday as the U.S. citizen's average purchase abroad.

Senator DOUGLAS. We think that would happen also with respect to American purchases in Curacao; that the imposition of a $100 limit would not shut off purchases, though we think it would diminish them.

Mr. DELVALLE. I cannot speak for U.S. citizens. We buy your goods and pay the 4 percent.

Senator DOUGLAS. As in the case of other witnesses, I am not speaking to you so much as trying to speak through you to the European governments themselves.

Mr. DELVALLE. Mr. Douglas, I would very much like you to see me as a neighbor in the Antilles in this hemisphere, and not as a representative or person in any connection with Holland, except that we are part——

Senator DOUGLAS. Holland is a great country. I hope you will not disavow your relationship to Holland.

Mr. DELVALLE. No, sir—except that we are part of Holland as a political unit, but economically we belong in this hemisphere.

Senator DOUGLAS. Mr. Delvalle, I may have given you a rough time, but the name of Delvalle is quite dear to me, it so happens, because my commanding general had the name of Delvalle. He was a very brave and skillful Marine, and he came originally from Puerto Rico. When I became a civilian I found that our political ideas differed very sharply, but I may say that as a field Marine he was superb: brave, skillful, and considerate of his men—the very model of what a major general should be.

Mr. DELVALLE. In all honesty, Mr. Douglas, he was not a relative of mine. I would like to mention this, Mr. Douglas. When we conducted negotiations after the war in connection with the sale of oil from Curacao, we insisted and fought for months with various governments in order for us to obtain the right to convert pounds into dollars. This was done because we wanted the liberty to purchase goods in the United States when we wanted them.

We did not want to be tied down to buy from any specific European country.

I just wanted to give you that as background information.

And I have another question which I hope you will not mind my asking, once we are talking about reciprocity, Do you think there is any chance of Curacao liquor ever being given the complete right of importation into the United States without any duty?

Senator DOUGLAS. Well, I would say that it should be given the same treatment as any other.

Mr. DELVALLE. Thank you very much.

Senator DOUGLAS. Thank you very much, Mr. Delvalle.

Mr. Vesey of the Bermuda Trade Development Board.

And I hope, Mr. Delvalle, that you carry back pleasant memories of our country.

Mr. DELVALLE. I most certainly do.

Senator DOUGLAS. Mr. Vesey, you may proceed

## STATEMENT OF N. H. P. VESEY, CHAIRMAN, THE BERMUDA TRADE DEVELOPMENT BOARD, ACCOMPANIED BY W. J. WILLIAMS, EXECUTIVE DIRECTOR

Mr. VESEY. Mr. Chairman, my name is Henry Vesey, and I am chairman of the Bermuda Trade Development Board, and a member of the Bermuda House of Assembly.

I am accompanied by Mr. W. J. Williams, who is the executive director of the Trade Development Board. I would like first to thank the chairman and members of the committee for permission to appear this morning.

I have a brief statement to make, after which I would be pleased to answer any questions you might have.

The residents of Bermuda appreciate the problems that confront the United States as it seeks to improve its balance of payments position. We are therefore sympathetic with U.S. efforts to help correct this situation.

Mr. Chairman, I may say that we have been in that situation ourselves for a number of years.

However, it does not appear that H.R. 6611, which would reduce the duty-free limit on tourist purchases from $500 to a maximum of $100, will contribute to this objective. Our own assessment indicates that a duty-free allowance figure of $100, will, in fact, have overall effects quite distant from, and even contrary to, those desired. The adverse effects of the proposal upon Bermuda-United States relationships are emphasized by the following facts:

1. Only 20 square miles in size, just off the eastern shores of the United States, Bermuda has strong historical and military security ties with the United States.

2. Bermuda has no natural resources with which to support a growing population now numbering approximately 42,000.

3. The economy of Bermuda is almost totally dependent upon its tourist trade—85 percent of which comes from the United States.

4. United States presently enjoys a favorable balance of trade with Bermuda.

5. Bermuda cannot produce enough food for its own needs. It must import. It buys more food and other goods from the United States than from all other countries combined.

6. In 1960, Bermuda's 42,000 citizens spent $26,578,261 on goods from the United States. This is $633 per capita.

7. For mutual security reasons, U.S. military bases occupy some 10 percent of Bermuda's limited land area, and are a free-will gift so far as Bermuda is concerned.

May I elaborate on that in order to make the position quite clear there?

Senator DOUGLAS. Surely.

Mr. VESEY. When the land was acquired for the two bases, nearly all of it was privately owned. The land had to be purchased. Her Majesty's Government in the United Kingdom, in the first place, put up the necessary money to purchase that land.

The Bermuda Government immediately assumed the responsibility for it, and has, in effect, paid to the United Kingdom Government practically the entire amount. We have a program set up, and I think we have one or possibly two more payments to make to complete it.

But we felt that we wanted to make that our contribution to the war effort and to indicate our friendship and good will to the United States, which goes back over a long period of our history.

As a matter of fact, I do not know whether you are aware of it, but we contributed some of the gunpowder which enabled you to obtain your independence during the War of Independence.

Senator DOUGLAS. I am quite well aware of that fact. The U.S. Marines went to Bermuda and seized that gunpowder.

Mr. VESEY. Well, Bermudians actually cooperated with you; we seized the gunpower and turned it over to you.

8. Since security and economics are inseparable, Bermuda is, in effect, virtually a contiguous area of the United States.

SUMMARY OF EFFECTS OF PROPOSAL

As best as we can anticipate, these would be the effects of the proposal:

I. It would not be consistent with and will weaken historical U.S. ties with Bermuda.

II. It will deprive Bermuda of revenue which, though insignificant in terms of the total U.S. problem, is vital to the island economy.

III. It will inevitably weaken the favorable balance of trade that the United States now enjoys with Bermuda. Indeed, though the amounts involved would be small, the effect would be opposite to that intended.

I. The damage to historical ties: Because Bermuda is virtually contiguous to American shores, an identity of interests has united the two areas economically, culturally, and militarily over the years.

Their traditional joint approach toward mutual problems is underwritten by the military use that the United States makes of this island. While the benefits of the U.S. bases to Bermuda are fully recognized—and I may say, Mr. Chairman, we do recognize them, they are very real—it seems appropriate to recall that Bermuda gave, without restriction or financial payment, 10 percent of its small land area for a U.S. airbase and naval base under a 99-year lease.

II. The proposal will deal a critical blow to Bermuda: The number of dollars that the United States might retain within its economy through the proposal would be trifling in terms of its 180 million inhabitants. On the other hand, it would represent a very critical amount to Bermuda's 42,000 inhabitants.

Tourism is not simply another dimension to Bermuda's economy. It is the very life of the island. Aside from the employment of a few Bermudians at the U.S. bases, there is literally no source of employment other than tourism. And if I may just elaborate briefly on the employment of Bermudians on the bases, the total number employed at any one time during the last few years has been 700.

But that number fluctuates, depending very largely on construction work which may be undertaken at the bases. If there is a construction job underway, the figure goes up to that, and as the construction jobs diminish, the figure drops.

While hotel, restaurant, and entertainment expenditures in Bermuda account for the bulk of the tourist dollar, nearly 25 cents out of every tourist dollar spent in Bermuda last year was for merchandise returned to the United States.

In 1960, Bermuda's income from American tourists was $30,600,000, and approximately $7,650,000 of this was for the purchase of merchandise.

Computations, as shown by the supplementary table attached, show that if the proposal had been in effect last year and tourists had restricted their purchases to $100 or less, total expenditures on merchandise during the year would have been reduced by $3,037,050.

May I just explain that the supplementary table attached covers a 12-month period from March 1960 to February 1961, and it is extracted from a continuous survey which we have been carrying out for the last 12 years.

From that survey we obtain a lot of other information which is helpful to us, particularly in directing advertising and promotion and that sort of thing.

The survey was not carried out specifically for this purpose, but it was easily available because of the continuing survey.

(The table referred to follows:)

SUPPLEMENTARY TABLE

*Expenditures for Bermuda merchandise (based on interviews with 4,210 tourists from March 1960 to February 1961)*

| Range of expenditures | Number of tourists interviewed | Percent of total number of tourists | Total amount spent by those interviewed | Percent of total spent by those interviewed |
|---|---|---|---|---|
| Nothing spent | 41 | 1.0 | | |
| $1 to $25 | 938 | 22.3 | $15,049 | 5.4 |
| $26 to $50 | 1,362 | 32.3 | 54,857 | 19.7 |
| $51 to $75 | 839 | 19.9 | 56,500 | 20.3 |
| $76 to $100 | 435 | 10.3 | 41,370 | 14.9 |
| $101 to $200 | 534 | 12.7 | 84,468 | 30.3 |
| $201 and over | 61 | 1.5 | 26,208 | 9.4 |
| Total | 4,210 | 100.0 | 278,452 | 100.0 |

Mr. VESEY. This $3,037,050 is equivalent to 0.00008 (or eight-thousandths of 1 percent) of all retail sales by U.S. apparel and general merchandise stores in 1960. On the other hand, it represents 39.7 percent of last year's sales by similar retail outlets in Bermuda.

III. United States already enjoys favorable balance of trade with Bermuda; proposal could upset this: (*a*) That the United States now enjoys a favorable trade balance with Bermuda is shown by the following:

| | Total Bermuda income from U.S. tourists | Total spending by Bermuda in U.S., including imports and travel |
|---|---|---|
| 1956 | $22,300,000 | $20,710,815 |
| 1957 | 26,300,000 | 23,124,376 |
| 1958 | 28,960,000 | 28,437,615 |
| 1959 | 29,510,000 | 34,475,922 |
| 1960 | 30,600,000 | 35,191,947 |
| Total | 137,670,000 | 41,940,675 |

Mr. VESEY. Mr. Chairman, a considerable amount here is spent on travel and education. I may say that a great many Bermudians send their children to the United States to attend the universities and secondary schools.

I, myself, for example, sent both of my boys to the United States, and they both attended the Loomis School in Windsor, Conn., and one of them attended Dartmouth College.

Senator DOUGLAS. When they came back to Bermuda, how much could they bring in duty free?

Mr. VESEY. Mr. Chairman, as far as the duty-free arrangement is concerned, at the present time there is no such arrangement.

Senator DOUGLAS. There is no exemption?

Mr. VESEY. There are no exemptions. But I say that, as chairman of the trade development board, I have a considerable responsibility in this development of tourism, and, in addition, I have other responsibilities in the colony. What I am going to say does not arise out of the remarks which have been made here, but are completely sympathetic with your point of view on this point. But I have felt for some time that Bermudians should enjoy the same type of privilege that U.S. citizens do when they return home, and I have so represented to the finance committee of the house of assembly.

And they have undertaken recently to consider the matter.

Now, when I return home, I intend to emphasize the desirability for it. I believe in reciprocity, and this certainly highlights it. As far as I am concerned, it is something that I fully agree with you on, and will do my best to see that there is reciprocity.

Senator DOUGLAS. I want to thank you personally; I am beginning to think possibly that tourism may have value.

Mr. VESEY. May I carry on?

Senator DOUGLAS. Of course.

Mr. VESEY. Any development that adversely affects Bermuda's economy will inevitably be reflected by decreased purchases from the United States. And that is because we would have less dollars to spend, sir, and for no other reasons.

(*b*) Bermuda imports more from the United States than from any other country. Imports in 1960, in U.S. dollars, were:

| | |
|---|---|
| From Canada | $4,091,605 |
| From United Kingdom | 11,730,156 |
| From United States | 26,578,261 |
| From all others | 12,749,953 |

(*c*) The advantages to American tourists of shopping in Bermuda contribute substantially to their reasons for visiting this island. This American tourist trade earns dollars for the United States that more than offset merchandise expenditures by U.S. tourists in Bermuda.

Now, the following table, Mr. Chairman, was prepared in order to give an indication as to the benefits of the tourist business to the United States. The table shows that Pan American Airways and Eastern Airlines, for example, collected a total of approximately $8.5 million for fares, not only of tourists, but of Bermudians traveling to and from the United States as well, and that U.S. travel agents earned approximately $1.4 million.

Senator DOUGLAS. With a 5 percent commission?

Mr. VESEY. A 10 percent commission.

And then on the other side we have indicated total U.S. expenditures on merchandise, $7,650,000.

(The table referred to is as follows:)

| | |
|---|---|
| Dollars spent by U.S. tourists for merchandise in Bermuda (1960), total | $7,650,000 |
| Dollars returned or retained by U.S. companies serving Bermuda's tourist trade (1960): | |
| Air fares to U.S. carriers (Pan Am and Eastern) from Bermuda tourists | [1] 8,500,000 |
| U.S. travel agent commissions for Bermuda hotel reservations | [1] 1,400,000 |
| Total | [1] 9,900,000 |

[1] Approximate.

Mr. VESEY. (*d*) There is an imbalance of sterling as well as dollars. If Bermuda cannot earn dollars, it will have no alternative but to increase its purchases from sterling areas. In this event, the balance of trade now favorable to the United States might be jeopardized.

I may say that the general inclination of Bermudians is to purchase things from the United States, for a number of reasons, including the fact that you can always get spare parts for machinery quickly. The plumbing in Bermuda houses, and other things that we use, generally are the same as you use; in other words, we are so much a part of the Western Hemisphere that our thinking is very similar to yours.

The United States will, of course, do itself as well as the entire free world a disservice if it fails to protect the integrity of the dollar and thereby its own economic welfare. It is hoped that the Congress of the United States will, in its wisdom, devise means to achieve this necessary objective. But it is also hoped that this desirable end can be attained without disproportionate and calamitous effects on a militarily important, traditionally friendly, contiguous area.

Senator DOUGLAS. Thank you for your very courteous and fair-minded statement.

I think many of us would like to make exceptions for the Caribbean countries and include Bermuda in this list. The difficulty is that when you start making exceptions, you are continuously forced to extend the area to which they apply.

Mr. VESEY. We make exceptions as far as U.S. citizens are concerned who are stationed at the base; they have duty-free privileges.

Senator DOUGLAS. For example, Haiti, Canada, Malaya, Ireland, and Mexico have all diplomatically protested this bill, as well as the Netherlands, which protested not for itself, but for the Dutch Antilles.

Furthermore, a resolution was adopted during the recent ECLA meeting by Argentina, France, the Netherlands, Mexico, Panama, and Peru urging ECLA members, in drafting legislation or regulations applying to customs or other practices of similar nature, to take into account the importance of encouraging the flow of tourists to other countries of the region and to avoid measures which may jeopardize this flow.

I would like to make exception to the Caribbean countries and the countries over the Atlantic coast of the United States. But if we do that, Mexico will be up in arms; and South America will be up in arms; then the Philippines will be up in arms; and then the Irish will be up in arms.

I appreciate your coming very much, Mr. Vesey.

I had hoped we could finish this morning. But we have two more witnesses. I wonder if they would consider it unduly severe if we adjourned to 2:30 this afternoon.

Mr. Symonette and Mr. Craig, is that satisfactory?

Mr. SYMONETTE. Yes.

Senator DOUGLAS. It is hard to get the word around quickly, but we would have been glad to have had representatives from the Netherlands, Haiti, Malaya, the Philippines, Canada, Mexico, Argentina, Panama, France, and Peru appear this afternoon to present their views, because we do not want to shut anyone off.

Senator BENNETT. Mr. Chairman, may I just make one observation, or clear one thing with Mr. Vesey.

Looking at the supplementary table, I discovered that the number of tourists interviewed in this period who bought more than $200 represent 1.5 percent of the total number interviewed, and 9.4 of the total merchandise involved. If this bill were amended to give a $200 limit instead of a $100 limit, would you consider that that would be more desirable?

Mr. VESEY. Well, sir, that would help out in the situation quite definitely. It would affect us to the tune of nearly 10 percent. But that would certainly help out; yes.

Senator BENNETT. And if we go down to the $100, you are affected to the tune of 39.7 percent, roughly?

Mr. VESEY. That is right, sir. That would be really a very severe blow to the island's economy.

Senator BENNETT. Thank you, Mr. Chairman.

Senator DOUGLAS. May I renew my invitation to the Netherlands, to Haiti, Malaya, the Philippines, Canada, the Argentine, France, Mexico, Panama, and Peru, if they wish, to attend this afternoon and see if we cannot get some reciprocity.

Mr. VESEY. Mr. Chairman may I again thank you for the very great privilege of appearing before you this morning.

Senator DOUGLAS. You are very much of a gentleman, and we are glad to have had you here.

(Whereupon, at 12:50 p.m., the hearing was adjourned, to reconvene at 2:30 p.m. of the same day.)

AFTERNOON SESSION

Senator DOUGLAS (presiding). The committee will come to order. We are happy to have as our first witness this afternoon Mr. Symonette, representing the Bahamas Development Board, accompanied by Mr. George Gill of the Fort Lauderdale Chamber of Commerce.

## STATEMENT OF ROBERT H. SYMONETTE, MEMBER OF THE BAHAMAS DEVELOPMENT BOARD, ACCOMPANIED BY GEORGE W. GILL, JR., PAST PRESIDENT, FORT LAUDERDALE CHAMBER OF COMMERCE

Mr. SYMONETTE. With your permission, Senator, could Mr. Gill, being a Floridian, speak first?

Senator DOUGLAS. Yes.

Mr. SYMONETTE. This is Mr. Gill.

Mr. GILL. Mr. Chairman and members of the Senate Finance Committee, my name is George W. Gill, Jr., president of Gill Hotels, immediate past president of Greater Fort Lauderdale Chamber of Commerce, affiliated with the Florida State Chamber of Commerce, and a director of the Frst National Bank of Fort Lauderdale. I own and operate four hotels in Fort Lauderdale, one hotel in Tampa and the British Colonial Hotel in Nassau, Bahamas.

I am indebted to this committee for the opportunity to appear here in connection with H.R. 6611. In coming before this body, however, I should like to state that my principal function here is to represent one of Florida's most important trade bodies and its trade and economic viewpoints rather than my somewhat narrower aims as operator of a hotel in the Bahamas, a territory which would be affected adversely by any action on the part of the Congress to enact legislation which would drastically curtail duty-free allowances now allowed to U.S. residents returning from abroad.

I am wholly in sympathy with the administration's attempts to curb the outflow of gold from the United States. However, I respectfully submit that the reasons behind H.R. 6611 and its provisions to lower duty-free allowances from $500 to $100 for each returning U.S. resident have virtually disappeared since the gold situation has already been stabilized.

I further submit for your consideration the thought that any drastic lowering of the present duty-free allowance would have negligible effect on the U.S. gold situation.

I am of the firm opinion that any severe curtailment of duty-free allowances would in the long run work a considerable hardship on the United States in that it would most certainly tend to create trade imbalances with cash-customer countries friendly to this country and eager to trade with its businessmen if allowed sufficient dollar exchange to do so.

It is especially important, I believe, that we take special care to foster our trade and relations and cultural and economic interchange with our neighbors in Latin America, the Caribbean, the Bahamas, and Bermuda.

I am sure that at least some informed persons will agree with me when I say that the so-called image of our United States is not today presenting its best face to countries south of the Rio Grande and in several areas of the Caribbean.

Senator DOUGLAS. It is of interest to me to know, Mr. Gill, where it is that our image is tarnished.

Mr. GILL. Well, we are being criticized quite a bit in the Caribbean right now.

Senator DOUGLAS. On what grounds?

Mr. GILL. Well, through all Latin America.

Senator DOUGLAS. Yes, but on what grounds?

Mr. GILL. That we are not furnishing them enough aid and economic help, as much as we have furnished Europe.

Senator DOUGLAS. I see.

Our image is tarnished because we are not doing enough for them, is that correct?

Mr. GILL. Yes, I believe it is.

Senator DOUGLAS. And you think we should do more for them?

Mr. GILL. I think we should, yes, sir.

Senator DOUGLAS. I see.

Mr. GILL. Over the years it has been the practice of our country to act as a sort of world relief organization, passing out billions on billions of dollars in one form or another of foreign aid for backward and undeveloped countries. I should like to make it clear, however, that I do not disagree with the idea of giving foreign aid, within our ability, to deserving countries.

But it seems to me that tourist travel expenditures by U.S. residents traveling abroad are much more acceptable on many counts than outright handouts.

There is at least some value in the cultural interchange brought about by American citizens traveling abroad, but coupled with it is the fact that countries outside the United States must have the means by which to acquire dollars before they can trade for our products and services. Today the cheap labor markets of the Far East, Western Europe—and perhaps even the Iron Curtain countries—are eager to gobble up an ever-increasing share of the trade offered at our own doorstep in Latin America and the offshore island territories.

As an example of what U.S. tourist expenditures mean by way of providing dollar exchange—and therefore a stimulation of trade with the United States—I would like to cite some U.S. Department of Commerce figures for three of our smallest island neighbors. USDC figures for 1960 show three small island territories—Bahamas, Trinidad, and Bermuda—spend in that year alone a total of $114,030,841 for the direct purchase of U.S. products. It is well known that the bulk of the dollar exchange available to those particular countries during 1960 was derived from tourism.

Senator DOUGLAS. Is that true of Trinidad? What about oil from Trinidad?

Mr. GILL. I do not have that breakdown.

Senator DOUGLAS. In the old days there used to be a lot of asphalt from Trinidad. Has that ceased?

Mr. GILL. I think most of the asphalt comes from Venezuela, now.

Senator DOUGLAS. Go ahead.

Mr. GILL. If we could maintain with the rest of the countries of the world the same dollar balance which we enjoy with our adjacent islands, we would not have to worry about the drain on the U.S. dollar.

I can speak for the entire State of Florida when I say that today more than one-third of the State's total economy is derived from tourism. An additional very substantial amount of Florida's economy comes from its export trade with Latin America, the Caribbean, and the Bahamas.

The present unrest in the Caribbean, however, has caused a severe drop in trade and tourist revenues from that area. To be sure, Florida business houses have suffered the ill effects of the general U.S. recession, but the economic drop in Florida has been greatly emphasized by a general dropoff in trade and tourism with the countries east and south of us.

Our losses from Cuba's demise as a supplier of hard-money visitors, and as a trade territory, have been more than substantial.

In conclusion I would like to state that the businessmen of Florida are most enthusiastic regarding President Kennedy's plan to bring more foreign visitors to the United States. Florida welcomes this opportunity and the Sunshine State will lend its full support to this valuable program.

However, it does seem to me that it would be somewhat inconsistent on our part if at the same time we enact legislation which would affect the economies of the countries which we hope will supply the United States with visitors.

Gentlemen, if it is necessary to reduce the duty-free allowance, I urge you to consider a less drastic reduction than the one proposed by the legislation under consideration.

Senator DOUGLAS. Senator Bennett?

Senator BENNETT. No questions.

Senator DOUGLAS. No questions. Mr. Symonette?

Mr. SYMONETTE. Senator Douglas and members of the Senate Finance Committee. I am indeed grateful to this committee for allowing me to come before you today to present problems confronting the colony of the Bahamas in connection with H.R. 6611.

I am Robert H. Symonette, a member of the Bahamas Development Board, my colony's government department which deals with tourism, and I am also a member of the elected House of Assembly in which I serve as the Deputy Speaker.

And I am now and have been for the past several years a member of both its tariff committee and its finance committee.

I am very respectful of the opportunity of appearing before your august body. I think, sir, that I might say as an aside, that from the standpoint of a person who has to sit on finance and tariff measures, I and my group—all of our development board members, all of the elected members of our house—we have tried to view this through the eyes of the members who sit around this table today insofar as we can.

Before proceeding with the prepared statement, I would like to clear the record of two things that I heard in the earlier testimony yesterday and today.

One is, sir, in respect to the constitutional status of the Bahamas. We are not a crown colony. A crown colony is a colony that no longer has any full measure of control over its own economic affairs. We are one of the colonies—there are only two left, Bermuda and ourselves—who enjoy the early Stuart constitution, which is the same constitution enjoyed by the Thirteen American Colonies.

British territories, when settled, took with them essentially the form of government in the United Kingdom at the date of settlement, and we happened to be one of those earlier territories.

Senator DOUGLAS. Who fixes your tariff?

Mr. SYMONETTE. We do.

Senator DOUGLAS. And you fix all your customs regulations?

Mr. SYMONETTE. We do; yes, sir.

I made that point because we will have an interesting discussion about it later, I am sure.

Now, the Bahama Islands, with a population of just over 105,000, cover almost 100,000 square miles of the Atlantic, beginning only 50 miles off the east coast of Florida, and running over 700 miles southeastward to virtually within the sight of the Island of Hispaniola, on which are located the Dominican Republic and the Republic of Haiti. The Continental Shelf of practically all of our archipelago parallels the northern coast of Cuba.

The Bahamas were discovered by Columbus in 1492 but remained unsettled until a group of Englishmen seeking religious freedom established in the Bahamas, in 1649, the first republic in the New World.

In deference to Mr. Vesey, who spoke earlier, it has always been our observation that Bermudians of good intention have been coming to the Bahamas ever since.

Our ties to North America date back to the earliest American colonial days, and there are a great many ties. One of our islands was named for Edwin Andros, Governor of the Massachusetts Bay Colony.

Our principal street, Shirley Street, was named for Lord Shirley. Lord Dunmore of Virginia was also one of our Governors in the Bahamas.

The colony has had a rather indifferent history and has, from time to time, been the seat of pirates, repelled attacks by the Spanish—and in this connection I might say that our sympathy with the United States in the present Cuban situation is probably more deep-seated than most Americans realize. We had the unfortunate experience of having one of our Governors captured in the early days and taken to Havana and roasted on spits.

We indulged in wrecking, blockade-running, and bootlegging.

Senator DOUGLAS. When you say you indulged in wrecking, does that mean that you actually wrecked ships, or just took the cargo of wrecked ships?

I am sure you personally have not wrecked ships.

Mr. SYMONETTE. I assure you I was not speaking from personal experience. What I have been led to believe by people who have told me the details is that our more forward looking citizens journeyed to New York and made deals with certain captains of ships as to the time and spot upon which their ships would happen upon unfortunate circumstances, and certain of our inhabitants would be on hand to assure that the benefits were not completely lost to society.

Senator DOUGLAS. A very frank statement.

Mr. SYMONETTE. Now, as I said, we are a self-governing British colony. We make our own laws. We collect our own taxes, and we take no aid, either now or in the past, from England or the United States.

Senator DOUGLAS. Let me ask you this.

Are your people subject to British income taxation?

Mr. SYMONETTE. No, sir.

Senator DOUGLAS. Are they subject to American income taxation?

Mr. SYMONETTE. If they are American citizens who are living in the Bahamas, they are subject to American income tax.

Our own residents are not, unless they have money in the United States, in which case they would be.

Senator DOUGLAS. Do English citizens in Nassau pay taxes to Great Britain?

Mr. SYMONETTE. On that portion of his income that is derived in the Bahamas, he would not have to pay income tax to the United Kingdom.

Senator DOUGLAS. Suppose he had a private company in the Bahamas which received interest and profits from other countries.

Mr. SYMONETTE. The interest and profits would be presumably taxed at the source——

Senator DOUGLAS. To the degree that they were not taxed at the source——

Mr. SYMONETTE. To the degree that they were not taxed at the source, there would be no tax in the Bahamas.

We do not have the benefit of, I believe, the 16th amendment.

Senator DOUGLAS. This is a tax haven so far as the British Empire is concerned.

Mr. SYMONETTE. No, sir.

From our own point of view our laws are not dictated by the tax regulations of other countries. The so-called Companies Act to which I believe the Senator may be referring was, in our case, passed in 1886.

Senator DOUGLAS. I understand, this is a very ancient establishment. It has the same status that the Channel Islands have, is that not true?

Mr. SYMONETTE. The Isle of Sark and the other Channel Islands enjoy the same exemption from United Kingdom taxes as the Bahamas do.

Senator DOUGLAS. And this makes them quite popular as residence resorts for Englishmen, does it not?

Mr. SYMONETTE. It does. I might say in that connection that you will find that any country may very well prove to be a tax haven under the laws of some other countries; indeed, the United States itself is a tax haven for other countries.

Senator DOUGLAS. I have never heard that. Lichtenstein is in the same situation in Europe. There are a number of these tax-haven small countries scattered all over the world, and they create great problems

Mr. SYMONETTE. Unfortunately, we represent ourselves as a small island, and international finances are beyond us.

For the last 2½ centuries the colony has been a politically stable British colony. Political stability, however, is built on economic stability. Until the last few years the Bahamas have not had any sort of stable economy. Sitting on the very doorstep of a bountiful, prospering America, Bahamians down through the years have made their living from the sea and from subsistence farming.

False and fleeting economies, forced on the Bahamas because of dire economic need, have brought waves of prosperity built of illicit and flimsy endeavors such as bootlegging during the 1920's and blockade running in the 1860's.

Senator DOUGLAS. You admit to bootlegging, we have it on the record.

Mr. SYMONETTE. I was going to say, in light of the views the honorable Senator displayed about Curacao this morning, the Bahamas have from time to time, in the 1920's, taken the liberty of assuaging the thirst of our southern friends. And since that time we have taken the liberty of trying to bring Americans to thirst-quenching commodities.

Senator DOUGLAS. I have always believed that the bootleggers were no worse than the people who drank the stuff. So I was not trying to single out the Bahamas for unique obloquy. But this is interesting, and is history.

Mr. SYMONETTE. It would be hard to deny that all the ships that cleared the bar for Halifax and never reached there could be said to be anywhere else, honestly.

Since the early 1930's tourism has been the only base for the Bahamas economy with the exception of the years of World War II when a U.S. Ferry Command installation and a Royal Air Force Training Center created payrolls. I cannot overemphasive that unlike contiguous nations, the only base for our economy is tourism. I would suggest that as we are so close to the United States that one can water ski to Nassau—and, in fact, people have already done so—we are, in fact, virtually contiguous.

As the closest offshore neighbor of the United States, the Bahamas form an integral part of the U.S. first line of defense. At present, four U.S. guided-missile stations, numerous sub installations, and down-range tracking stations are located in the island group. It has already been announced negotiations are being finalized to provide a large U.S. Navy testing range in Bahamas waters for submarine-fired missiles.

I might say, sir, that this is in my constituency, so I can speak with some authority on this.

We also have a tendency to say that Columbus was our first tourist from other lands, and just recently Commander Shepard was our first astronautical tourist.

Senator DOUGLAS. And San Salvador, then, is part of the Bahamas?

Mr. SYMONETTE. Yes, sir.

Senator DOUGLAS. How many people are on the Island of San Salvador now?

Mr. SYMONETTE. About 900, with the exception of the American base there.

The point that I am trying to make, sir, is that our stability is of interest to the United States in general and to this committee in particular.

At the conclusion of World War II, the Bahamas were faced with an almost insurmountable problem. With a rapidly expanding population—and this field, sir, was the only place we had no crop failure—no industries, no mineral wealth, nothing but agriculture in its crudest form, and a winter tourist season lasting only 60 to 90 days.

In 1950, acting on U.S. efforts to increase tourism abroad, and to increase oversea purchases by American tourists, the Bahamas launched a full-scale promotion to develop a year-round tourist program. Today we have established a stable economy, on a 12-month season. Last year over one-quarter million visitors came to the Bahamas—90 percent of them residents of the United States. After more than 300 years of Bahamian history, we have at last established a working economy which insures political stability, and which, sir, is believed to be legitimate, not like some of the endeavors I mentioned earlier.

Along with Canada and Bermuda, the Bahamas enjoy the distinction of being one of three foreign points in which preflight inspection has been authorized. Public health—and this is U.S. Public Health—agricultural, immigration, and customs inspectors clear visitors and returning tourists in the Bahamas point of embarkation. This exceptional arrangement testifies both to the ties between us and the States and to the importance of the tourist flow between the two countries.

In the 8-year period 1952–60 Americans have spent a total of $291 million in the Bahamas. Of this amount, the Bahamas has returned to the United States $203.5 million of which $190 million were for U.S. exports.

These exports have been financed without any assistance whatever in the form of U.S. Government money. In 1960 alone the Bahamas spent $40 million in the United States. Significantly, too, last year 22 percent of our colony's population visited the United States. This would have been impossible had not the Bahamas earned the necessary dollars by means of its tourist industry.

Senator DOUGLAS. Did they come here as visitors, or did they come as agricultural laborers?

Mr. SYMONETTE. In this case those were the visitors; the agricultural laborers were in addition.

I might say in addition to this, as Mr. Vesey mentioned, almost all of our people come to school in this country.

I, myself, was born in Senator Smathers' city and went to school in Massachusetts. I regret that Senator Butler is not with us, but some of our boys went to school with sons of his predecessor in Virginia, and one of our leading architects is a Georgia Tech graduate.

So that we have quite a number of ties with the various States of the United States.

The honorable Senator from Minnesota, who I see is unavoidably absent, went to school with the senior member of our Cabinet, sir.

As a representative of a friendly government immediately to the south of you, I see the objective of H.R. 6611 as reducing the outflow of gold and dollars from the United States. I am delighted to learn that recently this situation has considerably improved. In view of this substantial improvement, the bill may no longer be necessary. Even if it were, however, it is my personal feeling that the total effect of this proposed legislation would not have gone far toward meeting the now past emergency. This is particularly true when one takes into consideration all of the possible offsetting effects—in particular, the reduction of exports from the United States, the reduced ability of Bahamians to come to the United States as tourists and to purchase intangibles such as medical and technical services, education, and so forth.

Senator BENNETT. You have skipped a paragraph.

Mr. SYMONETTE. I thank the honorable Senator for reminding me.

Senator BENNETT. May I read it?

For the sake of clarification, I might add that under existing Bahamas law each Bahamian resident returning from a visit outside the colony may import free of Bahamas customs duties up to $200 of foreign products. Most of this duty-free shopping by Bahamians is done in the United States.

Senator DOUGLAS. I want to congratulate you on that.

Mr. SYMONETTE. I am grateful to the Senator from Utah for injecting it. I was going to depart from the text and insert it in the next page.

I might say in view of the interest that the Senator from Illinois has taken earlier today in the individual efforts of persons appearing before this committee to persuade their governments to enact some degree of reciprocity, I can say, sir, that I was a member of the tariff committee that reported that bill in our House and subsequently had it successfully enacted.

Senator DOUGLAS. I hope you will write letters to the London Times.

Mr. SYMONETTE. In deference to the very well informed Senator, I am sure that my letters to the London Times would fall on deaf ears.

If you, sir, have no more success in persuading the people of the United Kingdom than we do, it would be a sorry day for us both.

I might add again, I am completely sympathetic to the point of view that is expressed by the President, because we, in our lifetimes, have experienced devaluation of our currency on three separate occasions.

So you could not have a more sympathetic witness before you.

And the measures that must be taken are appreciated. Our only suggestion is that perhaps other avenues might be explored.

It was at this point that I was going to mention our exemption, and to point out that in fairness to Mr. Kerr, the President of the American Society of Travel Agents, their advice does not always fall on deaf ears, and our own action was taken largely as a result of their suggestions. We work in the closest possible harmony with that group. When one bears in mind that our entire Government economy is based on import duties, you realize what a serious step a $200 allowance is. These other countries, particularly the European countries to which the Senator referred, are in a completely different position; they have other forms of taxation.

But since our group is so spread out, the cost of collecting any other tax would be almost insurmountable. In this way everything comes to one dock, and before a person moves off the dock, he pays the import duty and we are in business.

For over 15 years we have been developing our country in economic partnership with the United States under your existing law. If this is now changed substantially and the economy is damaged, there also will be unavoidable damage to goodwill so painstakingly built.

Senator DOUGLAS. Let me say that I am not an imperialist or an anti-imperialist. I do not wish to annex any of the Caribbean to the United States. But there is always a remedy open. A country can voluntarily attach itself to the United States and become a part of the United States with substantially the same status as Puerto Rico.

So there is always the possibility of political relationship corresponding to the economic realities. Now, I am not trying to stir up the British Lion; I am not trying to offend your sense of Empire loyalty; I would not think of bringing the slightest pressure, economic, military, psychological, or what have you, upon you.

But if by your own free will you would wish to cut the ties from Great Britain and enter the alliance, I, for one, would be willing to receive you.

I extend the same invitation to Bermuda, Jamaica, and Trinidad.

Mr. SYMONETTE. Thank you, sir.

I might say, in respect to the Bahamas, as a member of a parliamentary delegation to London in 1957, I have already intimated that my feelings are somewhat like those suggested by the Senator.

Senator BENNETT. Beware of the Trojan horse bearing taxes.

Mr. SYMONETTE. That, as the Senator from Utah points out, is a great consideration. We are observing with interest the mixed feelings with which some of the citizens of the Commonwealth of Puerto Rico are viewing their present position, and, of course, the recent report on Micronesia has not escaped our attention.

Senator DOUGLAS. May I say on Puerto Rico, that while it is true the Puerto Rican Nationalists took some potshots at Members of the House of Representatives and tried to kill the President, their party's vote in the last election amounted to only approximately 4 percent. The Popular Democratic Party, which stands for the present arrangement of Commonwealth status, got 58 percent, the more Conservative Party which favors outright annexation got approximately 32 percent, and the Catholic Party, which was certainly not an independent party, received, I think, 8 percent.

So as of this moment the Puerto Rican Nationalists are a very small fraction of the Puerto Rican people. And the Puerto Rican people either want the present arrangement or even more than the present arrangement.

Therefore, we open our eyes wide to the sister States of the Caribbean and say:

"Come to us, those who are laboring and heavily laden, and we will give you protection."

Mr. SYMONETTE. The suggestion made by the Senator is something that some of us have under consideration. I do not think that I am in a position today to say that we have a mandate from our electorate one way or the other. You appreciate that, sir.

The unavoidable damage to goodwill, I might say, is not by way of suggestion that the American image in our territory is at all tarnished, but the fact is that a great many Americans have come to the Bahamas to invest in hotels and efforts to help build our economy, with the thought that by helping us earn dollars with which to buy American imports they were, in fact, doing a good thing.

One of the reactions, if I might say as an aside, in connection with this particular bill is that there is a great deal of confusion on the outside from the apparent changes in direction from your Nation's Capital, and what was my nation's capital for many years.

I submit, sir, that the Bahamas in purchasing $190 million of U.S. exports over an 8-year period and in having 22 percent of its population visit the United States has set an enviable record of returning dollars to the U.S. economy.

We can quite see the position of not continuing to allow $500 to be brought back by every U.S. citizen who stays abroad 12 days or more. In our particular case, we feel that some reduction of this maximum would not severely damage our economy. We do feel that the reduction of the $200 allowance would prove catastrophic.

And I might say, sir, that I am informed that the 9.4 percent that Bermuda represented in respect to this is not widespread. I think there are other countries who would be much more widely affected and by a greater margin than 9.4 percent.

However, I will not indulge in an exercise of arithmetic on that subject. I saw the advantages of steering clear of arithmetic in this particular room.

In summing up, I again make these points: First, we already are "Buying American" to the limit of our ability.

Second, we are essentially an integral part of the U.S. economy and if our financial stability is upset, it must react unfavorably on some portion of the United States.

Third, we have built our economy on what we believed to be a constant U.S. position.

Fourth, without the ability to earn our own way, we would need to seek aid to meet the imbalance.

At this point, sir, I don't know where that aid would come from.

Again, we find ourselves in sympathy with you because the excess of dollars that we earn over those that we spent, we sell to the United Kingdom dollar pool to help them out of their problems. So that on a small basis—and I do mean small—yesterday I got from the honorable Senator from Oklahoma quite a lesson. In questioning, I believe it was the Assistant Secretary of the Treasury, he was rounding off things to the nearest half billion. Well, sir, in our particular case, out total annual budget is $28 million, so that we were rather open mouthed at those figures in the back of the room.

And I trust that since obviously the financial importance to us is quite different, that you will hear me sympathetically as a person who also seeks elective office from time to time. We are constantly at war with our civil service, because they seem to believe that Government functions in watertight compartments, and not even an idea can trickle through from one to the other.

So I am quite sympathetic, sir. We have kept our balance by watching the pennies and by voluntary public service on the part of citizens like myself. And we have to be very careful to see whether our servants are spending their money or not spending their money.

Senator DOUGLAS. You like to see legislators somewhat rough on civil service; is that correct?

Mr. SYMONETTE. A source of great delight. I almost felt as though you were one of us.

Fifth, sir—and this is not really the least by way of a threat or anything, but it certainly would be naive on our part not to recognize that to interrupt our political stability, founded on financial stability derived from tourism and an economic partnership with the United States, could lead to rather severe repercussions. We are quite conscious of what can happen if we don't feed our people, house them, and improve their standards of education, and so forth.

So that we feel that we have a rather definite interest here.

Now, sir, you or one of the members referred yesterday to cheap labor. That we don't have. In other words, you are not in competition, in our particular case, with an area that has a great mass of cheap labor.

The honorable Senator from Georgia introduced a clipping—and I believe it was at your instigation that the unanimous consent was sought, to read that article into the record—in respect to liquor being purchased and delivered to a person's home here.

We are completely in sympathy with that practice being stopped. The present effect of that practice is that no government derives any benefit from that particular form of sale or maneuver.

The liquor goes to some duty-free port; it is delivered to the United States; it avoids the duty in the country in which it is distilled, in the intermediate country, and the country in which it is delivered.

So, again, we find ourselves in sympathy.

One of the questions that you raised repeatedly, sir, is the amount of currency citizens are allowed to take abroad. In our particular case there is virtually no restriction; there is nobody you have to apply to, you simply go abroad.

You have made a considerable effort to point out the need for mutuality, if I may use your own words. We allow American citizens to come into our colony without passports, something we do not afford to citizens of the United Kingdom. If we are speaking about mutuality, one of these days we would like you people to get around to reciprocity on that point, sir.

Senator DOUGLAS. When you get Great Britain to change its practice we will get around to changing ours.

Mr. SYMONETTE. If I had any influence they would be changed.

Senator Carlson suggested a possible compromise on a limit of $200 for an increased stay of 7 to 10 days.

From our point of view, that would not help because a great number of our visitors come by overnight boat from Miami, stay the weekend, and then go back. So that, from our point of view, would be as damaging as is the present proposal.

The other point, sir—I don't know how familiar the Senator is with the type of traveler who now goes abroad—but a great many of them are schoolteachers and persons of relatively low income. And in their case, they are making a once-in-a-lifetime trip. So that the $500 or $200 or whatever allowance is set means a great deal more to them on their one trip than it does to the wealthier individual who can afford to go several times.

Senator DOUGLAS. The people who go to Nassau are the low-income groups?

Mr. SYMONETTE. Yes, sir. And it is becoming increasingly true of the Caribbean area.

So that the $25 million that one of our previous witnesses mentioned as being met by increased taxation, I submit, would largely fall on low-income people.

And I believe this point of view has been represented by Senator Curtis, who, I believe, comes from an inland State, Nebraska. And so I think you will find, sir, that the thing is not completely a one-way street.

I thank the honorable Senator.

Senator DOUGLAS. You have been a very courteous and effective witness.

Senator BENNETT. No questions.

Mr. SYMONETTE. May I enter the figures that I mentioned in the record?

Senator DOUGLAS. Yes.

(The figures referred to and an additional statement follow:)

*Bahamas dollar summary, 1952–60*

| | Total U.S. visitors | Dollar receipts, United States | Total dollars spent in United States | Dollars contributed, United Kingdom pool |
|---|---|---|---|---|
| 1952 | 77,940 | $17,493,000 | $13,912,000 | $2,968,000 |
| 1953 | 83,246 | 20,191,000 | 15,174,000 | 4,016,000 |
| 1954 | 100,836 | 21,528,850 | 14,627,850 | 6,215,000 |
| 1955 | 121,839 | 23,795,000 | 17,163,000 | 9,189,000 |
| 1956 | 142,600 | 29,088,000 | 20,096,000 | 10,130,000 |
| 1957 | 179,048 | 39,956,000 | 24,237,000 | 15,490,000 |
| 1958 | 159,013 | 33,120,258 | 25,479,000 | 7,014,000 |
| 1959 | 216,412 | 46,503,000 | 33,050,000 | 13,157,000 |
| 1960 | 269,803 | 59,193,000 | 39,717,000 | 17,941,000 |
| Total | 1,350,737 | 290,868,108 | 203,455,850 | 86,120,000 |

RECAPITULATION: 1952–60

| | |
|---|---|
| Total U.S. visitors | 1,350,737 |
| Total dollar receipts, United States | $290,507,108 |
| Total dollars spent, United States | $203,455,850 |

Sources: Bahamas Exchange Control and Bahamas Immigration Department.

*Bahamas dollar summary 1952–60*

| | Total U.S. visitors | Dollar receipts, United States | Total dollars spent in United States | Total Canadian visitors | Dollar receipts, Canada | Total dollars spent in Canada | Total dollar receipts, United States and Canada | Dollars spent in United States and Canada | Dollars contributed United Kingdom pool |
|---|---|---|---|---|---|---|---|---|---|
| 1952 | 77,940 | $17,493,000 | $13,912,000 | 3,812 | $2,028,000 | $2,641,000 | $19,521,000 | $16,553,000 | $2,968,000 |
| 1953 | 83,246 | 20,191,000 | 15,174,000 | 4,072 | 1,598,000 | 2,599,000 | 21,789,000 | 17,773,000 | 4,016,000 |
| 1954 | 100,836 | 21,528,850 | 14,627,850 | 4,932 | 2,015,353 | 2,700,265 | 23,544,203 | 17,328,115 | 6,215,000 |
| 1955 | 121,839 | 23,795,000 | 17,163,000 | 5,829 | 2,557,000 | 2,513,000 | 26,352,000 | 19,676,000 | 9,189,000 |
| 1956 | 142,600 | 29,088,000 | 20,096,000 | 7,750 | 4,046,000 | 2,910,000 | 33,134,000 | 23,006,000 | 10,130,000 |
| 1957 | 179,048 | 39,950,000 | 24,237,000 | 6,731 | 2,995,000 | 3,224,000 | 42,951,000 | 27,461,000 | 15,490,000 |
| 1958 | 159,013 | 33,120,258 | 25,479,000 | 9,605 | 2,217,000 | 3,015,000 | 35,337,258 | 28,494,000 | 7,014,000 |
| 1959 | 216,412 | 46,503,000 | 33,050,000 | 16,365 | 3,201,000 | 4,017,000 | 49,704,000 | 37,067,000 | 13,157,000 |
| 1960 | 269,803 | 59,193,000 | 39,717,000 | 20,167 | 3,255,000 | 3,790,000 | 62,448,000 | 43,507,000 | 17,941,000 |
| Total | 1,350,737 | 290,868,108 | 203,455,850 | 79,263 | 23,912,353 | 27,409,265 | 314,780,461 | 230,865,115 | 86,120,000 |

RECAP: 1952–60

| | |
|---|---|
| Total United States visitors | 1,350,737 |
| Total dollar receipts, United States | $290,868,108 |
| Total dollars spent, United States | $203,455,850 |
| Total Canadian visitors | 79,263 |
| Total dollar receipts, Canada | $23,912,353 |
| Total dollars spent, Canada | $27,409,265 |
| Total dollar receipts, United States and Canada | $314,780,461 |
| Dollars spent in United States and Canada | $230,865,115 |
| Dollars contributed United Kingdom pool | $86,120,000 |

Sources: Bahamas Exchange Control and Bahamas Immigration Department.

THE DEVELOPMENT BOARD,
A DEPARTMENT OF THE BAHAMAS GOVERNMENT,
*Nassau, Bahamas, June 22, 1961.*

STATEMENT BY THE HONORABLE STAFFORD L. SANDS, C.B.E., M.H.A., CHAIRMAN, BAHAMAS DEVELOPMENT BOARD

As long standing neighbors and hosts to U.S. citizens, the islands of the Bahamas, concerned about the proposed tariff reduction bill, present this justification for their stand against H.R. 6611. We feel this legislation cannot achieve the desired effect of improving the U.S. balance-of-payments position and might have an adverse impact both to the United States and the Bahamas.

Categorically, we are opposed to the bill because of the economic hardship on us and its effect on our trade situation with the United States. If the Congress of the United States feels it must reduce the duty-free allowance, we strongly urge that a maximum reduction of 50 percent be applied only to the $500 allowed on stays of 12 days or more. We feel that the $200 allowance applicable to stays of 48 hours or more must be retained.

The following brief points summarize our position:

(1) Although the colony of the Bahamas is a territory of Great Britain, it is in economic partnership with the United States.

(2) Since 1952 the Bahamians have spent more than $200 million in the United States purchasing the variety of supplies and equipment to support an economy based on tourism. (In the Bahamas we import even our ice cream from Florida.)

(3) Historically and geographically the Bahamas are closely linked with the culture of the United States. Large numbers of Bahamians send their children to U.S. schools and universities.

(4) In 1960 alone Bahamians spent almost $40 million in the United States. Twenty-two percent of the islands' population visit the United States yearly.

(5) As the closest offshore neighbor of the United States, the Bahamas form an integral part of the U.S. first-line of defense. At present, four U.S. guided missile stations, numerous subinstallations, and down-range tracking stations are located in the island group.

(6) It already has been announced that negotiations are being finalized to provide a large U.S. Navy testing range in Bahamas waters for submarine-fired missiles.

(7) The proposed legislation will seriously hamper the "Visit USA" program.

(8) An out-of-the-country visit is a once-in-a-lifetime experience for many Americans. Reduction to $100 would hurt the average American traveler.

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MARCH 13, 1961.

Re reduction of duty-free allowances of Americans returning from abroad.

Hon. DANTE FASCELL,
*House of Representatives, Washington, D.C.*

MY DEAR CONGRESSMAN FASCELL: We are writing you with reference to the proposed reduction of the duty-free allowance for Americans returning from abroad.

To us it would seem best to exempt from the reduction the entire Western Hemisphere. We are making such an effort to be on friendly terms with Canada, the islands such as Bahamas, Bermuda, the West Indies, and Central and South America. Such a drastic move would have serious repercussions upon our friendly relations with our near neighbors.

It would seriously hurt the economy of the Bahamas, Bermuda, Antigua, and other islands in the West Indies that are geared to be so dependent upon American tourists.

The present duty-free allowance isn't at all a one-way deal—all money leaving the United States and none coming in. We export a considerable amount of goods to these nearby islands. The reduction in duty-free allowance of purchases would seriously curtail American exports to the Bahamas, Bermuda, Antigua, Jamaica, Trinidad, and Tobago and also the U.S. Virgin Islands (where the allowance is also in effect), as well as to Canada, Central and South America.

I have taken some export figures from the U.S. Department of Commerce Census Report FT420 for 1959.

| | |
|---|---|
| U.S. exports to the Bahamas (mostly from Florida): | |
| Animal products: | |
| Edible, meat and meat products | $2,720,905 |
| Inedible | 494,732 |
| Vegetable products: | |
| Edible | 3,240,732 |
| Inedible | 874,810 |
| Textiles | 2,672,862 |
| Wood and paper | 4,706,525 |
| Nonmetallic minerals | 1,838,731 |
| Metals including manufactured | 3,791,375 |
| Machinery and vehicles | 8,681,813 |
| Chemicals | 1,716,126 |
| Miscellaneous | 8,545,865 |
| Bahamas, population 149,251: | |
| Total exports from United States to Bahamas in 1959 | 39,284,476 |
| Average per Bahamian, U.S. exports to Bahamas | 261.89 |
| Bermuda, population 44,180: | |
| Total exports from United States to Bermuda in 1959 | 29,009,218 |
| Average per Bermudan, U.S. exports to Bermuda | 656.61 |
| Virgin Island (United States), population 31,904: | |
| Total exports from United States to Virgin Island (United States) in 1959 | 25,027,339 |
| Average per person, U.S. exports to Virgins | 784.46 |

Source: West Indies and Caribbean Year Book, 1961, Thomas Skinner & Co., Ltd., London, England.

The Virgins will also be affected if a change in duty-free allowance is made.

| | |
|---|---|
| Trinidad and Tobago: Total exports from United States to Trinidad and Tobago in 1959 | $30,242,362 |
| Jamaica: Total exports from United States to Jamaica in 1959 | 35,442,627 |

We urge you to seriously consider the harm to American friendship with, and the harm to American exports to Western Hemisphere countries that will follow the proposed reduction of the duty-free allowance for Americans returning from abroad.

There is the Bahamas, 149,251 population buying $39,284,054 of American products in 1959, an average yearly purchase of $261.89 per person.

There is Bermuda's 44,180 population buying $29,009,218 of American products in 1959, an average yearly purchase of $656.61 per person.

There is the Virgin Islands (United States) 31,904 population buying $25,027,339 of American products in 1959, an average yearly purchase of $784.46 per person.

If we could export to other countries the same dollar value per person that we export to the Bahamas, the Virgin Islands (United States) and Bermuda we wouldn't have to worry about the drain on the gold dollar.

We are confident that it is in the United States best interests that the Western Hemisphere should be exempted from the proposed reduction.

We urge you to present our view to the chairman and members of the Ways and Means Committee who, we understand, are considering this matter.

Sincerely,

LINDSLEY LUMBER CO.,
WILL S. LINDSLEY.

Mr. SYMONETTE. Thank you very much.

Senator DOUGLAS. The next witness, Mr. Nicholas Craig, representing the Caribbean Tourist Association.

## STATEMENT OF NICHOLAS CRAIG, THE CARIBBEAN TOURIST ASSOCIATION

Mr. CRAIG. My name is Nicholas Craig. I am 56 years old. I was born in the Netherlands. My father was an American citizen of English birth. My mother was Dutch. I am an American citizen.

For 32 years I have been engaged in the tourist, travel and transportation business. I owned and operated a travel agency in Chicago, where I went to school. I was employed by the American Express Co.——

Senator DOUGLAS. I congratulate you, sir.

Mr. CRAIG (continuing). First as district manager in Milwaukee, later as general manager for South America with headquarters in Buenos Aires, Argentina.

For 11 years I was with Pan American World Airways, in various assignments from district manager in charge of the Pacific coast area with headquarters in San Francisco to general sales manager for its affiliated company, Pan American Grace Airways, also known as Panagra.

For 8 years, I was president of Icelandic Airlines Inc., New York corporation, operating a scheduled air transport service between New York and points in northern Europe under a permit to an Icelandic company.

Since last January I have been, and am now, general manager of the Caribbean Tourist Association. I represent in the United States the ministries of development and economics and the tourist boards of the following 28 island governments in the Caribbean area: Anguilla, Antigua, Aruba, Barbados, Bonaire, British Guiana, British Virgin Islands, Curacao, Dominica, Grenada, Guadeloupe, Haiti, Jamaica, Martinique, Nevis, Puerto Rico, Saba, St. Croix, St. Eustatius, St. John, St. Kitts, St. Lucia, St. Marten, St. Thomas, St. Vincent, Surinam, Tobago, and Trinidad, as well as of the Governments of Colombia and Venezuela. For the purpose of this presentation I wish to exclude the Government of the Commonwealth of Puerto Rico.

And, Senator Douglas, I will take your message back to these 30 governments.

Senator DOUGLAS. They can attach themselves to the United States if they so desire.

Mr. CRAIG. I will mention this to them.

Senator DOUGLAS. I am sure this would be enthusiastically received by the colonial Government of Great Britain. I can picture the apoplexy which the colonial governments will have when they hear about this proposal.

Mr. CRAIG. To say nothing of what will happen to their general manager.

From my standpoint, as an American citizen, I hold the firm opinion, based on my long experience in the business of tourism development, that the enactment of H.R. 6611 would not accomplish in any significant degree its stated purpose. That there is a necessity for measures to reduce the present deficit in our travel export-import balance is self-evident. If sacrifices by our citizens are necessary to bring about a reduction in this balance, our laws should compel them to make such sacrifices.

But before assuming that the enactment of H.R. 6611 would in any appreciable measure contribute to the reduction in the present deficit in our travel export-import gap, I respectfully urge your serious consideration of the following:

First. As Mr. Flues of the Treasury Department yesterday brought out, the value of goods in excess of $100 per person which tourists are now importing is insignificantly small in relation to that portion of our private and our public spending which now takes place abroad.

Second. I submit that the purchases which American tourists are presently making in the small countries in the Caribbean area are, on the other hand, large in relation to the total gross national products of these countries, and that the curtailment of these purchases, as is intended by the bill, would have extremely harmful effects on their economies.

Third. These small Caribbean countries make a vast percentage of their total purchases in the markets of the United States. Last Friday I was in Aruba and I attended a banquet which was given at the leading hotel there in honor of a number of visiting government officials. I sat next to the manager of the hotel. He told me that all the food which was served at the banquet was bought in the United States—the vegetables, the meat, even the ice cream dessert. The napkins and tablecloths were purchased here, as were the linens in the bedrooms and the carpeting throughout the hotel. Also the air conditioning equipment and the kitchen equipment were American made.

I submit that any measure that would cripple this purchasing power would redound against industries and commerce of the United States and might force these friendly countries to purchase from other countries. It is possible that our trade and political relationships with them might be adversely affected and that they would try to strike the most favorable bargain in the markets of the world.

Fourth. Aside from the effect which any change in the free duty allowance will have on trade, I certainly feel it will be an added irritant to the already delicate feeling about the United States in the Caribbean area, as expressed more violently through Cuba and the Dominican Republic.

Fifth. The Senate Committee on Interstate and Foreign Commerce recently reported:

> The foreign commerce of the United States of America today * * * is a force in world affairs, reaching out to touch and in some degree to influence the attitudes of nations and the lives of men throughout the world * * *. An American decision regarding international trade can topple or strengthen the government of an undeveloped state, cleave or cement an international alliance, confound or contribute to Communist expansionism.

Sixth. I have just returned from consultations with government officials and chambers of commerce executives of 29 Caribbean countries. During my trip I became acutely aware of the existence in some areas of a decided feeling of apprehension toward us.

Senator DOUGLAS. If I remember my Webster's dictionary, "apprehension" means a certain emotional degree of fright, isn't that true?

Mr. CRAIG. I would say a degree of unrest, sir.

Senator DOUGLAS. "Apprehension" is more than unrest, it is a touch of fear.

What are they afraid of?

Mr. CRAIG. Possibly, sir, that we somehow fail to recognize the fact that they voluntarily make a various portion, a very high percentage, of their purchases in the United States, and it isn't necessary for them to do so. There are plenty of salesmen coming in from England, Germany, and from Russia, to try to sell merchandise and goods, but they would rather buy from us.

I would like to explain what I mean by apprehension, that they are not aware that we appreciate the fact that they voluntarily make these purchases with us.

Senator DOUGLAS. Do they realize that Great Britain does not permit its nationals to bring back any goods from the United States duty free? Are they aware of that?

Mr. CRAIG. Yes, they are; they are well informed persons.

Senator DOUGLAS. And that does not worry them? They do not have any apprehension about the policy of the British Government, but they do have apprehension that the United States might decrease from $500 to $100 the amount that Americans can bring back?

Mr. CRAIG. I didn't mean to imply that; I meant to imply that they think we are unaware of the fact that these purchase so much from us.

Senator DOUGLAS. Do they have any apprehension about the policy of Great Britain?

Mr. CRAIG. I don't believe so. It wasn't expressed to me.

Senator DOUGLAS. Have you done a job to inform them of the fact that Great Britain doesn't permit them to bring back any merchandise duty free?

Mr. CRAIG. It wasn't discussed with me.

Senator DOUGLAS. In the French West Indies, do they have any apprehension that France does not permit any duty-free commodities to be brought back by its nationals?

Mr. CRAIG. Of course they know it.

Senator DOUGLAS. They know it, but they don't think it has any bearing?

Mr. CRAIG. No, because if I may say so, it isn't as important to them. The number of tourists from Britain and from France in the Caribbean is very small.

Senator DOUGLAS. Then you think it is important for them to understand our position? Similarly, the testimony is that the Netherlands does not permit any goods to be brought back duty free. Now, if you represent the West Indies, the French West Indies, and the British West Indies, the Bahamas, an independent colony, and so forth, don't you think that you could do a very valuable job in getting them to see that their mother countries are practicing very severe restrictions against us? They seem always to have apprehension about the United States, criticism of the United States, but never criticism of the home countries.

Mr. CRAIG. The apprehension is that we don't appear to recognize the fact.

Senator DOUGLAS. Oh, we recognize it very clearly.

But there is a limit to the amount that we can do in the absence of cooperation from other countries.

How would it be if we went down to $100 or to $50, with the understanding that if the European countries raised their exemption from zero, say, to $25 or $30, we would go up?

Mr. CRAIG. I wish I knew exactly what your question was, sir.

Senator DOUGLAS. I was just trying to feel you out on this. I have been trying to get reciprocity.

Now, suppose we start off by putting a restriction of $100 and say, "Now, when Great Britain goes up from zero to $50, we will go up from $100 to $200," and similarly for France.

We could have such reciprocal agreements with every country which will liberalize its arrangements. We could have an international conference on tourism, point this out to the European countries, and ask for reform on their part.

We can either have a most-favored nations treatment on an individual basis, or we can have a tourist gap. But I think the United States should not be continually played as the fall guy.

Senator Bennett?

Senator BENNETT. I would just like to make the observation that the purpose of this bill is to protect the U.S. gold supply, and that is not affected at all by the conditions that foreign countries put——

Senator DOUGLAS. Yes, it is. If the foreign countries would permit a larger amount of goods to come back duty free, we would have claims against the foreign countries which could act as an offset against the claims which the foreign countries have against us. We would have pounds, francs, marks, Dutch currencies as an offset.

Senator BENNETT. Of course the Senator from Utah and the Senator from Illinois disagree on many things. I believe the price differential from the point of view of the tourist who must buy at American prices enters into this situation.

Senator DOUGLAS. Certainly.

Senator BENNETT. And I don't think you would have an immediate offset, and that the tourists would buy as much at our high American prices as our American tourists like to buy from the Caribbean countries at the lower prices.

Senator DOUGLAS. The point is that we would have more than we have now.

Go ahead.

Mr. CRAIG. A curtailment in purchasing by American tourists at this time could well mean a near deathblow to many retailers in the Caribbean area and would result in a concomitant and inevitable increase in unemployment and other economic setbacks. It would also seriously affect the livelihoods of native craftsmen. The internal stability of a number of presently friendly, small nations could be adversely affected, nations whose continued friendship and cooperation we may well direly need in times to come.

If this country ever had an opportunity to prevent the conception of elements in which subversion thrives, the time is now. I hope we do not let this opportunity go by.

I urgently implore the chairman and the members of this committee to give careful consideration to the consequences which might be facing us on the one hand and the insignificantly small gain which would ensue on the other if H.R. 6611 should be enacted into law.

Senator BENNETT. I have no further questions.

Senator DOUGLAS. I have no questions.

Thank you very much.

Our final witness is Albert Block of Annapolis, Md.

Please proceed Mr. Block.

## STATEMENT OF ALBERT BLOCK

Mr. BLOCK. Mr. Chairman and members of the Senate Committee on Finance, my name is Albert Block. I live at 118 Spa View Avenue, Annapolis, Md.

The President of the United States in his inaugural address said, and I quote in effect: "Do not ask yourselves what your country can do for you, but rather what you can do for your country." It is in the spirit of these well-spoken words that I arose this morning following 2½ hours of delicate surgery just 60 hours ago.

Mr. Chairman, I appear before this committee not in self-interest, not as a representative of any country, paid or unpaid, not with promise of personal compensation, but as an American citizen, eager to preserve our great heritage for our children and those yet unborn who will follow them. I have come here to beg of you not to make decisions which would adversely affect the economy of any nation south of our border. H.R. 6611 in its present form would without a doubt nullify to a great extent what our Government intended to do when it voted $600 million for Latin American aid.

Mr. Chairman, permit me, sir, to use terminology of the great American, Patrick Henry, and say "Are we disposed to be of the number who having eyes see not, having ears hear not, the things which so largely concern our salvation?" These immortal words uttered 175 years ago are of such great importance today, only we in this age of space use the expressions "bury our heads in the sand," "wishful thinking," "complacency."

I shall not burden you with statistics which you have at your fingertips. I shall, Mr. Chairman, as one who has traveled through the Caribbean and made it a point to observe the forest through the trees, assure you, sir, that the advancement of communism in our hemisphere from its beachhead just off our shore is not a myth. The hammer and sickle is not an imaginary bogeyman. The menace is real; and worst of all, there are too many Americans who are wishful thinkers.

While in Curacão, Netherlands Antilles, about January 15, 1959, just 2 weeks after Castro came to power, I had the occasion, together with two other American businessmen, to converse with two of the Cuban dictator's henchmen who said they stopped in Curacão en route to Caracas where they were going to vacation. The three of us Americans were amazed by their expounding philosophies of Karl Marx. It was not too many months preceding this episode that the subversive Venezuelans threw stones at the Vice President of the United States while he was on a good will visit to South America.

In a letter to me from the Minister of Economics of the Netherlands Antilles dated August 25, 1960, he commented, and I quote:

> I cannot overemphasize the necessity for us to maintain economic stability during these days which are filled with uncertainties and pressures from without.

This, gentlemen, was during the last administration before H.R. 6611 was even thought of.

I should like to propose, sir, that the countries in our hemisphere be exempted from the terms of the bill. During informal discussions I have heard it said that such an amendment would be discriminatory. Have we not, however, maintained a policy of rendering aid to countries for reasons of expediency notwithstanding geographical location or other factors? The $600 million going to Latin America surely does not discriminate against other countries any more than our aid to the Marshall plan countries was discriminatory to nonrecipients. Mr. Chairman and members of the committee, I have another alternate proposal for your consideration which would make H.R. 6611 effective without exemptions and exceptions and yet help our all-important neighbors to the south. My plan in this direction would make the bill applicable only to those who have been absent from the United States 21 days or more. This amendment would grant a greater privilege to the short vacationer who has taken less dollars from the country than that of his neighbor who has been absent from the United States for a long period and has thus spent more dollars for services abroad.

In closing, Mr. Chairman, permit me to again draw my thoughts from the immortal Patrick Henry by saying, "Let us not indulge in an illusion of hope and shut our eyes against a painful truth." The friendship of the Western Hemisphere countries is of ever-increasing importance to us now. Few informed circles could possibly disagree with this premise. Let us not, therefore, risk its loss. The stakes are too high.

In conclusion, I give my humble thanks for the privilege afforded a plain citizen like myself to appear before this august committee. May the Almighty grant our great Nation the wisdom and courage to keep our way of life alive in the critical years ahead.

Senator DOUGLAS. Thank you, Mr. Block.

The Chairman, the Senator from Virginia, has asked me to announced that he plans to schedule an executive session on this bill for Wednesday, June 28. We may have to meet early, if the social security bill is still being discussed on the floor of the Senate.

Thank you very much, gentlemen.

I may propose an amendment to this bill providing that a conference be called to consider an international agreement to liberalize the amount of exchange which resident nationals can take abroad, and the amount of goods which they can bring back duty free. It is my present intention to do that.

I hope the discussion we have had may have a beneficent effect upon countries in Europe. I realize acutely the problems which the small countries of the Caribbean face. They are much more dependent upon American tourism than the European countries are, and they are relatively unable to influence the policies of their own governments. I thoroughly realize this, and, very frankly, I have been trying to speak through their representatives to arouse public opinion back in their home countries, in the countries which are in a sense their home base.

(By direction of the chairman, the following is made a part of the record:)

GARY, IND., *June 13, 1961.*

Senator VANCE HARTKE,
*Senate Office Building, Washington, D.C.:*

**H.R. 6611 if passed seriously affects the trade of our neighbors particularly Mexico, Canada and sensitive islands of the Caribbean. Did executive department give your committee facts respecting potential losses on duties which actually finds its way back to us in purchase of our countries services?**

R. P. O'MALLEY,
*Director, Gary Travel Bureau.*

H. BORENSTEIN & SONS, INC.,
*Baltimore, Md., May 8, 1961.*

Hon. HARRY FLOOD BYRD,
*U.S. Senate,*
*Washington, D.C.*

DEAR MR. BYRD: Last week we received a cable from one of our accounts in the Netherlands Antilles regarding H.R. 6611 which I understand applies to a reduction in the amount of the tax-free tourist purchase. I am enclosing a copy of this cable for your information.

I imagine that most of the businessmen in Curacao and Aruba are sending similar cables to their suppliers in the States, and we will most likely receive a number more from our other accounts on these islands.

The information given in this cable is correct. I personally am very familiar with these islands and can attest that a very large proportion of all the goods there is American made—from automobiles to machinery to canned goods to periodicals to clothing to furniture, and so forth. The United States is well regarded there, and American manufacturers receive favored treatment.

A large portion of the income of the Netherlands Antilles is derived from the tourist trade. I might surmise that this tourist income would be almost equal to the income from the refineries in Curacao and Aruba. I sincerely feel that a loss in tourist income would seriously impair their economy, and would result in a loss of trade for American manufacturers—both from the resultant reduction of business and from resentment.

I sincerely feel that reduction of the tax-free tourist purchase will hurt the economy of many friendly Caribbean and Latin American countries, and will reduce the sale of American merchandise to them. At this time, when this country is striving to increase our international sales, I strongly suggest that such action would be detrimental and that such action be dropped.

Yours very truly,

FRANK BORENSTEIN, *Vice President.*

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CURAÇÃO, NETHERLANDS ANTILLES, *May 4, 1961.*

Lieutenant BÔRCLO
(H. Borenstein & Sons, Inc.),
*Baltimore:*

House bill 6611 implying reduction tax-free tourist purchase "jeopardizing your commerce with Curação." Nearly half total imports Netherlands Antilles originate in United States. Senate Finance Committee discussing bill these days. Our government protesting evident discrimination between U.S. Virgin Islands and Netherlands Antilles. Netherlands Antilles have traditionally favored United States commercially without any discrimination despite forming part Netherlands Kingdom. In view importance to our mutual interests urge you make personal representations to chairman, Senate Finance Committee, and your Senators. Please wire what action taken. Thanks.

A. M. PRINCE.

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ALBERT KLINGELHOFER MACHINE TOOL CORP.,
*Mountainside, N.J., March 1, 1961.*

Hon. JAMES O. EASTLAND,
*U.S. Senator,*
*Senate Office Building, Washington, D.C.*

DEAR JIM: Radio and newspaper reports indicate that the administration is planning to bolster the U.S.. dollar and gold polices by reducing the duty-free tourist exemption in foreign countries from $500 to $100.

This appears to me to be a very poor solution for a just but difficult problem. The result would be that we not only aggravate American citizens traveling abroad but countries they visit as well. In my opinion, there is a much better solution, which would be to put this tourist exemption on a reciprocal basis with the foreign countries, thus forcing them to do likewise. This could be technically arranged so that the rate of exemption from the country of departure would apply; that is, if the tourist left from England, the reciprocal base of England would apply; from France, the French base; from Germany, the German base, etc. In this way the countries with low exemption would penalized as the tourist would not schedule his departure from their ports.

Many foreign visitors to the United States would purchase considerably more American goods if they could take this merchandise into their country duty free.

If the foreign nations allow only $50, then our exemption for travelers from these countries should also be reduced to $50; if they allow $250 to $500, then our allowance should be the same. This solution would definitely be beneficial to the United States, and, by putting these foreign countries on an equal footing, we would benefit politically as well as monetarily. This is especially so since the United States is planning a drive to encourage tourist trade to our country, which, in my opinion, is an excellent idea.

Please think this over and support a measure to enact this into law. The planned straight reduction from $500 to $100, as stated before, is not advisable.

Without kindest personal regards, I am sincerely,

Your friend,

Al,
A. KLINGELHOFER.

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JUNE 21, 1961.

Senator HARRY S. BYRD,
*Senate Finance Committee,*
*U.S. Senate,*
*Washington, D.C.:*

Chamber of Commerce of the Americas in its XI annual meeting on June 20, 1961, on Aruba, Netherlands Antilles, adopted following resolution:

"Considering expansion of export goods and services from Latin American Caribbean region conducive improvement level of living, its population; and

Considering foreign exchange income accruing from tourist industry of vital importance for economy of most Latin American Caribbean countries; and

Considering that Trade Committee of Economic Commission for Latin America in third session at Santiago, Chile, May 1961, expressed similar concern and adopted resolution promote development tourist industry Latin American region: Be it

*Resolved,* That any new measure inconsistent with development of flow of tourist to such countries may create problems supreme economic and social importance and is contrary to objectives of CCOA." Requested Charles Debrot express deep concern Chamber of Commerce of the Americas re pending bill 6611. Hoping your committee will realize adverse effect said bill. Should such legislation pass urgently recommend provision it not apply Western Hemisphere.

G. JAMES HUGHES,
*President, Chamber of Commerce of the Americas.*

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NEW YORK, N.Y., *June 22, 1961.*

Senator HARRY BYRD,
*Chairman Finance Committee,*
*Washington, D.C.:*

Strongly urge Senate Committee on Finance not approve H.R. 6611 reducing duty-free allowance for returning residents. For limited material benefit United States through such reduction would suffer severe psychological political damage in sensitive areas around globe including troubled Caribbean and Pacific as well as such friendly areas as Mexico and Canada. Two-way trade depends on foreign nations earning sufficient dollar revenues to buy American products. U.S. tourist purchases abroad are significant source of such earnings and one reason United States now enjoying $5 billion export trade surplus. While stability dollar of basic importance the limiting of tourist purchases will be more harmful psychologically and fiscally to economies of free world nations than fiscal gain to U.S. economy would warrant. Reduction of duty-free allowance from $500 to perhaps $200 justifiable but below $200 would be damaging blow to our intricate relationships with neighboring areas as well as farflung free world countries where tourist purchases represent important factor their trade as well as bond goodwill with America. Trust your committee and Senate after careful exploration this sensitive issue will decide best interests our country will be served by rejecting H.R. 6611. Deeply appreciate your consideration and regret impending business trip outside country makes it impossible for me to appear before your committee to testify personally.

WILLIAM D. PATTERSON,
*Associate Publisher, Saturday Review."*

PACIFIC AMERICAN STEAMSHIP ASSOCIATION,
*Washington, D.C., June 21, 1961.*

Subject: H.R. 6611, reduction of duty-free allowance; the effect upon U.S.-flag passenger ships.

Hon. HARRY F. BYRD,
*Chairman, Committee on Finance, U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Our association represents U.S.-flag passenger ships serving the Pacific coast. As such, we are interested in this legislation and wish to call to your attention the following situation:

U.S.-flag passenger ship operators will be hit particularly hard by the terms of H.R. 6611, which reduces travelers' duty-free allowance to $100. The U.S. traveler who purchases up to his present legal limit (i.e., $500 each, or $2,000 for a family of four) is induced to return to this country by ship as a means of bringing his purchases home freight free. Air travelers, being held to 66 pounds of luggage or less, would pay tremendous amounts of additional freight under similar circumstances.

The operator of U.S. passenger ships to the Pacific area finds that many passengers are, at the present time, traveling for personal shopping trip purposes as much as they are for sightseeing or business. The shops of Hong Kong and Japan are a mecca for the sea traveler and his family who want to shop without watching the weight limit.

To remove this incentive for passengers of this nature will further cripple American-flag ship lines who are already faced with financial losses from current passenger operations.

It is respectfully requested that this letter be made a part of the record in this hearing.

Very truly yours,

J. MONROE SULLIVAN.

(The material referred to on p. 34 follows:)

THE SECRETARY OF THE TREASURY,
*Washington, June 28, 1961.*

Hon. HARRY F. BYRD,
*U.S. Senate, Washington, D.C.*

DEAR SENATOR BYRD: During the hearings before the Finance Committee on the bill to reduce the customs allowance for returning tourists, a discussion took place regarding the accuracy of the balance-of-payments statistics of the Government. Specifically, criticism was made that the figure showing our export surplus—that is, the excess of our merchandise exports over our merchandise imports—was exaggerated because of the fact that a substantial part of the surplus is financed by Government assistance, including Public Law 480.

I am glad to have this chance of commenting on our balance-of-payments statistics and the efforts we are making to put them in a more understandable form. This is something that has concerned me for sometime and, upon coming to the Treasury, I took steps to improve the situation.

The background of the problem is this: For many years, the Department of Commerce, which has responsibility for the collection and publication of the official balance-of-payments statistics of the United States, has published a standard table of the balance of payments which shows, among other items: (*a*) Our total exports of merchandise, without reference to the method of their financing; (*b*) our total imports of merchandise; and (*c*) a balance on goods and services together, again without reference to the method through which the export component of this balance is financed. I enclose for your examination a standard table of the Department of Commerce for the years 1959 and 1960, as it appears on pages 12 and 13 of the Survey of Current Business for June 1961. In this table, the total merchandise exports are shown in item 4, merchandise imports are shown in item 14 and the balance on goods and services together is shown in item 22.

As you will also see from the standard table, no attempt is made to separate short-term capital movements from the rest of our balance of payments so as to reveal the basic deficit or surplus which represents the hard core of our payments problem. Instead, short-term capital movements are lumped together as a part of our overall deficit (or surplus as the case may be). The effect of this is to exaggerate the deficit when large outflows of short-term capital take place and to minimize the deficit when inflows take place. You will note that in 1959 our overall deficit was substantially reduced by short-term inflows whereas in 1960 short-term outflows greatly increased our overall deficit. As you know, monetary movements of short-term capital tend to be quickly reversible and are very sensitive to temporary interest-rate situations. Moreover, outflows of short-term capital (which are recorded as a deficit item in the standard table of the Department of Commerce) are accompanied by the creation of a short-term asset to the United States (which is not recorded anywhere in the standard table of the Department of Commerce.)

For these and other reasons, I have long felt that the standard table of the Department of Commerce could be greatly improved from the viewpoint of presenting the available information in a way that would be more intelligible and useful to those concerned with the formulation of Government policy. Accordingly, shortly after becoming Secretary of the Treasury, I established an interagency committee consisting of representatives of the Treasury, Commerce, State, and Federal Reserve Board, and the Council of Economic Advisers to propose a reformulation of the standard Commerce Department table. My idea was that this reformulation would, in the preliminary stage, be used internally within the Government and later be published after further experience had been gained.

I enclose a copy of this reformulation showing our balance-of-payments statistics for the years 1957 through 1960 and for the first quarter of 1961. As you will see from this new table (line 21), the merchandise trade balance is adjusted to deduct from the surplus or deficit that portion of our exports which is financed through Government programs. Similarly, an item is shown (line 10) indicating that part of U.S. Government assistance which is used for the procurement of U.S. goods and services. Thus, you can see from the table that while our merchandise trade surplus for 1960, calculated in accordance with past procedures for example, was $4.7 billion (line 20), the surplus excluding exports financed by the Government was only $2.6 billion (line 21). Similarly, you can see from the table that of our foreign economic assistance of $3.4 billion (line 9), $2.4 billion was spent on U.S. goods and services (line 10).

The difficulty we have encountered in constructing this new table is chiefly one of arriving at an agreed interagency view, including the Department of Commerce, on the precise figure which should be used for Government-financed exports. This matter is still under discussion and I hope it can be settled promptly. Meanwhile, the figures in the enclosed table in lines 10 and 21 are estimates of the Treasury Department.

The reformulated table also reveals, in line 19, the basic balance to which I referred above and to which our major long-term policies must be directed. The last line—line 30—shows the overall balance, including the effect of short-term capital flows.

I hope these comments will be of help to you. We are continuing to work on the improvement of our statistical presentations to make them as accurate and understandable as possible. In due course, it would be my hope that the Department of Commerce could regularly publish a statistical presentation along the lines of the reformulated table, at least as a supplement to the standard table of the Department of Commerce if not in substitution for it.

Sincerely yours,

DOUGLAS DILLON.

*Balance of payments of the United States, 1957 through 1st quarter 1961*

[In billions of dollars]

| Current and long-term capital transactions, recorded | 1957 | 1958 | 1959 [1] | 1960 | 1st quarter 1961 [2] |
|---|---|---|---|---|---|
| 1. U.S. payments, total | 27.8 | 27.4 | 29.7 | 30.1 | 7.2 |
| 2. Merchandise imports | 13.3 | 13.0 | 15.3 | 14.7 | 3.4 |
| 3. Income on investments | .7 | .7 | .8 | .9 | 1.4 |
| 4. Other services, nonmilitary | 3.8 | 4.0 | 4.3 | 4.6 | |
| 5. Military expenditures | 3.2 | 3.4 | 3.1 | 3.0 | .8 |
| 6. Pensions and remittances | 7 | .7 | .8 | .8 | .2 |
| 7. U.S. direct investment | 2.1 | 1.1 | 1.4 | 1.7 | .5 |
| 8. U.S. portfolio investment | .9 | 1.4 | .9 | .9 | (3) |
| 9. U.S. Government's grants and credits | 3.2 | 3.1 | 3.0 | 3.4 | 1.0 |
| 10. (Of which used for U.S. procurement of goods and services, estimated) | (2.5) | (2.4) | (2.2) | (2.4) | (.7) |
| 11. U.S. receipts, total | 27.8 | 23.9 | 25.3 | 28.2 | 7.3 |
| 12. Merchandise exports | 19.4 | 16.3 | 16.3 | 19.4 | 5.0 |
| 13. Income on investments | 2.9 | 2.9 | 3.0 | 3.2 | .9 |
| 14. Other services, nonmilitary | 4.1 | 3.8 | 4.1 | 4.4 | 1.1 |
| 15. Military transactions | .4 | .3 | .3 | .3 | .1 |
| 16. Foreign direct investment | .1 | (3) | .1 | (3) | .1 |
| 17. Foreign portfolio investment | .2 | (4) | .5 | .3 | |
| 18. Repayments to U.S. Government | .7 | .5 | 1.1 | .6 | .1 |
| 19. Balance on all items above | (4) | −3.6 | −4.4 | −1.9 | +.2 |
| 20. Merchandise trade | 6.1 | 3.3 | 1.0 | 4.7 | 1.7 |
| 21. (Merchandise trade adjusted) [5] | (3.8) | (1.1) | (−1.0) | (2.6) | (1.1) |
| 22. Nonmilitary services, including investment income | 2.5 | 2.1 | 2.0 | 2.0 | .6 |
| 23. Military expenditures and transactions | −2.8 | −3.1 | −2.8 | −2.7 | −.7 |
| 24. Capital and grants (16+17+18−6−7−8−9) | −5.8 | −5.8 | −4.4 | −5.8 | −1.5 |
| 25. U.S. private short-term foreign assets (increase (−)) | −.3 | −.3 | −.1 | −1.3 | −.5 |
| 26. U.S. liquid liabilities: Private (increase (+)) | +.4 | +.2 | +1.5 | −.1 | +.3 |
| 27. U.S. liquid liabilities: Official (increase (+)) | −.1 | +1.0 | +1.7 | +2.3 | |
| 28. Change in U.S. gold stock (increase (−)) | −.8 | +2.3 | +.7 | +1.7 | |
| 29. Unrecorded transactions, net | +.7 | +.4 | +.5 | −.6 | +.1 |
| 30. Overall balance: Deficit (−) | +.5 | −3.5 | −3.9 | −3.8 | −.3 |

[1] Excludes U.S. subscription of $1,400,000,000 to the IMF, of which $344,000,000 was paid in gold.
[2] Seasonally adjusted.
[3] Plus less than $50,000,000.
[4] Minus less than $50,000,000.
[5] Adjusted to exclude from exports the estimated merchandise component (as distinguished from services) of item 10.

NOTE.—Excludes transfers of military supplies and services under grants. Detail may not add to totals because of rounding.

THE SECRETARY OF THE TREASURY,
*Washington, July 7, 1961.*

Hon. HARRY FLOOD BYRD,
*U.S. Senate.*

DEAR SENATOR BYRD: During the recent hearings before the Finance Committee on the bill to reduce the duty-free allowance for returning American tourists, you inquired about the reasons for the improvement in our balance of payments during the first quarter of 1961 and the prospects for its continuance.

I enclose for your information an analysis of our payments situation in the first quarter of 1961 as compared with calendar year 1960 and with the last quarter of 1960. In brief, our payments have improved substantially in the first quarter of 1961 mainly because of: (*a*) A larger export surplus occasioned by a reduced level of imports associated with low levels of domestic activity and higher exports reflecting high levels of economic activity in industrial countries abroad; (*b*) a halt to speculation against the dollar following the President's message of February 6; and (*c*) a smaller total of U.S. private investment abroad and an increased inflow of medium- and long-term foreign investment into the United States. In the first quarter of 1961, our basic balance (all items except short-term capital) showed a surplus of over $600 million (annual rate) as compared with an actual deficit of $1.9 billion in 1960. Our overall balance (all items including short-term capital) showed a first quarter deficit of $1.2 billion (annual rate) as compared with an actual deficit of $3.8 billion in 1960.

**Table 2.—United States Balance of Payments by Areas—1959, 1960, and First Quarter 1961**

[Millions of dollars]

**All areas**

| Line | Type of transaction | 1959 r Year | 1960 r Year | 1959 I | 1959 II | 1959 III | 1959 IV | 1960 I | 1960 II | 1960 III | 1960 IV | 1961 p I |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Exports of goods and services | 25,683 | 29,065 | 5,970 | 6,453 | 6,352 | 6,908 | 6,796 | 7,584 | 6,941 | 7,744 | na |
| 2 | Goods and services transferred under military grants, net. | 1,974 | 1,765 | 507 | 605 | 402 | 460 | 443 | 622 | 282 | 418 | na |
| 3 | Goods and services excluding transfers under military grants. | 23,709 | 27,300 | 5,463 | 5,848 | 5,950 | 6,448 | 6,353 | 6,962 | 6,659 | 7,326 | 6,883 |
| 4 | Merchandise, adjusted, excluding military. | 16,282 | 19,409 | 3,807 | 4,074 | 4,058 | 4,343 | 4,607 | 4,994 | 4,676 | 5,132 | 5,001 |
| 5 | Transportation | 1,646 | 1,816 | 376 | 416 | 431 | 423 | 429 | 470 | 475 | 442 | 434 |
| 6 | Travel | 902 | 968 | 187 | 222 | 295 | 198 | 192 | 249 | 311 | 216 | 197 |
| | Miscellaneous services: | | | | | | | | | | | |
| 7 | Private | 1,390 | 1,413 | 348 | 348 | 348 | 346 | 336 | 339 | 349 | 389 | 360 |
| 8 | Government, excluding military. | 144 | 154 | 36 | 37 | 35 | 36 | 36 | 36 | 43 | 39 | 37 |
| 9 | Military transactions | 302 | 335 | 76 | 83 | 67 | 76 | 58 | 122 | 70 | 85 | 73 |
| | Income on investments: | | | | | | | | | | | |
| 10 | Direct investments | 2,228 | 2,338 | 466 | 487 | 531 | 744 | 517 | 565 | 520 | 736 | 586 |
| 11 | Other private | 466 | 518 | 107 | 121 | 113 | 125 | 118 | 130 | 128 | 142 | 143 |
| 12 | Government | 349 | 349 | 60 | 60 | 72 | 157 | 60 | 57 | 87 | 145 | 62 |
| 13 | Imports of goods and services | 23,537 | 23,327 | 5,401 | 5,964 | 6,226 | 5,944 | 5,769 | 6,074 | 6,057 | 5,427 | 5,322 |
| 14 | Merchandise, adjusted, excluding military. | 15,294 | 14,722 | 3,594 | 3,879 | 3,847 | 3,974 | 3,830 | 3,857 | 3,550 | 3,485 | 3,406 |
| 15 | Transportation | 1,759 | 1,942 | 377 | 473 | 495 | 414 | 432 | 540 | 544 | 426 | 423 |
| 16 | Travel | 1,610 | 1,744 | 258 | 412 | 617 | 323 | 278 | 470 | 668 | 328 | 278 |
| | Miscellaneous services: | | | | | | | | | | | |
| 17 | Private | 633 | 634 | 148 | 153 | 169 | 164 | 149 | 150 | 168 | 167 | 150 |
| 18 | Government, excluding military. | 302 | 306 | 64 | 66 | 107 | 65 | 64 | 66 | 109 | 67 | 80 |
| 19 | Military expenditures | 3,109 | 3,048 | 780 | 789 | 786 | 754 | 767 | 758 | 796 | 727 | 759 |
| | Income on investments: | | | | | | | | | | | |
| 20 | Private | 549 | 597 | 128 | 134 | 133 | 154 | 148 | 147 | 143 | 159 | 151 |
| 21 | Government | 261 | 333 | 53 | 59 | 74 | 90 | 101 | 86 | 77 | 68 | 60 |
| 22 | Balance on goods and services | 2,146 | 5,738 | 569 | 489 | 124 | 964 | 1,027 | 1,510 | 884 | 2,317 | na |
| 23 | Excluding transfers under military grants. | 172 | 3,973 | 62 | −116 | −278 | 504 | 584 | 888 | 602 | 1,899 | 1,561 |
| 24 | Unilateral transfers, net [to foreign countries (−)]. | −4,306 | −4,254 | −1,128 | −1,186 | −949 | −1,135 | −1,022 | −1,283 | −969 | −1,079 | na |
| 25 | Excluding military transfers | −2,434 | −2,489 | −621 | −581 | −547 | −675 | −579 | −631 | −618 | −661 | −700 |
| 26 | Private remittances | −575 | −633 | −135 | −140 | −144 | −156 | −142 | −164 | −154 | −173 | −155 |
| | Government: | | | | | | | | | | | |
| 27 | Military grants of goods and services. | −1,974 | −1,765 | −507 | −605 | −402 | −460 | −443 | −622 | −282 | −418 | na |
| 28 | Other grants | −1,482 | −1,641 | −437 | −394 | −333 | −400 | −381 | −418 | −411 | −431 | −490 |
| 29 | Pensions and other transfers | −215 | −215 | −49 | −47 | −70 | −50 | −56 | −49 | −53 | −57 | −55 |
| 30 | U.S. capital, net [increase in U.S. assets (−)]. | −2,729 | −4,965 | −494 | −1,032 | −607 | −596 | −575 | −1,110 | −1,075 | −1,965 | −1,357 |
| 31 | Private, net | −2,375 | −3,854 | −412 | −738 | −387 | −838 | −451 | −734 | −924 | −1,557 | −937 |
| 32 | Direct investments, net | −1,372 | −1,694 | −287 | −443 | −224 | −419 | −303 | −231 | −327 | −733 | −424 |
| 33 | New issues of foreign securities | −624 | −573 | −192 | −130 | −175 | −128 | −205 | −111 | −56 | −101 | −79 |
| 34 | Redemptions | 95 | 100 | 22 | 35 | 12 | 25 | 22 | 35 | 21 | 31 | 22 |
| 35 | Transactions in outstanding foreign securities. | −140 | −177 | −116 | −30 | 22 | −7 | 13 | −67 | −79 | −43 | −94 |
| 36 | Other long-term, net | −267 | −200 | 4 | −102 | −81 | −78 | 3 | −77 | −25 | −101 | 83 |
| 37 | Short-term, net | −77 | −1,312 | 157 | −62 | 50 | −231 | −20 | −164 | −448 | −610 | −445 |
| 38 | Government, net | −363 | −1,100 | −82 | −294 | −220 | 243 | −224 | −386 | −151 | −348 | −420 |
| 39 | Long-term capital [3] | −1,051 | −1,213 | −309 | −286 | −207 | −249 | −238 | −353 | −234 | −388 | −420 |
| 40 | Repayments | 1,054 | 631 | 263 | 121 | 159 | 491 | 155 | 117 | 178 | 181 | 100 |
| 41 | Foreign currency holdings and short-term claims, net [increase (−)]. | −356 | −527 | −56 | −129 | −172 | 1 | −141 | −150 | −95 | −141 | −100 |
| 42 | Foreign capital, net [increase in U.S. liabilities (+)]. | 3,721 | 2,427 | 868 | 1,042 | 1,273 | 548 | 771 | 887 | 571 | 198 | 31 |
| 43 | Direct investments in the United States. | 84 | 8 | 21 | 52 | 23 | −12 | 11 | 29 | 23 | −55 | 31 |
| 44 | Other long-term investments in the United States (mainly in U.S. private securities.) | 471 | 280 | 52 | 143 | 141 | 135 | 176 | 121 | ...... | −8 | 88 |
| 45 | Foreign purchases of U.S. Government bonds and notes, net. | 686 | 127 | 116 | 57 | 323 | 190 | 124 | 56 | −185 | 132 | 196 |
| 46 | Increase in U.S. short-term liabilities to foreign banks and official institutions. | 2,236 | 2,107 | 441 | 671 | 748 | 366 | 445 | 755 | 782 | 125 | −116 |
| 47 | Increase in other U.S. short-term liabilities. | 254 | −104 | 228 | 119 | 38 | −131 | 15 | −74 | −49 | 4 | −118 |
| 48 | Gold and convertible currencies held by U.S. monetary authorities [U.S. sales (+), purchases (−)]. | 731 | 1,702 | 95 | 307 | 167 | 72 | 80 | 94 | 637 | 921 | 346 |
| 49 | Reductions in gold and convertible currency holdings (line 48) and increase in U.S. short-term and other liquid liabilities (lines 46–47).[5] | 3,307 | 3,832 | 800 | 1,244 | 1,276 | 497 | 634 | 831 | 1,185 | 1,182 | 308 |
| 50 | Errors and omissions and transfers of funds between foreign areas [receipts by foreign areas (−)], net. | 538 | −640 | 100 | 200 | −8 | 146 | 40 | −128 | −117 | −452 | 60 |
| | Memorandum items: | | | | | | | | | | | |
| I | Increase in reported total foreign gold reserves and liquid dollar holdings.[4] | 4,561 | 4,173 | 1,040 | 1,454 | 1,411 | 656 | 807 | 1,041 | 1,310 | 1,015 | 452 |
| II | Through estimated net receipts from, or payments (−) to the United States.[5] | 3,863 | 3,798 | 877 | 1,226 | 1,268 | 482 | 626 | 831 | 1,180 | 1,179 | 303 |
| III | Through other transactions [6] | 730 | 375 | 163 | 340 | 143 | 174 | 182 | 220 | 130 | −157 | 149 |

**Western Europe**

| Line | Type of transaction | 1959 r Year | 1960 r Year | 1960 I | 1960 II | 1960 III | 1960 IV | 1961 p I |
|---|---|---|---|---|---|---|---|---|
| 1 | Exports of goods and services | 8,337 | 10,142 | 2,288 | 2,657 | 2,412 | 2,785 | na |
| 2 | Goods and services transferred under military grants, net. | 1,221 | 913 | 249 | 323 | 141 | 200 | na |
| 3 | Goods and services excluding transfers under military grants. | 7,116 | 9,229 | 2,045 | 2,334 | 2,271 | 2,576 | 2,362 |
| 4 | Merchandise, adjusted, excluding military. | 4,734 | 6,684 | 1,520 | 1,677 | 1,660 | 1,827 | 1,710 |
| 5 | Transportation | 703 | 783 | 185 | 209 | 204 | 185 | 180 |
| 6 | Travel | 98 | 114 | 22 | 31 | 35 | 26 | 25 |
| | Miscellaneous services: | | | | | | | |
| 7 | Private | 612 | 647 | 156 | 156 | 160 | 175 | 162 |
| 8 | Government, excluding military. | 48 | 53 | 12 | 13 | 13 | 15 | 13 |
| 9 | Military transactions | 181 | 221 | 34 | 89 | 48 | 50 | 44 |
| | Income on investments: | | | | | | | |
| 10 | Direct investments | 435 | 418 | 78 | 105 | 83 | 152 | 116 |
| 11 | Other private | 100 | 113 | 23 | 30 | 27 | 33 | 33 |
| 12 | Government | 215 | 196 | 18 | 24 | 41 | 113 | 19 |
| 13 | Imports of goods and services | 8,630 | 8,487 | 2,156 | 2,234 | 2,169 | 1,928 | 1,838 |
| 14 | Merchandise, adjusted, excluding military. | 4,517 | 4,172 | 1,178 | 1,081 | 913 | 1,000 | 936 |
| 15 | Transportation | 851 | 961 | 202 | 277 | 284 | 188 | 193 |
| 16 | Travel | 578 | 666 | 63 | 218 | 280 | 105 | 61 |
| | Miscellaneous services: | | | | | | | |
| 17 | Private | 393 | 407 | 101 | 100 | 103 | 103 | 102 |
| 18 | Government, excluding military. | 82 | 74 | 19 | 19 | 18 | 18 | 18 |
| 19 | Military expenditures | 1,671 | 1,642 | 440 | 397 | 434 | 371 | 303 |
| | Income on investments: | | | | | | | |
| 20 | Private | 380 | 380 | 96 | 94 | 94 | 105 | 97 |
| 21 | Government | 160 | 186 | 57 | 48 | 43 | 38 | 38 |
| 22 | Balance on goods and services | −293 | 1,655 | 132 | 423 | 243 | 857 | na |
| 23 | Excluding transfers under military grants. | −1,504 | 742 | −166 | 100 | 102 | 648 | 464 |
| 24 | Unilateral transfers, net [to foreign countries (−)]. | −1,856 | −1,547 | −383 | −482 | −300 | −382 | na |
| 25 | Excluding military transfers | −645 | −634 | −143 | −159 | −159 | −173 | −169 |
| 26 | Private remittances | −276 | −305 | −69 | −74 | −74 | −86 | −79 |
| | Government: | | | | | | | |
| 27 | Military grants of goods and services. | −1,221 | −913 | −240 | −323 | −141 | −209 | na |
| 28 | Other grants | −311 | −240 | −52 | −65 | −62 | −61 | −67 |
| 29 | Pensions and other transfers | −78 | −91 | −22 | −20 | −23 | −26 | −23 |
| 30 | U.S. capital, net [increase in U.S. assets (−)]. | 72 | −1,257 | −34 | −267 | −238 | −738 | −196 |
| 31 | Private, net | −477 | −1,511 | −54 | −268 | −291 | −798 | −256 |
| 32 | Direct investments, net | −454 | −963 | −115 | −110 | −200 | −537 | −100 |
| 33 | New issues of foreign securities | −78 | −24 | −3 | −3 | [illegible] | −18 | −15 |
| 34 | Redemptions | 9 | 11 | 2 | 3 | 2 | 4 | 3 |
| 35 | Transactions in outstanding foreign securities. | −86 | −108 | 15 | −24 | −65 | −34 | −69 |
| 36 | Other long-term, net | 8 | −16 | 4 | 42 | −20 | −42 | 8 |
| 37 | Short-term, net | 154 | −412 | 45 | −176 | −108 | −171 | 20 |
| 38 | Government, net | 549 | 154 | 30 | 1 | 53 | 70 | −40 |
| 39 | Long-term capital [3] | −160 | −215 | −41 | −38 | −71 | −65 | −68 |
| 40 | Repayments | 713 | 297 | 62 | 33 | 101 | 112 | 26 |
| 41 | Foreign currency holdings and short-term claims, net [increase (−)]. | −4 | 72 | 19 | 7 | 28 | 28 | 2 |
| 42 | Foreign capital, net [increase in U.S. liabilities (+)]. | 1,947 | 864 | 263 | 500 | 176 | −185 | −48 |
| 43 | Direct investments in the United States. | 73 | 20 | 4 | 9 | 16 | (*) | 18 |
| 44 | Other long-term investments in the United States (mainly in U.S. private securities.) | 355 | 236 | 154 | 100 | 1 | −19 | 75 |
| 45 | Foreign purchases of U.S. Government bonds and notes, net. | 365 | −35 | 11 | 19 | −36 | −29 | 21 |
| 46 | Increase in U.S. short-term liabilities to foreign banks and official institutions. | 781 | 650 | −67 | 530 | 263 | −76 | −154 |
| 47 | Increase in other U.S. short-term liabilities. | 344 | −16 | 181 | −66 | −68 | −61 | −8 |
| 48 | Gold and convertible currencies held by U.S. monetary authorities [U.S. sales (+), purchases (−)]. | 820 | 1,715 | 40 | 48 | 577 | 1,053 | 219 |
| 49 | Reductions in gold and convertible currency holdings (line 48) and increase in U.S. short-term and other liquid liabilities (lines 46–47).[5] | 2,319 | 2,317 | 165 | 530 | 736 | 887 | 78 |
| 50 | Errors and omissions and transfers of funds between foreign areas [receipts by foreign areas (−)], net. | −679 | −1,333 | −48 | −312 | −368 | −615 | −270 |
| | Memorandum items: | | | | | | | |
| I | Increase in reported total foreign gold reserves and liquid dollar holdings.[4] | 2,261 | 2,987 | 357 | 930 | 972 | 669 | 179 |
| II | Through estimated net receipts from, or payments (−) to the United States.[5] | 1,640 | 984 | 117 | 217 | 378 | 272 | −192 |
| III | Through other transactions [6] | 621 | 1,953 | 240 | 722 | 594 | 397 | 371 |

**Eastern Europe**

| Line | Type of transaction | 1959 r Year | 1960 r Year | 1960 I | 1960 II | 1960 III | 1960 IV | 1961 p I |
|---|---|---|---|---|---|---|---|---|
| 1 | Exports of goods and services | 126 | 226 | 34 | 50 | 61 | 83 | 66 |
| 2 | Goods and services transferred under military grants, net. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 3 | Goods and services excluding transfers under military grants. | 126 | 226 | 34 | 50 | 61 | 83 | 66 |
| 4 | Merchandise, adjusted, excluding military. | 99 | 202 | 29 | 45 | 50 | 77 | 61 |
| 5 | Transportation | 4 | 8 | 2 | 2 | 2 | 2 | 2 |
| 6 | Travel | (*) | (*) | (*) | (*) | (*) | (*) | (*) |
| | Miscellaneous services: | | | | | | | |
| 7 | Private | 19 | 9 | 2 | 2 | 2 | 2 | 2 |
| 8 | Government, excluding military. | 1 | (*) | (*) | (*) | (*) | (*) | (*) |
| 9 | Military transactions | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| | Income on investments: | | | | | | | |
| 10 | Direct investments | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 11 | Other private | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 12 | Government | 9 | 9 | 1 | (*) | 7 | 1 | 1 |
| 13 | Imports of goods and services | 91 | 93 | 21 | 26 | 26 | 22 | 30 |
| 14 | Merchandise, adjusted, excluding military. | 81 | 81 | 20 | 21 | 21 | 19 | 18 |
| 15 | Transportation | 1 | 2 | (*) | 1 | (*) | 1 | (*) |
| 16 | Travel | 8 | 7 | (*) | 3 | 3 | 1 | (*) |
| | Miscellaneous services: | | | | | | | |
| 17 | Private | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 18 | Government, excluding military. | 2 | 2 | (*) | (*) | (*) | 1 | [illegible] |
| 19 | Military expenditures | 1 | 1 | (*) | (*) | (*) | 1 | (*) |
| | Income on investments: | | | | | | | |
| 20 | Private | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 21 | Government | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 22 | Balance on goods and services | 32 | 135 | 13 | 24 | 36 | 61 | 46 |
| 23 | Excluding transfers under military grants. | 32 | 135 | 13 | 24 | 36 | 61 | 46 |
| 24 | Unilateral transfers, net [to foreign countries (−)]. | −26 | −29 | −6 | −7 | −7 | −9 | −5 |
| 25 | Excluding military transfers | −26 | −29 | −6 | −7 | −7 | −9 | −5 |
| 26 | Private remittances | −24 | −23 | −5 | −6 | −5 | −7 | −4 |
| | Government: | | | | | | | |
| 27 | Military grants of goods and services. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 28 | Other grants | −2 | −5 | [illegible] | −1 | −1 | −1 | −1 |
| 29 | Pensions and other transfers | (*) | −1 | 1 | −1 | −1 | −1 | (*) |
| 30 | U.S. capital, net [increase in U.S. assets (−)]. | −65 | −117 | −12 | −27 | −22 | −56 | −41 |
| 31 | Private, net | −5 | 1 | 1 | 2 | −3 | 1 | 1 |
| 32 | Direct investments, net | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 33 | New issues of foreign securities | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 34 | Redemptions | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 35 | Transactions in outstanding foreign securities. | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 36 | Other long-term, net | −3 | 3 | (*) | 3 | −1 | [illegible] | [illegible] |
| 37 | Short-term, net | −2 | −2 | 1 | −1 | −2 | [illegible] | [illegible] |
| 38 | Government, net | −69 | −118 | −13 | −29 | −19 | −57 | −42 |
| 39 | Long-term capital [3] | −14 | −5 | −2 | −2 | −1 | (*) | ...... |
| 40 | Repayments | 7 | 8 | 1 | 1 | 6 | (*) | 3 |
| 41 | Foreign currency holdings and short-term claims, net [increase (−)]. | −53 | −121 | −12 | −28 | −24 | −57 | −45 |
| 42 | Foreign capital, net [increase in U.S. liabilities (+)]. | 2 | 9 | ...... | 11 | −10 | 8 | −5 |
| 43 | Direct investments in the United States. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 44 | Other long-term investments in the United States (mainly in U.S. private securities.) | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 45 | Foreign purchases of U.S. Government bonds and notes, net. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 46 | Increase in U.S. short-term liabilities to foreign banks and official institutions. | 1 | 10 | 1 | 10 | −9 | 8 | −5 |
| 47 | Increase in other U.S. short-term liabilities. | 1 | −1 | −1 | 1 | −1 | (*) | (*) |
| 48 | Gold and convertible currencies held by U.S. monetary authorities [U.S. sales (+), purchases (−)]. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 49 | Reductions in gold and convertible currency holdings (line 48) and increase in U.S. short-term and other liquid liabilities (lines 46–47).[5] | 2 | 9 | ...... | 11 | −10 | 8 | −5 |
| 50 | Errors and omissions and transfers of funds between foreign areas [receipts by foreign areas (−)], net. | 57 | 2 | 5 | −2 | 3 | −4 | 5 |
| | Memorandum items: | | | | | | | |
| I | Increase in reported total foreign gold reserves and liquid dollar holdings.[4] | 2 | 9 | (*) | 11 | −10 | 8 | −5 |
| II | Through estimated net receipts from, or payments (−) to the United States.[5] | 59 | 11 | 5 | 9 | −7 | 4 | ...... |
| III | Through other transactions [6] | −57 | −2 | −5 | 2 | −3 | 4 | −5 |

**Canada**

| Line | Type of transaction | 1959 r Year | 1960 r Year | 1960 I | 1960 II | 1960 III | 1960 IV | 1961 p I |
|---|---|---|---|---|---|---|---|---|
| 1 | Exports of goods and services | 5,126 | 5,101 | 1,196 | 1,300 | 1,239 | 1,277 | 1,165 |
| 2 | Goods and services transferred under military grants, net. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 3 | Goods and services excluding transfers under military grants. | 5,126 | 5,101 | 1,196 | 1,300 | 1,239 | 1,277 | 1,165 |
| 4 | Merchandise, adjusted, excluding military. | 3,800 | 3,767 | 934 | 1,048 | 870 | 915 | 891 |
| 5 | Transportation | 121 | 117 | 27 | 30 | 31 | 29 | 26 |
| 6 | Travel | 462 | 469 | 91 | 126 | 161 | 91 | 87 |
| | Miscellaneous services: | | | | | | | |
| 7 | Private | 158 | 134 | 30 | 34 | 35 | 35 | 36 |
| 8 | Government, excluding military. | 2 | 5 | (*) | 1 | 5 | (*) | (*) |
| 9 | Military transactions | 30 | 35 | 9 | 10 | 7 | 9 | 7 |
| | Income on investments: | | | | | | | |
| 10 | Direct investments | 345 | 362 | 54 | 89 | 78 | 141 | 63 |
| 11 | Other private | 208 | 211 | 51 | 53 | 52 | 55 | 56 |
| 12 | Government | (*) | ...... | ...... | ...... | ...... | ...... | ...... |
| 13 | Imports of goods and services | 4,127 | 3,980 | 913 | 962 | 1,136 | 942 | 875 |
| 14 | Merchandise, adjusted, excluding military. | 3,045 | 2,899 | 707 | 744 | 735 | 713 | 680 |
| 15 | Transportation | 113 | 119 | 27 | 31 | 33 | 28 | 27 |
| 16 | Travel | 363 | 380 | 30 | 75 | 215 | 60 | 34 |
| | Miscellaneous services: | | | | | | | |
| 17 | Private | 31 | 36 | 8 | 8 | 11 | 9 | 8 |
| 18 | Government, excluding military. | 3 | 3 | 1 | 1 | 1 | (*) | 1 |
| 19 | Military expenditures | 431 | 378 | 102 | 80 | 95 | 91 | 113 |
| | Income on investments: | | | | | | | |
| 20 | Private | 117 | 135 | 34 | 37 | 29 | 35 | 35 |
| 21 | Government | 32 | 31 | 9 | 8 | 7 | 7 | 7 |
| 22 | Balance on goods and services | 999 | 1,121 | 277 | 397 | 112 | 334 | 290 |
| 23 | Excluding transfers under military grants. | 999 | 1,121 | 277 | 397 | 112 | 334 | 290 |
| 24 | Unilateral transfers, net [to foreign countries (−)]. | −21 | −44 | −11 | −12 | −11 | −10 | −9 |
| 25 | Excluding military transfers | −21 | −44 | −11 | −12 | −11 | −10 | −9 |
| 26 | Private remittances | −3 | −12 | −1 | −4 | −4 | −3 | −2 |
| | Government: | | | | | | | |
| 27 | Military grants of goods and services. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 28 | Other grants | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 29 | Pensions and other transfers | −19 | −32 | −10 | −8 | −7 | −7 | −7 |
| 30 | U.S. capital, net [increase in U.S. assets (−)]. | −370 | −526 | −173 | −219 | −179 | −254 | −263 |
| 31 | Private, net | −364 | −532 | −173 | −221 | −152 | −264 | −262 |
| 32 | Direct investments, net | −417 | −471 | −94 | −116 | −102 | −159 | −130 |
| 33 | New issues of foreign securities | −437 | −227 | −135 | −77 | [illegible] | [illegible] | −11 |
| 34 | Redemptions | 54 | 47 | 8 | 15 | 7 | 17 | 8 |
| 35 | Transactions in outstanding foreign securities. | −34 | −14 | 3 | −5 | −1 | −11 | −25 |
| 36 | Other long-term, net | −11 | 32 | 7 | 9 | 26 | −9 | 12 |
| 37 | Short-term, net | −29 | −199 | 38 | −47 | −111 | −79 | −118 |
| 38 | Government, net | −6 | 7 | (*) | 2 | 2 | 2 | ...... |
| 39 | Long-term capital [3] | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 40 | Repayments | (*) | ...... | ...... | ...... | ...... | ...... | ...... |
| 41 | Foreign currency holdings and short-term claims, net [increase (−)]. | −6 | 7 | (*) | 2 | 2 | 2 | ...... |
| 42 | Foreign capital, net [increase in U.S. liabilities (+)]. | 319 | 123 | 182 | 136 | 111 | −296 | 9 |
| 43 | Direct investments in the United States. | −8 | −24 | 4 | 19 | 4 | −51 | 11 |
| 44 | Other long-term investments in the United States (mainly in U.S. private securities.) | 1 | −17 | 1 | 1 | −12 | −7 | −12 |
| 45 | Foreign purchases of U.S. Government bonds and notes, net. | 111 | −36 | 33 | −56 | −5 | −8 | 18 |
| 46 | Increase in U.S. short-term liabilities to foreign banks and official institutions. | 170 | 311 | 253 | 151 | 150 | −243 | 64 |
| 47 | Increase in other U.S. short-term liabilities. | 45 | −101 | −109 | 21 | −26 | 13 | −72 |
| 48 | Gold and convertible currencies held by U.S. monetary authorities [U.S. sales (+), purchases (−)]. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 49 | Reductions in gold and convertible currency holdings (line 48) and increase in U.S. short-term and other liquid liabilities (lines 46–47).[5] | 336 | 174 | 177 | 116 | 119 | −228 | 10 |
| 50 | Errors and omissions and transfers of funds between foreign areas [receipts by foreign areas (−)], net. | −417 | −368 | −275 | −302 | −34 | 228 | −27 |
| | Memorandum items: | | | | | | | |
| I | Increase in reported total foreign gold reserves and liquid dollar holdings.[4] | 208 | 99 | 167 | 78 | 104 | −247 | 9 |
| II | Through estimated net receipts from, or payments (−) to the United States.[5] | −91 | −211 | −98 | −186 | 85 | −12 | −17 |
| III | Through other transactions [6] | 299 | 310 | 265 | 261 | 19 | −235 | 26 |

**Latin American republics [1]**

| Line | Type of transaction | 1959 r Year | 1960 r Year | 1960 I | 1960 II | 1960 III | 1960 IV | 1961 p I |
|---|---|---|---|---|---|---|---|---|
| 1 | Exports of goods and services | 5,242 | 5,283 | 1,346 | 1,364 | 1,311 | 1,342 | na |
| 2 | Goods and services transferred under military grants, net. | 63 | 72 | 8 | 23 | 15 | 26 | na |
| 3 | Goods and services excluding transfers under military grants. | 5,179 | 5,211 | 1,338 | 1,341 | 1,296 | 1,336 | 1,365 |
| 4 | Merchandise, adjusted, excluding military. | 3,572 | 3,506 | 847 | 926 | 858 | 875 | 851 |
| 5 | Transportation | 255 | 268 | 67 | 73 | 78 | 70 | 66 |
| 6 | Travel | 273 | 292 | 63 | 73 | 81 | 75 | 67 |
| | Miscellaneous services: | | | | | | | |
| 7 | Private | 270 | 271 | 63 | 65 | 67 | 79 | 66 |
| 8 | Government, excluding military. | 27 | 27 | 7 | 6 | 7 | 7 | 7 |
| 9 | Military transactions | 12 | 19 | 1 | 9 | 3 | 6 | 4 |
| | Income on investments: | | | | | | | |
| 10 | Direct investments | 600 | 641 | 147 | 152 | 160 | 182 | 128 |
| 11 | Other private | 70 | 88 | 20 | 22 | 22 | 24 | 25 |
| 12 | Government | 72 | 70 | 24 | 18 | 30 | 18 | 19 |
| 13 | Imports of goods and services | 4,434 | 4,540 | 1,162 | 1,206 | 1,116 | 1,063 | 1,130 |
| 14 | Merchandise, adjusted, excluding military. | 3,710 | 3,620 | 980 | 976 | 864 | 844 | 881 |
| 15 | Transportation | 141 | 187 | 36 | 40 | 40 | 39 | [illegible] |
| 16 | Travel | 441 | 447 | 114 | 111 | 113 | 109 | 111 |
| | Miscellaneous services: | | | | | | | |
| 17 | Private | 190 | 172 | 35 | 37 | 49 | 51 | 34 |
| 18 | Government, excluding military. | 55 | 61 | 14 | 16 | 15 | 16 | 15 |
| 19 | Military expenditures | 49 | 59 | 14 | 15 | 15 | 14 | 15 |
| | Income on investments: | | | | | | | |
| 20 | Private | 27 | 30 | 7 | 7 | 8 | 8 | 8 |
| 21 | Government | 10 | 14 | 4 | 4 | 4 | 2 | 2 |
| 22 | Balance on goods and services | 816 | 733 | 84 | 159 | 201 | 279 | na |
| 23 | Excluding transfers under military grants. | 757 | 661 | 76 | 136 | 186 | 253 | 145 |
| 24 | Unilateral transfers, net [to foreign countries (−)]. | −227 | −247 | −49 | −69 | −57 | −72 | na |
| 25 | Excluding military transfers | −174 | −175 | −41 | −46 | −42 | −46 | −32 |
| 26 | Private remittances | −45 | −56 | −11 | −17 | −14 | −14 | −12 |
| | Government: | | | | | | | |
| 27 | Military grants of goods and services. | −53 | −72 | −8 | −23 | −15 | −26 | na |
| 28 | Other grants | −114 | −106 | −26 | −27 | −26 | −29 | −35 |
| 29 | Pensions and other transfers | −12 | −18 | −5 | −2 | −5 | −3 | −3 |
| 30 | U.S. capital, net [increase in U.S. assets (−)]. | −660 | −664 | −113 | −130 | −146 | −266 | −184 |
| 31 | Private, net | −469 | −534 | −113 | [illegible] | −120 | −274 | −47 |
| 32 | Direct investments, net | −218 | −95 | −16 | −30 | −22 | −21 | −34 |
| 33 | New issues of foreign securities | [illegible] | −107 | −53 | [illegible] | [illegible] | [illegible] | [illegible] |
| 34 | Redemptions | 10 | 20 | 2 | [illegible] | [illegible] | [illegible] | [illegible] |
| 35 | Transactions in outstanding foreign securities. | 11 | −8 | −3 | [illegible] | [illegible] | [illegible] | [illegible] |
| 36 | Other long-term, net | −165 | −189 | 18 | −117 | −36 | −24 | 56 |
| 37 | Short-term, net | −56 | −186 | −65 | [illegible] | [illegible] | [illegible] | [illegible] |
| 38 | Government, net | −287 | −150 | 5 | −118 | −16 | −21 | −37 |
| 39 | Long-term capital [3] | −412 | −231 | −51 | −147 | −49 | −84 | −126 |
| 40 | Repayments | 189 | 209 | 63 | 84 | 40 | 82 | 20 |
| 41 | Foreign currency holdings and short-term claims, net [increase (−)]. | −34 | −28 | −7 | −25 | −7 | 11 | 80 |
| 42 | Foreign capital, net [increase in U.S. liabilities (+)]. | −108 | −45 | −16 | 37 | −1 | −66 | −22 |
| 43 | Direct investments in the United States. | 1 | −3 | 1 | ...... | −1 | −3 | 2 |
| 44 | Other long-term investments in the United States (mainly in U.S. private securities.) | 27 | 16 | 10 | 4 | 2 | ...... | 3 |
| 45 | Foreign purchases of U.S. Government bonds and notes, net. | ...... | −46 | 1 | −1 | −19 | −27 | 27 |
| 46 | Increase in U.S. short-term liabilities to foreign banks and official institutions. | 30 | −27 | 9 | 60 | −27 | −69 | −17 |
| 47 | Increase in other U.S. short-term liabilities. | −170 | 15 | −37 | −26 | 44 | 34 | −37 |
| 48 | Gold and convertible currencies held by U.S. monetary authorities [U.S. sales (+), purchases (−)]. | −21 | 100 | 1 | 1 | 36 | 62 | 102 |
| 49 | Reductions in gold and convertible currency holdings (line 48) and increase in U.S. short-term and other liquid liabilities (lines 46–47).[5] | −152 | 42 | −20 | 34 | 34 | ...... | 79 |
| 50 | Errors and omissions and transfers of funds between foreign areas [receipts by foreign areas (−)], net. | 490 | 153 | 90 | 2 | −33 | 91 | −60 |
| | Memorandum items: | | | | | | | |
| I | Increase in reported total foreign gold reserves and liquid dollar holdings.[4] | −220 | −226 | −91 | −115 | −58 | −71 | 61 |
| II | Through estimated net receipts from, or payments (−) to the United States.[5] | 257 | 186 | 67 | 30 | 1 | 91 | 6 |
| III | Through other transactions [6] | −486 | −380 | −158 | −151 | −59 | −162 | 56 |

**All other countries**

| Line | Type of transaction | 1959 r Year | 1960 r Year | 1960 I | 1960 II | 1960 III | 1960 IV | 1961 p I |
|---|---|---|---|---|---|---|---|---|
| 1 | Exports of goods and services | 6,512 | 8,027 | 1,967 | 2,054 | 1,840 | 2,187 | na |
| 2 | Goods and services transferred under military grants, net. | 690 | 780 | 195 | 275 | 126 | 183 | na |
| 3 | Goods and services excluding transfers under military grants. | 5,823 | 7,347 | 1,772 | 1,778 | 1,720 | 2,074 | 2,015 |
| 4 | Merchandise, adjusted, excluding military. | 4,008 | 5,287 | 1,277 | 1,297 | 1,238 | 1,426 | 1,469 |
| 5 | Transportation | 389 | 467 | 111 | 114 | 120 | 122 | 117 |
| 6 | Travel | 60 | 85 | 16 | 19 | 24 | 26 | 18 |
| | Miscellaneous services: | | | | | | | |
| 7 | Private | 274 | 282 | 60 | 66 | 69 | 77 | 77 |
| 8 | Government, excluding military. | 68 | 68 | 17 | 16 | 18 | 17 | 17 |
| 9 | Military transactions | 79 | 54 | 14 | 14 | 12 | 14 | 14 |
| | Income on investments: | | | | | | | |
| 10 | Direct investments | 834 | 912 | 225 | 219 | 189 | 289 | 245 |
| 11 | Other private | 40 | 67 | 15 | 16 | 17 | 19 | 19 |
| 12 | Government | 38 | 65 | 18 | 15 | 19 | 13 | 19 |
| 13 | Imports of goods and services | 5,486 | 5,597 | 1,372 | 1,480 | 1,445 | 1,320 | 1,322 |
| 14 | Merchandise, adjusted, excluding military. | 3,907 | 3,916 | 980 | 1,026 | 1,012 | 899 | 909 |
| 15 | Transportation | 236 | 256 | 56 | 66 | 69 | 65 | 57 |
| 16 | Travel | 218 | 244 | 71 | 63 | 57 | 53 | 66 |
| | Miscellaneous services: | | | | | | | |
| 17 | Private | 19 | 20 | 5 | 5 | 5 | 5 | 6 |
| 18 | Government, excluding military. | 132 | 120 | 28 | 26 | 38 | 28 | 25 |
| 19 | Military expenditures | 957 | 969 | 211 | 250 | 262 | 260 | 236 |
| | Income on investments: | | | | | | | |
| 20 | Private | 4 | 41 | 10 | 9 | 12 | 10 | 11 |
| 21 | Government | 25 | 45 | 14 | 11 | 10 | 10 | 6 |
| 22 | Balance on goods and services | 1,017 | 2,430 | 594 | 596 | 464 | 857 | na |
| 23 | Excluding transfers under military grants. | 327 | 1,650 | 399 | 319 | 375 | 694 | 660 |
| 24 | Unilateral transfers, net [to foreign countries (−)]. | −2,142 | −2,275 | −547 | −605 | −466 | −656 | na |
| 25 | Excluding military transfers | −1,452 | −1,495 | −362 | −380 | −370 | −383 | −420 |
| 26 | Private remittances | −224 | −237 | −56 | −65 | −57 | −61 | −56 |
| | Government: | | | | | | | |
| 27 | Military grants of goods and services. | −690 | −780 | −195 | −275 | −126 | −183 | na |
| 28 | Other grants | −1,121 | −1,180 | −278 | −296 | −294 | −282 | −357 |
| 29 | Pensions and other transfers | −107 | −78 | −20 | −19 | −19 | −20 | −20 |
| 30 | U.S. capital, net [increase in U.S. assets (−)]. | −1,079 | −1,772 | −454 | −436 | −350 | −531 | −760 |
| 31 | Private, net | −494 | −690 | −262 | −190 | −176 | −279 | −402 |
| 32 | Direct investments, net | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 33 | New issues of foreign securities | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 34 | Redemptions | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 35 | Transactions in outstanding foreign securities. | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 36 | Other long-term, net | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 37 | Short-term, net | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 38 | Government, net | −585 | −322 | −246 | −212 | −174 | −261 | −278 |
| 39 | Long-term capital [3] | −455 | −590 | −144 | −165 | −118 | −166 | −216 |
| 40 | Repayments | 142 | 115 | 80 | 30 | 29 | 17 | 42 |
| 41 | Foreign currency holdings and short-term claims, net [increase (−)]. | −263 | −480 | −141 | −106 | −60 | −113 | −104 |
| 42 | Foreign capital, net [increase in U.S. liabilities (+)]. | 736 | 432 | 128 | 60 | 126 | 130 | 65 |
| 43 | Direct investments in the United States. | 19 | 6 | 2 | 1 | 4 | −1 | ...... |
| 44 | Other long-term investments in the United States (mainly in U.S. private securities.) | 36 | 41 | 9 | 14 | 4 | 14 | 18 |
| 45 | Foreign purchases of U.S. Government bonds and notes, net. | 45 | 19 | 20 | 40 | −41 | −18 | −33 |
| 46 | Increase in U.S. short-term liabilities to foreign banks and official institutions. | 662 | 387 | 107 | −13 | 180 | 117 | 78 |
| 47 | Increase in other U.S. short-term liabilities. | 34 | −1 | −19 | −2 | 2 | 18 | −1 |
| 48 | Gold and convertible currencies held by U.S. monetary authorities [U.S. sales (+), purchases (−)]. | 180 | 180 | (*) | 30 | 19 | 90 | 29 |
| 49 | Reductions in gold and convertible currency holdings (line 48) and increase in U.S. short-term and other liquid liabilities (lines 46–47).[5] | 880 | 866 | 117 | 60 | 130 | 213 | 64 |
| 50 | Errors and omissions and transfers of funds between foreign areas [receipts by foreign areas (−)], net. | 1,220 | 1,000 | 279 | 430 | 290 | 34 | 417 |
| | Memorandum items: | | | | | | | |
| I | Increase in reported total foreign gold reserves and liquid dollar holdings.[4] | 880 | 410 | 126 | 8 | 30 | 170 | 99 |
| II | Through estimated net receipts from, or payments (−) to the United States.[5] | 2,149 | 1,571 | 300 | 404 | 424 | 267 | 480 |
| III | Through other transactions [6] | −1,260 | −1,161 | −261 | −410 | −340 | −60 | −381 |

**International institutions and unallocated [2]**

| Line | Type of transaction | 1959 r Year | 1960 r Year | 1960 I | 1960 II | 1960 III | 1960 IV | 1961 p I |
|---|---|---|---|---|---|---|---|---|
| 1 | Exports of goods and services | 240 | 264 | 66 | 69 | 69 | 80 | 67 |
| 2 | Goods and services transferred under military grants, net. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 3 | Goods and services excluding transfers under military grants. | 240 | 264 | 66 | 69 | 69 | 80 | 67 |
| 4 | Merchandise, adjusted, excluding military. | 79 | 18 | ...... | ...... | ...... | 18 | ...... |
| 5 | Transportation | 144 | 158 | 37 | 42 | 46 | 34 | 34 |
| 6 | Travel | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| | Miscellaneous services: | | | | | | | |
| 7 | Private | 64 | 69 | 17 | 17 | 16 | 19 | 15 |
| 8 | Government, excluding military. | (*) | ...... | ...... | ...... | ...... | ...... | ...... |
| 9 | Military transactions | (*) | 6 | (*) | (*) | (*) | 6 | 4 |
| | Income on investments: | | | | | | | |
| 10 | Direct investments | 14 | 4 | 3 | (*) | 3 | −2 | 14 |
| 11 | Other private | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 12 | Government | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 13 | Imports of goods and services | 567 | 410 | 100 | 102 | 102 | 101 | 107 |
| 14 | Merchandise, adjusted, excluding military. | 24 | 34 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 15 | Transportation | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 16 | Travel | 437 | 457 | 109 | 129 | 119 | 104 | 100 |
| | Miscellaneous services: | | | | | | | |
| 17 | Private | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 18 | Government, excluding military. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 19 | Military expenditures | 37 | 50 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| | Income on investments: | | | | | | | |
| 20 | Private | 4 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 21 | Government | 45 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 22 | Balance on goods and services | −327 | −226 | −73 | −89 | −112 | −81 | −82 |
| 23 | Excluding transfers under military grants. | −327 | −226 | −73 | −89 | −112 | −81 | −82 |
| 24 | Unilateral transfers, net [to foreign countries (−)]. | −86 | −112 | −26 | −17 | −29 | −40 | −36 |
| 25 | Excluding military transfers | −86 | −112 | −26 | −17 | −29 | −40 | −36 |
| 26 | Private remittances | −1 | −2 | ...... | ...... | ...... | ...... | ...... |
| | Government: | | | | | | | |
| 27 | Military grants of goods and services. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 28 | Other grants | −86 | −110 | −26 | −17 | −29 | −40 | −36 |
| 29 | Pensions and other transfers | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 30 | U.S. capital, net [increase in U.S. assets (−)]. | −130 | −300 | −80 | −80 | [illegible] | −41 | [illegible] |
| 31 | Private, net | −120 | −136 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 32 | Direct investments, net | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 33 | New issues of foreign securities | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 34 | Redemptions | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 35 | Transactions in outstanding foreign securities. | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 36 | Other long-term, net | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 37 | Short-term, net | (*) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 38 | Government, net | 6 | −73 | (*) | (*) | 2 | −81 | −3 |
| 39 | Long-term capital [3] | ...... | −74 | ...... | ...... | ...... | −74 | ...... |
| 40 | Repayments | 2 | ...... | ...... | ...... | 2 | ...... | ...... |
| 41 | Foreign currency holdings and short-term claims, net [increase (−)]. | 4 | −7 | (*) | (*) | (*) | −7 | −3 |
| 42 | Foreign capital, net [increase in U.S. liabilities (+)]. | 770 | 1,084 | 194 | 64 | 170 | 656 | 66 |
| 43 | Direct investments in the United States. | ...... | ...... | ...... | ...... | ...... | ...... | ...... |
| 44 | Other long-term investments in the United States (mainly in U.S. private securities.) | 22 | 12 | 2 | 2 | 5 | 6 | 6 |
| 45 | Foreign purchases of U.S. Government bonds and notes, net. | 166 | 226 | 50 | 45 | −94 | 214 | 160 |
| 46 | Increase in U.S. short-term liabilities to foreign banks and official institutions. | 882 | 798 | 142 | 17 | 340 | 299 | −66 |
| 47 | Increase in other U.S. short-term liabilities. | ...... | (*) | (*) | (*) | (*) | (*) | (*) |
| 48 | Gold and convertible currencies held by U.S. monetary authorities [U.S. sales (+), purchases (−)]. | −300 | −300 | 9 | 10 | 5 | −200 | 8 |
| 49 | Reductions in gold and convertible currency holdings (line 48) and increase in U.S. short-term and other liquid liabilities (lines 46–47).[5] | 462 | 798 | 206 | 73 | 170 | 312 | 80 |
| 50 | Errors and omissions and transfers of funds between foreign areas [receipts by foreign areas (−)], net. | −71 | −121 | −6 | 61 | 7 | −300 | 10 |
| | Memorandum items: | | | | | | | |
| I | Increase in reported total foreign gold reserves and liquid dollar holdings.[4] | 1,478 | 1,680 | 290 | 120 | 254 | 477 | 150 |
| II | Through estimated net receipts from, or payments (−) to the United States.[5] | 877 | 660 | 157 | 120 | 172 | 180 | 60 |
| III | Through other transactions [6] | [illegible] | 400 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

We cannot rely on this good first quarter performance for the rest of 1961. Exports have been at very high levels because of boom conditions in Western Europe and Japan. Imports will inevitably increase as our domestic economic activity rises during the rest of the year. We must therefore continue to pursue vigorously all appropriate measures to bring our payments situation under lasting control and cannot afford to become complacent as a result of the current improvement.

Sincerely yours,

DOUGLAS DILLON.

## IMPROVEMENTS IN THE U.S. BALANCE OF PAYMENTS DURING THE FIRST QUARTER OF 1961

*First quarter of 1961, as compared with last quarter of 1960*

In the first quarter of 1961, the overall U.S. balance-of-payments deficit was reduced sharply to an annual rate of about $1.2 billion, seasonally adjusted, from an annual rate of $5.6 billion in the last quarter of 1960, an improvement of about $4.5 billion. The basic deficit (on all transactions other than short-term U.S. private capital outflow and errors and omissions), which was at an annual rate of $2.2 billion in the last quarter of 1960 was replaced by a basic surplus of more than $600 million in the first quarter of 1961, at an annual rate, an improvement of $2.8 billion. The larger improvement in our overall balance as compared with our basic balance is believed to have reflected the cessation of certain speculative capital outflows.

Exports rose slightly, and imports declined only slightly from the fourth quarter; only about $500 million (annual rate) of the quarterly improvement in the overall balance was due to a rise in the merchandise export surplus. However, our merchandise export surplus, at an annual rate of $6.7 billion for the quarter was at the highest level since the Suez crisis year of 1957, and was a basic element in our improved position. An adjustment to the merchandise export surplus to allow for the estimated value of exports financed by U.S. Government economic aid programs would reduce the overall merchandise trade surplus from the annual rate of $6.7 billion to about $4.5 billion.

Most of the quarter-to-quarter improvement was due to a more favorable pattern of various types of private long-term capital flows, with the net outflow dropping $2.5 billion at an annual rate. Our direct investment abroad declined by almost $900 million at an annual rate, largely on account of the fact that a single $370 million direct investment transaction had inflated the figure for the final quarter of 1960. Aside from this transaction direct investment outflows actually increased in the first quarter. U.S. long-term portfolio investment transactions also contributed about $950 million at an annual rate to the improvement in our position, due in part to net repayments on medium-term loans to banks in the United States. Also involved prominently in the improvement was the resumption by foreigners of their purchases of U.S. stocks.

The change of the unrecorded transactions figure accounted, in round figures, for an improvement of about $1.5 billion at an annual rate. This is believed to reflect the subsidence of speculative capital movements during the first quarter, arising out of the restoration of confidence in the dollar.

There was also a small reduction in our recorded outflows of short-term private U.S. capital. However, the outflow was again over $2 billion at an annual rate for the third successive quarter.

U.S. Government net grants and credits, at an annual rate of $3.5 billion, were only slightly higher in the first quarter than in the last 3 months of 1960.

*First quarter of 1961, as compared with calender year 1960*

The first quarter overall deficit of $1.2 billion at an annual rate represented an improvement of $2.7 billion over the 1960 deficit of $3.8 billion, smaller than the improvement over the fourth quarter of 1960, but nonetheless substantial. The first quarter basic surplus of over $600 million at an annual rate, was an improvement of $2.5 billion over the 1960 basic deficit of $1.9 billion.

Most of the gain in the first quarter of 1961 over the year 1960 was due to a larger export surplus, which increased from $4.7 billion in 1960 to an annual rate of $6.7 billion in the first quarter of 1961. Both figures would be reduced by more than $2 billion if adjustment is made for exports estimated to have been financed by U.S. Government economic aid.

Long-term capital movements also contributed to the first quarter improvement. U.S. direct and portfolio investments abroad declined from the 1960 level of $2.5 billion to a first quarter annual rate of $1.9 billion, while foreign long-term investment in the United States rose from about $300 million in 1960 to an annual rate of $475 million in the first quarter of 1961. Gains were also recorded in our transactions for nonmilitary services, with our payments showing a decline of about $100 million at an annual rate and our receipts increasing by about $350 million at an annual rate.

The outflow of private short-term capital, a major factor in the overall 1960 deficit of $3.8 billion, was substantially higher during the first quarter of 1961 (at an annual rate of $2 billion) than the $1.3 billion level of the full year 1960 since during 1960 this type of outflow reached really sizable proportions only during the last half of the year. The figure for unrecorded transactions, however, showed a change to a first quarter receipt of $200 million at an annual rate from a 1960 payment of almost $650 million, an improvement of about $850 million. This improvement is believed to represent a cessation in the outflow of speculative capital which was so troublesome in 1960.

(Whereupon, at 3:35 p.m., the committee recessed, subject to the call of the Chair.)

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Calendar No. 452

87TH CONGRESS } SENATE { REPORT
1st Session } { No. 483

# TEMPORARY REDUCTION IN DUTY-FREE ALLOWANCE FOR RETURNING RESIDENTS

JUNE 29, 1961.—Ordered to be printed

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

## REPORT

[To accompany H.R. 6611]

The Committee on Finance, to whom was referred the bill (H.R. 6611) to amend paragraph 1798(c)(2) of the Tariff Act of 1930 to reduce temporarily the exemption from duty enjoyed by returning residents, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

### PURPOSE OF THE BILL

The purpose of the bill is to provide a temporary reduction from $500 to $100 in the amount of purchases abroad that a returning resident of the United States may bring back into this country free of duty. This proposal was recommended by the President as a part of a program to counter our unfavorable balance of payments.

### AMENDMENT

The Finance Committee amended the bill to provide that an additional duty-free $100 worth of goods may be brought in from the Virgin Islands. This would mean that a citizen returning from the Virgin Islands could enter without payment of duty a total of $200 worth of foreign goods, provided that at least $100 of it was acquired in the Virgin Islands. It was felt that, because of its close relationship to the United States, its new program for the promotion of tourism could be assisted in some degree, and that the outflow of dollars to the territories and possessions of the United States is of a much less serious nature than that to other parts of the world. However, the 48-hour rule which applies to all areas except the Virgin Islands would be invoked on all goods not originating there. It should be noted that the amendment does not provide for an additional $200 for the Virgin Islands over and above the $100 provided for other areas. The maximum which could be brought in under any set of circumstances without payment of duty would be $200.

## GENERAL STATEMENT

Under existing law, a returning U.S. resident is allowed the following personal exemptions from duty on articles he has purchased abroad:

1. If the returning resident remains outside the territorial limits of the United States for at least 48 hours, he may claim an exemption from duty for $200 worth of articles acquired abroad. If, however, he returns through a port of entry on the Mexican border, he need only have been absent from the United States for such time (not to exceed 24 hours) as the Secretary of the Treasury has by regulation provided with respect to such port. At present, these regulations require an absence of at least 24 hours (the maximum requirement permitted under the law) in the case of residents returning through one of the southern California ports below Los Angeles. In the case of other ports along the United States-Mexican border, there is no period of absence provided for. The exemption from duty described in this paragraph may be claimed once every 30 days.
2. If the returning resident remains outside the territorial limits of the United States for 12 or more days, he may claim an exemption from duty for $300 worth of articles acquired abroad. This additional exemption, which may be claimed together with the basic exemption described above, can be utilized only once in every 6-month period.

Thus, for the average U.S. resident returning from abroad, there is an effective duty-free exemption of $500.

The bill reduces this $500 exemption to $100 until the close of June 30, 1963, by eliminating the $300 additional exemption and by reducing the $200 basic exemption to $100. Except as explained below with respect to articles acquired in the Virgin Islands, the bill continues the present absence requirements set forth in paragraph 1, above. The exemption may be claimed not more often than once every 30 days. On and after July 1, 1963, the tourist exemption allowances presently in effect would be restored.

Four hundred dollars of the present five-hundred-dollar exemption allowed returning residents reflects legislation enacted in the early post-World War II period aimed at stimulating the flow of dollars to those countries which then badly needed dollars. In 1948, Congress increased the tourist exemption from $100 to $400. In 1949, an additional $100 was added, bringing the total exemption to its present level of $500.

Dating back to at least 1799, all persons arriving in the United States from abroad were permitted free entry of their "personal effects." This exemption was aimed at permitting persons emigrating to the United States to bring in their personal belongings free of duty. However, the law was so written and applied that many U.S. tourists returning from abroad were given the same treatment as was extended to immigrants. In many cases it was alleged that these tourists brought back as "personal effects" articles which they had purchased on their trip. Because of these alleged abuses the Congress, in 1897, restricted the "personal effects" provision to immigrants and at the same time provided a $100 tourist exemption for returning U.S. travelers. This $100 allowance remained in effect from 1897 until it was raised in 1948.

In a letter to the Speaker of the House of Representatives requesting this legislation, dated February 24, 1961, the President said:

> * * * After World War II, * * * foreign countries faced a dollar shortage and, as one measure to ease this shortage, Congress increased the tariff exemption by $300 in 1948 and by $100 in 1949, bringing the total exemption to $500. However, in the light of the existing balance-of-payments problem, this more liberal customs exemption, designed to encourage American expenditures abroad, is not presently warranted. Accordingly, the customs exemption should be returned to the traditional amount.

The reduced amount of tourist exemption called for by the bill will still leave the United States in the position of extending to its returning tourists more favorable duty-free treatment of articles purchased abroad than do most other countries of the world.

The bill provides that, as to articles acquired in the Virgin Islands of the United States, any person who arrives in the United States during the period beginning on the 30th day after the date of the enactment of the bill and ending at the close of June 30, 1963 (the same period that the first section of the act is effective), and who has remained outside the United States for less than 48 hours, the 48-hour requirement in paragraph 1798(c)(2)(A) of the Tariff Act of 1930 shall be treated as satisfied. For this purpose the term "United States" has the meaning given to it in section 401(k) of the Tariff Act of 1930 and includes all territories and possessions of the United States except the Virgin Islands, American Samoa, Wake Island, Midway Islands, Kingman Reef, Johnston Island, and the island of Guam.

## CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

## TARIFF ACT OF 1930

### TITLE II—FREE LIST

SEC. 201. That on and after the day following the passage of this Act, except as otherwise specially provided for in this Act, the articles mentioned in the following paragraphs, when imported into the United States or into any of its possessions (except the Virgin Islands, American Samoa, Wake Island, Midway Islands, Kingman Reef, Johnston Island, and the island of Guam), shall be exempt from duty:

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PAR. 1798.

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(c) [In the case of any person arriving in the United States who is a returning resident thereof—

(1) all personal and household effects taken abroad by him or for his account and brought back by him or for his account; and

(2) articles (including not more than one wine gallon of alcoholic beverages and not more than one hundred cigars) acquired abroad as an incident of the journey from which he is returning, for his personal or household use, but not imported for the account of any other person nor intended for sale, if declared in accordance with regulations of the Secretary of the Treasury, up to but not exceeding in aggregate value—

(A) [$200, if such person] *$100 (or $200 in the case of persons arriving directly or indirectly from the Virgin Islands of the United States, not more than $100 of which shall have been acquired elsewhere than in the Virgin Islands of the United States) if such person arrives before July 1, 1963 (or $200 if such person arrives on or after July 1, 1963), and he either* arrives from a contiguous country which maintains a free zone or free port (see subparagraph (d) of this paragraph), or arrives from any other country after having remained beyond the territorial limits of the United States for a period of not less than forty-eight hours, and in either case has not claimed an exemption under this subdivision (A) within the thirty days immediately preceding his arrival; and

(B) [$300 in addition, if such person] *$300 in addition, if such person arrives on or after July 1, 1963, and he* has remained beyond the territorial limits of the United States for a period of not less than twelve days and has not claimed an exemption under this subdivision (B) within the six months immediately preceding his arrival.

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87TH CONGRESS 1st Session } HOUSE OF REPRESENTATIVES { REPORT No. 384

# TEMPORARY REDUCTION IN DUTY-FREE ALLOWANCE FOR RETURNING RESIDENTS

MAY 10, 1961.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MILLS, from the Committee on Ways and Means, submitted the following

# REPORT

[To accompany H.R. 6611]

The Committee on Ways and Means, to whom was referred the bill (H.R. 6611) to amend paragraph 1798(c)(2) of the Tariff Act of 1930 to reduce temporarily the exemption from duty enjoyed by returning residents, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

## I. PURPOSE

The purpose of the bill is to provide a temporary reduction, from $500 to $100, in the amount of purchases abroad that a returning resident of the United States may bring back into this country free of duty. This proposal was recommended by the President as a part of his program to counter our present unfavorable balance-of-payments position.

## II. GENERAL STATEMENT

### A. PRESENT LAW

Under existing law, a returning United States resident is allowed the following personal exemptions from duty on articles he has purchased abroad:

1. If the returning resident remains outside the territorial limits of the United States for at least 48 hours, he may claim an exemption from duty for $200 worth of articles acquired abroad. If, however, he returns through a port of entry on the Mexican border, he need only have been absent from the United States for such time (not to exceed 24 hours) as the Secretary of the Treasury has by regulation provided with

respect to such port. At present, these regulations require an absence of at least 24 hours (the maximum requirement permitted under the law) in the case of residents returning through one of the southern California ports below Los Angeles. In the case of other ports along the United States-Mexican border, there is no period of absence provided for. The exemption from duty described in this paragraph may be claimed once every 30 days.

2. If the returning resident remains outside the territorial limits of the United States for 12 or more days, he may claim an exemption from duty for $300 worth of articles acquired abroad. This additional exemption, which may be claimed together with the basic exemption described above, can be utilized only once in every 6-month period.

Thus, for the average U.S. resident returning from abroad, there is an effective duty-free exemption of $500.

### B. PROVISIONS OF AND REASONS FOR BILL

The bill reduces this $500 exemption to $100 until the close of June 30, 1963, by eliminating the $300 additional exemption and by reducing the $200 basic exemption to $100. Except as explained below with respect to articles acquired in the Virgin Islands, the bill continues the present absence requirements set forth in paragraph 1, above. The exemption may be claimed not more often than once every 30 days. On and after July 1, 1963, the tourist exemption allowances presently in effect would be restored.

Four hundred dollars of the present five hundred dollar exemption allowed returning residents reflects legislation enacted in the early post-World War II period aimed at stimulating the flow of dollars to those countries which then badly needed dollars. In 1948, Congress increased the tourist exemption from $100 to $400. In 1949, an additional $100 was added, bringing the total exemption to its present level of $500.

Dating back to at least 1799, all persons arriving in the United States from abroad were permitted free entry of their "personal effects." This exemption was aimed at permitting persons emigrating to the United States to bring in their personal belongings free of duty. However, the law was so written and applied that many U.S. tourists returning from abroad were given the same treatment as was extended to immigrants. In many cases, it was alleged that these tourists brought back as "personal effects" articles which they had purchased on their trip. Because of these alleged abuses, the Congress, in 1897, restricted the "personal effects" provision to immigrants and at the same time provided a $100 tourist exemption for returning U.S. travelers. This $100 allowance remained in effect from 1897 until it was raised in 1948.

In a letter to the Speaker of the House of Representatives requesting this legislation, dated February 24, 1961, the President said:

> * * * After World War II, * * * foreign countries faced a dollar shortage and, as one measure to ease this shortage, Congress increased the tariff exemption by $300 in 1948 and by $100 in 1949, bringing the total exemption to $500. However, in the light of the existing balance-of-payments problem, this more liberal customs exemption, designed to

encourage American expenditures abroad, is not presently warranted. Accordingly, the customs exemption should be returned to the traditional amount.

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* * * This proposal would meet the existing situation and the 4-year terminal date would provide an appropriate opportunity for a reappraisal of the measure in the light of the balance-of-payments position in the future * * *.

Your committee feels that the enactment of the bill will be of assistance in the present efforts to reverse the unfavorable balance-of-payments position of the United States. While the amount of dollar outflow which this measure will curb cannot be stated with exactness, the Treasury Department estimates that it will probably be about $150 million per year. It is also estimated that there will be an annual increase in revenue of about $5 to $10 million.

The reduced amount of tourist exemption called for by the bill will still leave the United States in the position of extending to its returning tourists more favorable duty-free treatment of articles purchased abroad than do most other countries of the world.

Section 2 of the bill provides that, as to articles acquired in the Virgin Islands of the United States, any person who arrives in the United States during the period beginning on the 30th day after the date of the enactment of the bill and ending at the close of June 30, 1963 (the same period that the first section of the act is effective), and who has remained outside the United States for less than 48 hours, the 48-hour requirement in paragraph 1798(c)(2)(A) of the Tariff Act of 1930 shall be treated as satisfied. For this purpose the term "United States" has the meaning given to it in section 401(k) of the Tariff Act of 1930 and includes all territories and possessions of the United States except the Virgin Islands, American Samoa, Wake Island, Midway Islands, Kingman Reef, Johnston Island, and the island of Guam.

Section 2 of the bill, in effect, waives for up to $100 worth of articles acquired in the Virgin Islands of the United States the 48-hour period which a U.S. resident must remain outside the United States before he is eligible to claim an exemption under paragraph 1798(c)(2)(A). All other conditions of paragraph 1798(c)(2)(A) must be met before the exemption may be allowed. It should be noted that if a returning resident arrives in the United States with articles acquired in the Virgin Islands of the United States after having remained outside the United States for more than 48 hours, he would not qualify for exemption under paragraph 1798(c)(2)(A) by reason of section 2 of the bill but would claim his exemption directly under paragraph 1798(c)(2)(A).

## III. Changes in Existing Law

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

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PAR. 1798.

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(c) In the case of any person arriving in the United States who is a returning resident thereof—

(1) all personal and household effects taken abroad by him or for his account and brought back by him or for his account; and

(2) articles (including not more than one wine gallon of alcoholic beverages and not more than one hundred cigars) acquired abroad as an incident of the journey from which he is returning, for his personal or household use, but not imported for the account of any other person nor intended for sale, if declared in accordance with regulations of the Secretary of the Treasury, up to but not exceeding in aggregate value—

(A) [$200, if such person] *$100 if such person arrives before July 1, 1963 (or $200 if such person arrives on or after July 1, 1963), and he either* arrives from a contiguous country which maintains a free zone or free port (see subparagraph (d) of this paragraph), or arrives from any other country after having remained beyond the territorial limits of the United States for a period of not less than forty-eight hours, and in either case has not claimed an exemption under this subdivision (A) within the thirty days immediately preceding his arrival; and

(B) [$300 in addition, if such person] *$300 in addition, if such person arrives on or after July 1, 1963, and he* has remained beyond the territorial limits of the United States for a period of not less than twelve days and has not claimed an exemption under this subdivision (B) within the six months immediately preceding his arrival.

## MINORITY VIEWS

The bill H.R. 6611 would reduce from $500 to $100 the amount of goods that returning U.S. residents are allowed to bring into the country duty free from abroad. This proposal was suggested by the President in his message to the Congress of February 6, 1961, and was offered as a measure "to correct the basic payments deficit and achieve longer term equilibrium."

It is our conviction that this is the wrong solution to an acknowledged problem. Our balance-of-payments difficulties arise primarily because of problems of liquidity in international holdings and obligations and not as a consequence of any adverse balance of trade. It arises because of our Nation's position as the world's banker and not because of a position as a world trader or a world investor.

It is claimed that the bill would provide a curb on the dollar flow because of reduced tourist purchases amounting to approximately $150 million. This must be evaluated in the context of annual merchandise exports of approximately $20 billion and merchandise imports of approximately $15 billion. It should also be noted that the bill does not touch the sizable purchases of duty-free articles.

This bill would attempt to impair commercial transactions in an area most advantageous to international understanding. We refer to the fact that by imposing this limitation on American tourists returning from abroad we are endeavoring to interfere in the people-to-people relationships that have done so much to advance the American cause in foreign countries by virtue of the "good neighbor" activity of our private citizens. The bill would be of doubtful efficacy because it is typical of tourist travel that the individual budgets himself and allocates a total dollar expenditure among the things that he desires to do. If this bill restricts to any extent the articles he brings back to the United States, it is likely that he will still spend the same total amount, but for other things. Thus, the net result will be a Government meddling and interference in the opportunity for freedom of choice in dollar allocations by our tourist citizens.

It is our judgment that this proposal is the last step that should be taken instead of the first step in dealing with our balance-of-payments position. This bill is a return to the late 19th century when the tourist allowance was $100. Indeed, this legislative proposal suggests that the 19th century may be the true vista of the New Frontier.

H.R. 6611 should not be approved.

Thomas B. Curtis.
Bruce Alger.
Steven B. Derounian.