Foundation Leads International Tax Delegation to Europe

Meet with U.S. Treaty Partners to Discuss Impact of U.S. Policies

At presstime senior staff of the Tax Foundation are heading a delegation from the U.S. to the UK, Belgium, France and Germany for a series of international tax conferences and briefings on the impact of U.S. tax policy on U.S. treaty partners. The delegation includes members of the staffs of the House Ways and Means Committee and the Senate Finance Committee who are meeting with foreign treasury officials and tax policy makers in London, Brussels, Paris and Bonn.

Among our treaty partners’ representatives will be UK Inland Revenue officials Richard Pratt, Head of European Community and International Trade Issues; Peter Fawcett, International Division - Policies; and Ian N. Hunter, International Division - Technical. In Brussels, Willy de Clercq, Chairman of the External Relations Committee in the European Parliament, is a featured speaker, and a meeting is being held with Christiane Scrivener, Commissionaire for Taxation in the European Commission.

The challenge facing fiscal authorities around the world today is daunting: how to fashion and administer a tax policy that takes into account not only traditional domestic concepts of equitable taxation, but those of other nations as well. Since tax treaties are the fundamental tool available for moving toward consensus on tax treatment of multinational corporations, the Foundation is promoting mutual understanding among fiscal authorities by hosting this series of conferences.

The events are part of the Foundation’s international tax assessment project. This ongoing program of studies, reports, and conferences is designed to inform tax policy makers and business leaders on international taxation. Specifically, the focus is on the consequences of tax provisions affecting the foreign affiliates of U.S.-based companies and the U.S. affiliates of foreign-based companies.

Spending Restraint Gets Short Straw in New House Rule

As federal tax policy has more and more become an exercise in revenue raising, professional revenue estimators have found themselves blinking in an unaccustomed spotlight. On January 3, the first day of the new Congress, that spotlight intensified. The House of Representatives passed an unfortunate rule declaring the Congressional Budget Office (CBO) to be the official revenue estimating agency, or “scorekeeper,” for pay-as-you-go spending legislation instead of the Office of Management and Budget (OMB).

My general feeling is that estimators on both ends of Pennsylvania Avenue do a professional job. They are more concerned with econometric modeling and microsimulation than with politics. But there is no doubt that the assignment of official estimating responsibility to OMB in the budget negotiation was an important concession to the President’s desire to hold down congressional spending. When it comes to pay-as-you-go, “OMB is more concerned about the paying than the going,” as Rep. Silvio Conte (R-MA) said during the floor debate.

What is pay-as-you-go, and why is the House of Representatives so dead set against having OMB do the scorekeeping? As part of last year’s Omnibus Budget Reconciliation Act of 1990 (OBRA), any bill which will cut taxes or increase entitlement spending must be accompanied by a provision which, according to an official estimate supplied by OMB, “pays” for the decreased tax or increased entitlement, either by cutting a different entitlement or by raising revenue elsewhere. Ways and Means Committee Chairman Dan Rostenkowski (D-IL) claims the new rule will

See Gable on page 6
It is certainly not a happy new year for government finance in America. A whopping $3.33 trillion national debt, nearly quadruple its 1980 level, represents a $13,298 debt for every man, woman, and child in the U.S.

Anticipating higher indebtedness in the coming year, the federal government has raised its 1991 debt ceiling to a record $4.14 trillion. Even this $810 billion increase in the legal limit may not be adequate as we quickly approach this ceiling. The culprit is faster government spending, especially higher interest payments, the growing cost of the savings and loan bailout, the estimated $30 billion cost of Operation Desert Shield and $50 billion in lost federal revenue due to the recession.

### The Statutory Debt Limit

The debt limit, or debt ceiling, is an amount written into law as a legal limit to the federal government's indebtedness. It was revised an average of 2.3 times per year in the eighties, four times in 1987 alone for a total of $500 billion, the largest annual increase of the eighties. Of the decade's 21 increases, ten were quick solutions, after the federal government had surpassed its spending authority.

### Trends in Federal Debt, Deficits, and Related Measures

#### Selected Fiscal Years 1940-1989

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Debt Outstanding (a)</th>
<th>Per Capita Debt Outstanding</th>
<th>% of GNP</th>
<th>Net Interest Outlays (b)</th>
<th>Per Capita Net Interest</th>
<th>% of GNP</th>
<th>Deficit (c)</th>
<th>% of GNP</th>
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<tbody>
<tr>
<td>1940</td>
<td>$50.7</td>
<td>$381</td>
<td>52.9%</td>
<td>$9.7</td>
<td>$7</td>
<td>9.5%</td>
<td>-82.9</td>
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<td>1945</td>
<td>260.1</td>
<td>1,859</td>
<td>122.6%</td>
<td>3.9</td>
<td>28</td>
<td>3.4%</td>
<td>-47.6</td>
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<td>1950</td>
<td>256.9</td>
<td>1,687</td>
<td>96.3%</td>
<td>4.8</td>
<td>32</td>
<td>11.3%</td>
<td>-3.1</td>
<td>-1.2%</td>
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<td>1955</td>
<td>274.4</td>
<td>1,654</td>
<td>71.0%</td>
<td>4.9</td>
<td>38</td>
<td>7.1%</td>
<td>-3.0</td>
<td>-0.8%</td>
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<td>1960</td>
<td>290.5</td>
<td>1,608</td>
<td>73.3%</td>
<td>6.9</td>
<td>38</td>
<td>7.5%</td>
<td>-1.4</td>
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<td>1965</td>
<td>322.3</td>
<td>1,659</td>
<td>47.9%</td>
<td>8.6</td>
<td>44</td>
<td>7.3%</td>
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<td>1970</td>
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<td>1,685</td>
<td>38.5%</td>
<td>14.4</td>
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<td>1980</td>
<td>390.8</td>
<td>3,869</td>
<td>34.0%</td>
<td>52.5</td>
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<td>8.9%</td>
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<td>4,320</td>
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<td>89.8</td>
<td>382</td>
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<td>1984</td>
<td>1,564.1</td>
<td>6,600</td>
<td>42.4%</td>
<td>111.1</td>
<td>469</td>
<td>13.0%</td>
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<td>-5.0%</td>
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<td>129.4</td>
<td>541</td>
<td>13.7%</td>
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<td>1986</td>
<td>2,123.5</td>
<td>8,776</td>
<td>40.9%</td>
<td>136.0</td>
<td>560</td>
<td>13.7%</td>
<td>-222.2</td>
<td>-6.3%</td>
</tr>
<tr>
<td>1987</td>
<td>2,354.3</td>
<td>9,609</td>
<td>53.1%</td>
<td>136.6</td>
<td>566</td>
<td>13.8%</td>
<td>-149.7</td>
<td>-3.4%</td>
</tr>
<tr>
<td>1988</td>
<td>2,614.6</td>
<td>10,567</td>
<td>54.6%</td>
<td>151.7</td>
<td>613</td>
<td>14.3%</td>
<td>-155.1</td>
<td>-3.2%</td>
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<tr>
<td>1989</td>
<td>2,861.1</td>
<td>11,528</td>
<td>55.9%</td>
<td>169.1</td>
<td>677</td>
<td>14.8%</td>
<td>-151.9</td>
<td>-2.9%</td>
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<tr>
<td>1990</td>
<td>3,330.7</td>
<td>13,298</td>
<td>61.6%</td>
<td>183.8</td>
<td>734</td>
<td>14.7%</td>
<td>-220.4</td>
<td>-4.1%</td>
</tr>
</tbody>
</table>

(a) End of fiscal year.

Sources: Treasury Department; Office of Management and Budget; House Budget Committee; and Tax Foundation computations.

#### The Deficit and the Debt

The trend of our national debt from 1940 to 1980 showed an increase of nearly $21.5 billion a year, a troublesome rate of increase to budget officials at the time. But in the last decade, the debt has skyrocketed. In 1980 it stood at just over $900 billion, but by 1985 it had doubled to over $1.8 trillion. Far from slackening in the second half of the decade, the debt grew to $2.8 trillion over the next four years.

### Interest Cost of the Debt

Interest payments on our debt continue to climb steadily as our annual deficits pile up. Payment of interest on the debt is currently the third largest federal government expenditure, following income security and defense. For fiscal year 1991, the estimated annual interest on the public debt is $259 billion, $29 billion for every hour of the day, or $495,580 dollars per minute.

The net interest (interest paid out minus interest received) has even risen as a percentage of total outlays, despite rising total outlays. From 1955 to 1975, the percentage hovered around 7.3 percent. During the eighties, it shot up from 8.9 percent to 14.8 percent of outlays. See table below for detail.
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Foreign Investment in U.S. Will Thrive If Reason Conquers Emotion
by Congressman Philip M. Crane (R-IL)

Let's put the debate over foreign investment in its historical context. Americans take a lot of understandable pride in the initiative and hard work put in by their forefathers during the nation's infancy and up through the better part of the 19th century. This period witnessed the most spectacular industrial growth the world had ever seen, and throughout those years, the nation that financed our growth was our mortal enemy — Great Britain.

So despite the current brouhaha over foreigners investing in the U.S., foreign investment has contributed to the great wealth of this nation in the past despite much more adverse circumstances. Indeed, if it were not a good thing, why would so many Americans be foreign investors? As I hear emotional pleas for protectionism, I wonder why the authors of those pleas never condemned Americans investing overseas. It was just last year that foreign investment coming into this country exceeded what we were investing abroad.

In fact, much of the debate on this question is really Japan-bashing. Those who don't have logic and facts to support their positions are resorting to this emotional appeal because many Americans still remember December 7, 1941. British investment here is about $119 billion; Japan's—$69 billion. Japan just went ahead of the Netherlands for the first time last year. Where is the condemnation of the British and the Dutch?

I submit that we are living in an increasingly international economy and are bound to countries all over the world. Ironically, many of the same people who argue against foreign investment in the U.S. are in the vanguard of urging investment from this country in the Soviet Union. The whole free market world is making investments over there to help them make the transition to membership in the civilized world. I think that is sound policy.

I have suggested to Japanese executives that they use their extraordinary marketing skills to promote the Japanese people and culture. They have the ability to do it and must recognize that in the ad hominem debate that protectionists are trying to fashion on this question, Japan is the easiest target.

One Japanese CEO has reminded me that after the war, America insisted upon thousands of their people coming to the U.S. to study our economy so that Japan could become a major industrial power in the shortest possible time. When studying the structure of the tax code at the University of Chicago under Milton Friedman, Friedrich A. Hayek, and George Stigler, all Nobel Prize winners, they learned to write a tax code that rewards saving and investment. As a result, Japan didn't tax interest, dividends or capital gains for all practical purposes. He then asked,

"Those who don't have facts to support their positions are resorting to this emotional appeal because many Americans still remember December 7, 1941."

"Why do you punish your people for saving and investing? To which the only appropriate answer is, "Because we're jerks, that's why!" We sit back and marvel that as a percentage of personal income, they are saving 20-22 percent annually while the U.S. is at the bottom of the world's industrial nations.

The last thing the U.S. should do is engage in scapegoating, especially singling out one country over another the way we are doing at now, implying that there is some evil conspiracy behind it.

Instead, we should be looking inward to resolve any apprehensions we may feel about foreign investment in this country. There are ways we could reward people for saving and investing in this country. I hope that is the direction the Ways and Means Committee takes when it looks at the question of foreign investment.

Ed. Note: This column was excerpted from Rep. Crane's speech to the Foundation's International Investment Seminar. The opinions expressed are not those of the Tax Foundation. Editorial replies are encouraged.
enforce the "pay-as-you-go" system with timely estimates for all provisions. But Budget Committee Chairman Leon Panetta (D-CA) went more to the heart of the matter when he said, "Members did not want to negotiate with OMB." The implication is clearly that Members' input on estimates will be more welcome with CBO.

"When it comes to pay-as-you-go, 'OMB is more concerned about the paying than the going,' as Rep. Silvio Conte (R-MA) said during the floor debate."

of the only spending restraints in the package. The White House looked forward to being able to artfully position its scorekeeping to keep Congress under control and to advance its own agenda. For example, if the White House had wanted to reignite its capital gains objective, it could have done so because their budget estimates show substantially higher revenues from this source in the years ahead.

I have long been a skeptic of budget summitry in general, and even before the new House rule passed, I felt that OBRA would be no exception: new taxes vigorously and immediately enforced while spending restraints die aborning. And so the demise of this spending restraint on the first day of the new Congress is not surprising, but it is

"[Professional estimators] are more concerned with econometric modeling and microsimulation than with politics. But there is no doubt that the assignment of official estimating responsibility to OMB in the budget negotiation was an important concession to the President's desire to hold down congressional spending."

In fact, OMB's designation as the official scorekeeper was one of the only points the White House gained in last year's budget negotiation, and one discouraging and cannot help but lessen every realistic observer's hope that OBRA will achieve substantial deficit reduction.

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