### SECRETARIES OF THE TREASURY, UNDER SECRETARIES, ASSISTANT SECRETARIES, AND DEPUTIES TO THE SECRETARY FROM JANUARY 21, 1953, TO DECEMBER 1, 1960

<table>
<thead>
<tr>
<th>Term of service</th>
<th>Official</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Secretaries of the Treasury</strong></td>
<td></td>
</tr>
<tr>
<td><strong>From</strong>—</td>
<td><strong>To</strong>—</td>
</tr>
<tr>
<td>Jan. 21, 1953</td>
<td>July 28, 1957</td>
</tr>
<tr>
<td>July 29, 1957</td>
<td></td>
</tr>
<tr>
<td>Jan. 28, 1953</td>
<td>July 31, 1955</td>
</tr>
<tr>
<td>Aug. 3, 1954</td>
<td>Sept. 25, 1957</td>
</tr>
<tr>
<td>Aug. 9, 1957</td>
<td></td>
</tr>
<tr>
<td>Sept. 30, 1957</td>
<td></td>
</tr>
<tr>
<td>Jan. 24, 1952</td>
<td>Feb. 28, 1957</td>
</tr>
<tr>
<td>Sept. 20, 1954</td>
<td></td>
</tr>
<tr>
<td>Apr. 18, 1957</td>
<td>Aug. 8, 1957</td>
</tr>
<tr>
<td>Dec. 4, 1957</td>
<td>Dec. 15, 1958</td>
</tr>
<tr>
<td>Dec. 16, 1957</td>
<td></td>
</tr>
<tr>
<td>Dec. 17, 1958</td>
<td></td>
</tr>
<tr>
<td>Jan. 9, 1957</td>
<td>Jan. 15, 1959</td>
</tr>
<tr>
<td>Oct. 15, 1959</td>
<td></td>
</tr>
<tr>
<td>Mar. 16, 1945</td>
<td>June 17, 1955</td>
</tr>
<tr>
<td>June 19, 1955</td>
<td></td>
</tr>
<tr>
<td>Aug. 2, 1950</td>
<td>Aug. 31, 1959</td>
</tr>
<tr>
<td>Sept. 14, 1959</td>
<td></td>
</tr>
</tbody>
</table>

**Under Secretaries**

**Assistant Secretaries**
- Dec. 4, 1957: Tom B. Coughran, California.

**Deputies to the Secretary**
- Jan. 9, 1957: Dan Throop Smith, Massachusetts.

**Fiscal Assistant Secretaries**

**Administrative Assistant Secretaries**

---

1 For officials from September 11, 1789, through January 20, 1953, see exhibit 65, p. 314, in the 1953 annual report.
2 The positions of an additional Under Secretary and an additional Assistant Secretary were established under the provisions of an act approved July 22, 1954 (5 U.S.C. 244, 246).
PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS OF THE
TREASURY DEPARTMENT AS OF DECEMBER 1, 1960

SECRETARY

ROBERT B. ANDERSON

Fred C. Scribner, Jr.  Under Secretary.
Eugene T. Rossides  Assistant to the Under Secretary.
A. E. Weatherbee  Administrative Assistant Secretary.
James H. Stover  Chief, Management Analysis Staff.
P. Paul McDonald  Director of Administrative Services.
Willard L. Johnson  Budget Officer.
Amos N. Latham, Jr.  Director of Personnel.
Nils A. Lennartson  Assistant to the Secretary (for public affairs).

Stephen C. Manning, Jr.  Assistant Secretary (for public affairs).
Douglas H. Eldridge  Chief, Tax Analysis Staff.
Nathan N. Gordon  Chief, International Tax Staff.
Francis J. Gafford  Assistant to the Secretary and Personnel Security Officer.

Julian B. Baird  Under Secretary for Monetary Affairs.
J. Dewey Daane  Assistant to the Secretary (for debt management).

Charls E. Walker  Assistant to the Secretary (for debt management).
William T. Heffelfinger  Fiscal Assistant Secretary.
Martin L. Moore  Assistant to the Fiscal Assistant Secretary.
George F. Stickney  Technical Assistant (systems and methods).
Hampton A. Rabon, Jr.  Technical Assistant.
Boyd A. Evans  Technical Assistant.
Frank F. Dietrich  Technical Assistant.
Sidney S. Sokol  Technical Assistant.
R. Duane Saunders  Chief, Debt Analysis Staff.
Frank A. Southard, Jr.  Special Assistant to the Secretary.
Robert Cutler  Special Assistant to the Secretary.

Laurence B. Robbins  Assistant Secretary.
Robert W. Benner  Assistant to the Assistant Secretary.
Robert M. Seabury  Director, Office of Defense Lending.
A. Gilmore Flues  Assistant Secretary.

James P. Hendrick  Assistant to the Secretary.
Vacancy  Assistant to the Secretary for Law Enforcement.


T. Graydon Upton  Assistant Secretary.
A. H. Von Klemperer  Assistant to the Secretary.
George H. Willis  Director, Office of International Finance.
Margaret W. Schwartz  Acting Director, Foreign Assets Control.
David A. Lindsay  General Counsel.
Jay W. Glasmann  Assistant to the Secretary and Head, Legal Advisory Staff.

John P. Weitzel  Deputy to the Secretary.
Fiscal Year Ended June 30, 1960

PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS XIII

BUREAU OF ACCOUNTS

Robert W. Maxwell ...................... Commissioner of Accounts.
Harold R. Gearhart ...................... Assistant Commissioner.
Julian F. Cannon ...................... Chief Disbursing Officer.
Harold A. Ball ......................... Chief Auditor.
Ray T. Bath .......................... Deputy Commissioner—Accounting Systems.
Sidney Cox .......................... Deputy Commissioner—Deposits and Investments.
John H. Henriksen ...................... Assistant Commissioner for Administration.
Howard A. Turner ...................... Deputy Commissioner—Central Accounts.
Samuel J. Elson ...................... Deputy Commissioner—Central Reports.

BUREAU OF CUSTOMS

Ralph Kelly ......................... Commissioner of Customs.
David B. Strubinger .................. Assistant Commissioner of Customs.
Lawton M. King ...................... Deputy Commissioner of Management and Controls.
C. A. Emerick ...................... Deputy Commissioner, Division of Investigations and Enforcement.
Walter G. Roy ...................... Deputy Commissioner of Appraisement Administration.

BUREAU OF ENGRAVING AND PRINTING

Henry J. Holtzclaw .................. Director, Bureau of Engraving and Printing.
Frank G. Uhler ...................... Assistant to the Director.

BUREAU OF THE MINT

William H. Brett ...................... Director of the Mint.
Leland Howard ...................... Assistant Director.

BUREAU OF NARCOTICS

Harry J. Anslinger .................. Commissioner of Narcotics.
Henry L. Giordano .................. Deputy Commissioner.
Wayland L. Speer ................ Assistant to the Commissioner.

BUREAU OF THE PUBLIC DEBT

Donald M. Merritt .................. Commissioner of the Public Debt.
Vacancy .......................... Assistant Commissioner.
Charles D. Peyton .................. Deputy Commissioner in Charge, Chicago Office.

INTERNAL REVENUE SERVICE

Dana Latham ...................... Commissioner of Internal Revenue.
Charles I. Fox ...................... Deputy Commissioner.
Vernon D. Acree ................ Assistant Commissioner (Inspection).
William H. Loeb .................. Assistant Commissioner (Operations).
Harold T. Swartz ................ Assistant Commissioner (Technical).
Bertrand M. Harding ............ Assistant Commissioner (Planning and Research).
XIV. PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS

Edward F. Preston, Assistant Commissioner (Administration).
Gray W. Hume, Fiscal Management Officer.
Hart H. Spiegel, Chief Counsel.
Joseph L. Carrigg, Director of Practice.
Leo Speer, Technical Advisor to the Commissioner.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

Ray M. Gidney, Comptroller of the Currency.
H. S. Haggard, First Deputy Comptroller of the Currency.
W. M. Taylor, Deputy Comptroller of the Currency.
G. W. Garwood, Deputy Comptroller of the Currency.
C. C. Fleming, Deputy Comptroller of the Currency.
Reed Dolan, Chief National Bank Examiner.

OFFICE OF THE GENERAL COUNSEL

David A. Lindsay, General Counsel.
John K. Carlock, Assistant General Counsel.
Edwin F. Rains, Assistant General Counsel.
Hart H. Spiegel, Assistant General Counsel.
Fred B. Smith, Assistant General Counsel.
Jay W. Glasmann, Head, Legal Advisory Staff (Assistant to the Secretary).
Michael Waris, Jr., Associate Head, Legal Advisory Staff.

OFFICE OF THE TREASURER OF THE UNITED STATES

Ivy Baker Priest, Treasurer of the United States.
William T. Howell, Deputy Treasurer.
Willard E. Scott, Assistant Deputy Treasurer.

UNITED STATES COAST GUARD

Admiral Alfred C. Richmond, Commandant, U.S. Coast Guard.
Vice Admiral James A. Hirschfield, Assistant Commandant and Chief of Staff.
Rear Admiral Edward H. Thiele, Engineer in Chief.

UNITED STATES SAVINGS BONDS DIVISION

William H. Neal, National Director.
Bill McDonald, Assistant National Director.

UNITED STATES SECRET SERVICE

Russell Daniel, Deputy Chief.
E. A. Wildy, Assistant Chief—Security.
PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS

COMMITTEES AND BOARDS

Ivy Baker Priest. Chairman, Interdepartmental Savings Bond Committee.
A. E. Weatherbee. Chairman, Treasury Management Committee.
Amos N. Latham, Jr. Chairman, Treasury Awards Committee.
Amos N. Latham, Jr. Chairman, Treasury Wage Board.
Willard E. Scott. Employment Policy Officer.
CHART 1

1 The General Counsel serves as legal advisor to the Secretary, his associates, and heads of bureaus.
2 The Assistant to the Secretary for Law Enforcement coordinates enforcement activities of the U.S. Secret Service, U.S. Coast Guard, Bureau of Customs, Bureau of Narcotics, and Internal Revenue Service.
ANNUAL REPORT ON THE FINANCES

TREASURY DEPARTMENT,

SIRS: I have the honor to report to you on the finances of the Federal Government for the fiscal year ended June 30, 1960.

Following the interruption caused by the steel strike in the fall of 1959, production, employment and personal incomes in the economy as a whole reached record levels during the early months of the calendar year 1960. Thereafter, inflationary pressures subsided and a leveling off occurred, followed by declines in some indicators.

The Government ended the fiscal year with a surplus of $1.2 billion of revenues over expenditures. These results were particularly gratifying since they represented a striking change from the budgetary deficit of $12.4 billion in the preceding fiscal year. This achievement was aided by the vigorous rebound of our economy and by the wide support which the President received in his program for shifting the Federal fiscal position from deficit to surplus.

ROBERT B. ANDERSON,
Secretary of the Treasury.

TO THE PRESIDENT OF THE SENATE.
TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.
ANNUAL REPORT ON THE FINANCES

TREASURY DEPARTMENT,

Sirs: I have the honor to report to you on the finances of the Federal Government for the fiscal year 1962.

The economy continued to advance throughout 1962 from the recession low of February 1961, and further economic gains extended into 1963. The Revenue Act of 1962 and appropriate tax administrative measures—including revision of the guidelines for depreciation—are stimulating the growth of the economy. The President’s tax proposals for 1963 are designed not only to add further impetus to that trend but to stimulate long-term growth in the years ahead. Debt management in 1962 substantially improved the maturity structure of the debt and financed the deficit without producing inflationary pressures. Confidence in the international payments system was strengthened by the International Monetary Fund’s borrowing arrangements, greater international cooperation among monetary authorities, and Treasury and Federal Reserve operations in foreign exchange markets.

Fiscal Policy

Federal Government fiscal policy is reflected in administration recommendations and policies and congressional enactments affecting expenditures and taxation. Together with monetary and debt management policy, fiscal policy is a key means of fulfilling our national economic objectives, including the attainment of high employment and production, a rapid rate of economic growth, maintenance of price stability, and equilibrium in our international balance of payments.

Neither expenditure nor tax policy can be formulated solely on the basis of its immediate contribution to one or another of these broad objectives, for the level and distribution of expenditures must reflect a national judgment concerning the activities that properly should be undertaken by the Government, and the tax system must be geared to the needs for equity, efficiency, and simplicity. Used flexibly, however, in coordination with other Federal economic policies, fiscal policies can contribute to establishing a financial environment that will support and release forces for economic progress.
The overall fiscal plans of the Government must fulfill a number of basic requirements.

National security and urgent nondefense needs must be provided.

The need of the economy for appropriate stimulation or restraint must be considered, as well as the means of encouraging balanced longer range growth.

International financial consequences of domestic economic developments and policy actions must be taken into account and the various policy alternatives balanced to serve both domestic and international goals.

Tax policy must be founded on an adequate revenue base, and the laws designed to meet the tests of equity, neutrality, and simplicity, while contributing to the encouragement of private initiative.

Federal expenditures must be controlled to assure that outlays are justified by current needs, and are held to levels permitting the application of a substantial part of revenue, increases generated by satisfactory growth to eliminating current deficits or, under boom conditions, to producing surpluses.

The budgetary process requires the testing of all programs against a scale of priorities. Every expenditure program, military or civilian, must be subjected to a continuous, searching examination of needs, costs, and alternatives. This process permits reduction of expenditures for programs whose relative urgency has declined and makes room for new and expanded activities urgent and essential to the well-being and progress of the Nation. Intensive and continuous efforts must be made to effect savings by substituting private for public credit; extending the principle of user charges where appropriate; and increasing efficiency and cost reductions throughout the Government. An across-the-board, standstill order on expenditures would be the negation of responsible budgetary policy and would hinder the Nation in meeting the challenge of its unresolved domestic and international problems.

**Fiscal 1963**

The fiscal 1963 budget was in preparation during the final months of the calendar year 1961, when it appeared that the economic recovery was well established and would continue at a satisfactory pace without need for additional stimulus from Federal fiscal policies. Although nearly every measure of economic activity had reached new records by the end of calendar 1961 and prospects for further vigorous expansion appeared favorable, unemployment and underutilization of productive capacity were continuing problems. Moreover, balance-of-payments problems were again causing concern.

For these reasons it appeared that new measures were required to deal with the more complex situation that was developing. While
avoidance of the degree of restraint which would choke off expansion short of full recovery continued to be important, it was desirable also to guard against excesses which might impede an orderly expansion at stable prices. Moreover, it was desirable to stimulate a higher level of private investment to increase the competitiveness of American products at home, thus providing a sound basis for eventual solution of the balance-of-payments problems as well as helping to achieve faster economic growth.

Under these conditions a balanced budget was presented for the fiscal year 1963, with expenditures held slightly below estimated receipts. It was believed that only a moderate surplus should be provided in the administrative budget to avoid a repetition of the pattern in the previous recovery period when the Federal budget moved from an administrative budget deficit of $12.4 billion in fiscal 1959 to a surplus of $1.2 billion in fiscal 1960. This shift of more than $13 ½ billion was generally considered one of the more important factors in the premature termination of the expansionary phase of the business cycle in the calendar year 1960. In contrast, it was expected that the budgetary swing from the deficit in fiscal 1962 to a balance in fiscal 1963 would have totaled only about $7 billion. At the same time it was hoped that early enactment of the investment credit and administrative depreciation reform, along with continued monetary ease to the degree compatible with balance-of-payments requirements, would contribute to a more rapid rate of private capital formation. If private investment could be stimulated, this would provide added support to the recovery, leading to a substantial reduction in the unemployment rate and to a more complete utilization of the Nation’s productive potential.

By early June 1962, however, there were some indications that the pace of the recovery movement had slowed and achievement of the projected level of GNP in calendar 1962, on which a balanced budget was predicated, seemed less probable. The economic outlook, however, was blurred by developments related to an anticipated steel strike, particularly by the rapid build-up in steel inventories in the first two quarters of calendar 1962 followed by a rapid reduction in these inventories beginning in the third quarter. This undoubtedly contributed to the unsatisfactory behavior of some of the leading economic indicators, which caused widespread concern in the summer about the possibility of a recession.

Early in the fiscal year 1963, therefore, serious consideration was given to an immediate tax cut. The final decision was delayed for several months, for a clearer indication of the immediate prospects; and when signs of further moderate strengthening in the economy were observed, the decision was made to delay any tax recommenda-
tion until a program for general tax reduction and reform could be thoroughly reviewed by the next Congress.

This decision not to seek an anti-recessionary tax cut, but to recommend a major program of basic tax reduction and reform to the new Congress early in calendar 1963, reflected confidence that an early recession was unlikely. It reflected also belief that fundamental changes in the tax system are required to increase incentives to investment, risk taking, creative effort, and initiative, as well as to release private purchasing power to overcome the drag on the economy evidenced during five years of slow growth, high unemployment, and lagging Federal revenues. At the same time, a vigorous program of expenditure control was carried through to minimize the initial impact of tax reduction on the budget, and to assure that a substantial part of the revenue increases which would result from the economic expansion induced by tax reduction would go toward eliminating budget deficits. This would help to establish a better financial environment for private investment and allow full advantage to be taken of the forces for economic progress at home and abroad. Fiscal policy, therefore, was directed along lines that would resolve the interlocking goals of domestic growth and external stability, reduce unemployment and provide new opportunities for our expanding labor force, and eliminate the balance-of-payments deficit.

Administrative budget.—Administrative budget receipts in fiscal 1963 are now estimated at $85.5 billion and expenditures at $94.3 billion, resulting in an estimated deficit of $8.8 billion.

Budget expenditures are estimated to rise $6.5 billion over expenditures in fiscal 1962 to $94.3 billion. Increased expenditures for defense, space, and interest accounted for $3.7 billion of the total rise. Expenditures for agricultural programs, mainly price support, are estimated to rise $0.8 billion; for commerce and transportation, $0.6 billion, of which one-half is for area redevelopment; and for health, labor, and welfare, $0.4 billion, mainly for public assistance.

Accounting for the $4.1 billion rise in budget receipts, individual income taxes are estimated to rise $1.7 billion to $47.3 billion; corporate income taxes, $0.7 billion to $21.2 billion; excise taxes, $0.3 billion to $9.9 billion; and other budget receipts, $1.4 billion to $7.1 billion.

Cash budget.—Payments to the public are estimated at $116.8 billion in fiscal 1963, receipts from the public at $108.4 billion, resulting in an expected deficit in the cash budget of $8.3 billion, substantially equal to the deficit in the administrative budget.

National income accounts.—Federal receipts on the national income accounts basis are estimated at $108.8 billion, expenditures at $113.2 billion, resulting in a deficit of $4.4 billion.
Debt Management

The debt management problem in calendar 1962 was to finance a sizable budget deficit in a year of economic expansion, while substantially improving the maturity structure of the existing debt; and to accomplish this in consistence with the Nation’s broad economic goals and to contribute to their realization.

Fundamentally, the primary aim of debt management policy was to assure that the 1962 deficit did not produce undesirable monetary consequences; specifically, that it did not foster an excessive growth in the money supply, the bank credit base, or the total volume of liquid assets. As the economy grows, it is essential that the money supply and the volume of liquid assets should grow at a rate fast enough to sustain a satisfactory rate of economic expansion; but it is equally essential that the rate of growth in liquidity be held to levels compatible with a stable price level.

A large deficit can be financed, even during a period of expanding economic activity, without producing monetary effects which sow the seed for inflationary pressures in the future. If such consequences are to be avoided, however, a major portion of the deficit must be financed by tapping real savings rather than through the expansion of bank credit. That requirement, in turn, necessitates that a substantial portion of the deficit be financed through the issuance of longer term securities. The basic purpose of the debt managers of the Treasury was so to finance the deficit in 1962.

This goal was realized in 1962, and the Treasury is attempting to finance the even larger deficit of 1963 in the same manner. Our national need for price stability is clear; and that need is now also a key factor in the program to restore our balance-of-payments position to equilibrium. Both debt management and monetary policy must be directed toward assuring that monetary forces do not threaten price stability, now or in the future.

The deficit of calendar 1962 was financed entirely outside the Nation’s commercial banks. The Federal Reserve, in pursuing its objective of supplying an adequate volume of reserves to the commercial banking system and providing needed currency, added $1.9 billion to its holdings of Government securities, an increase that was in line with customary growth patterns in reserves to be expected year by year. These additional Federal Reserve holdings were partially offset by a decline of $700 million in the Government security holdings of commercial banks. The balance of the $6.3 billion increase in the debt in the year ending December 31, 1962, was financed out of savings and other sources. About $1.0 billion was taken by Government investment accounts. The remaining $5.3
billion was divided among foreign and international accounts ($1.9 billion), corporate pension funds and individuals ($0.9 billion), State and local governments ($0.8 billion), business corporations ($0.7 billion), and other investors ($0.9 billion).

*Estimated ownership of Federal securities*

<table>
<thead>
<tr>
<th></th>
<th>Dec. 31 1961</th>
<th>Dec. 31 1962</th>
<th>Increase, or decrease(—)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking sector:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Reserve Banks</td>
<td>$28.9</td>
<td>$30.8</td>
<td>$1.9</td>
</tr>
<tr>
<td>Commercial</td>
<td>67.2</td>
<td>66.5</td>
<td>—0.7</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>96.1</td>
<td>97.3</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Nonbank sector:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government investment accounts</td>
<td>54.5</td>
<td>55.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Foreign and international accounts</td>
<td>13.4</td>
<td>15.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Individuals and corporate pension funds</td>
<td>67.8</td>
<td>66.5</td>
<td>0.9</td>
</tr>
<tr>
<td>State and local governments</td>
<td>38.7</td>
<td>19.5</td>
<td>—0.8</td>
</tr>
<tr>
<td>Nonfinancial corporations</td>
<td>19.4</td>
<td>20.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>11.4</td>
<td>11.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Mutual savings banks</td>
<td>6.1</td>
<td>6.1</td>
<td>—0.1</td>
</tr>
<tr>
<td>Savings and loan associations</td>
<td>3.2</td>
<td>5.5</td>
<td>0.3</td>
</tr>
<tr>
<td>All other</td>
<td>3.8</td>
<td>4.4</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>206.4</td>
<td>206.7</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>296.5</td>
<td>304.0</td>
<td>7.5</td>
</tr>
</tbody>
</table>

In calendar 1961 the increase in the very liquid, under-one-year debt substantially exceeded the increase in the total debt. The 1962 experience was radically different. The increase in the under-one-year debt in 1962 amounted to only $1.4 billion, or 20 percent of the increase in the total debt. In 1962, the debt maturing beyond five years increased by about $9 billion, substantially more than the increase in the total debt. The debt in the critical one-to-five year maturity sector was reduced by more than $3 billion. Thus, not only was the deficit itself financed in a noninflationary manner, but a substantial improvement was produced in the overall maturity structure of the existing debt. This improvement is symbolized by the 7 percent increase in the average length of the debt during the calendar year, from four years and seven months at the end of 1961 to four years and eleven months at the end of 1962. (By the end of March 1963, the average length had increased still further to five years and one month, the highest level since September 1958.)
ANNUAL REPORT ON THE FINANCES

Maturity distribution of the marketable debt

[Dollar amounts in billions]

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Dec. 31</th>
<th>Increase, or decrease(—)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1961</td>
<td>1962</td>
</tr>
<tr>
<td>Under one-year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weekly and one-year bills</td>
<td>37.4</td>
<td>45.2</td>
</tr>
<tr>
<td>Tax anticipation bills</td>
<td>6.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Other</td>
<td>42.5</td>
<td>39.0</td>
</tr>
<tr>
<td>Total under one-year</td>
<td>86.9</td>
<td>87.3</td>
</tr>
<tr>
<td>1-5 years</td>
<td>64.9</td>
<td>61.6</td>
</tr>
<tr>
<td>5 years and over</td>
<td>19.8</td>
<td>34.0</td>
</tr>
<tr>
<td>10-20 years</td>
<td>12.0</td>
<td>4.0</td>
</tr>
<tr>
<td>20 years and over</td>
<td>13.4</td>
<td>13.5</td>
</tr>
<tr>
<td>Total 5 years and over</td>
<td>45.2</td>
<td>54.1</td>
</tr>
<tr>
<td>Total marketable debt</td>
<td>196.0</td>
<td>203.0</td>
</tr>
<tr>
<td>Average length (years-months)</td>
<td>4-7</td>
<td>4-11</td>
</tr>
</tbody>
</table>

Although the monetary impact of debt management policy is the most fundamental concern of the Federal debt managers, it is only one of many factors which must be weighed in every debt management decision. The Treasury must always be concerned with the present and future interest costs of carrying the debt. To the extent consistent with its other objectives, debt management policy must be oriented toward minimizing interest costs on the debt.

The Treasury also has a responsibility to promote an active and broadly based market in Government securities. Such a market is not only in the interest of the Treasury as an issuer of securities, but also is in the interests of investors in marketable Treasury securities and in the interests of the Federal Reserve System. Since the day-to-day operations of monetary policy are conducted in Government securities, a Government securities market with a tradeable volume of issues outstanding across a broad maturity range contributes to an effective Federal Reserve policy. The monetary authorities need an ample range of alternatives for use in exerting those influences on the credit and capital markets which will best meet their objectives.

Moreover, in placing new issues of longer term securities, the Treasury must weigh carefully the impact of its operations on the markets for other long-term securities: corporate bonds, municipal bonds, and mortgages. It is particularly important in a period when
the economy is expanding at a less than desired rate that the Treasury
give consideration to this impact, so that Treasury financing in the
longer term area does not disrupt or reduce the flow of funds into
these other markets. In making judgments, the Treasury must not
only decide upon the amounts of longer term funds that can appropri-
ately be placed in Government securities, but must also give con-
sideration to the timing of offerings and the techniques to be used.

In 1962, while the volume of other forms of long-term borrowing was
also increasing by a record amount, the Treasury increased the total
of outstanding Government securities maturing beyond five years by
almost $9 billion and the total maturing beyond twenty years by
more than $2 billion, as shown in the preceding table. Much of this
was accomplished through the March and September advance re-
fundings, a technique which minimizes the strain on other markets
(see the following table). That this very substantial volume of longer
term Government securities was placed in the hands of investors
without disrupting or slowing down the flow of funds into corporate
bonds, municipal bonds, and mortgages, is demonstrated also by the
downward movement of interest rates on these securities throughout
the year and which at the yearend were generally lower than the rates
prevailing at the bottom of the recession in February 1961.

*Effect of calendar 1962 advance refundings on the maturity structure of the marketable
debt*

<table>
<thead>
<tr>
<th>[In billions]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>Under-1-year.</td>
</tr>
<tr>
<td>1 to 3 years</td>
</tr>
<tr>
<td>3 to 5 years</td>
</tr>
<tr>
<td>5 to 20 years</td>
</tr>
<tr>
<td>20 years and over</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

If we are to have a cohesive national financial policy, Treasury
debt management operations must be closely coordinated with the
monetary policy and operations of the Federal Reserve. In 1962,
monetary policy actions, as independently determined by the Federal
Reserve, and the debt management decisions of the Treasury were
closely and significantly integrated toward the achievement of
common goals. This coordination of policies reached a highly devel-
oped state in the continuing effort to achieve the important policy
goal of maintaining short-term interest rates in the United States at
levels which would reduce incentives for short-term funds to flow
abroad in response to interest rate differentials. Such flows, of course, weaken our balance-of-payments position and tend to lead, ultimately, to drains on our gold stock.

The role of the Treasury in this common effort was so to plan its debt operations that appropriate amounts of new short-term securities were placed in the market at times when upward supply pressures on Treasury bill yields were needed to keep our short-term rate structure in appropriate relationship with rates abroad. Such actions were undertaken on a substantial scale in the spring and in the fall of 1962 through raising needed cash by adding to the weekly bill auctions and by the issuance of a $1 billion strip of bills.

Partly because of these timely actions by the Treasury in adding to the supply of Treasury bills, the Federal Reserve was able to continue its policy of fostering bank credit expansion without producing undue downward pressure on Treasury bill rates. Such large additions to the supply of Treasury bills, however, if not offset in some manner, could lead over time to an excessive growth in the volume of short-term Treasury obligations and defeat a fundamental debt management objective of helping to limit the rate of growth of liquid assets to the real needs of the economy. The necessary offsetting factor was provided by the introduction of the device of "prerefunding", that is, the application of the technique of advance refunding to securities maturing within one year.

The prerefunding device was first used in September 1962, when almost $8 billion in securities maturing in eight months or less was exchanged for securities maturing in approximately five years and ten years. It was because of the substantial reduction in the under-one-year debt produced by the September prerefunding that the Treasury was able to add almost $8 billion to the supply of Treasury bills during the year and still end the year with a net increase in the total under-one-year debt of only $1.4 billion.

The prerefunding was one of two new debt management tools introduced in 1962. The second newly developed technique was the offering of long-term Treasury bonds at competitive bidding. The decision to try out the competitive bidding technique for marketing long-term bonds was announced in September 1962. The first offering of bonds using this technique was made on January 8, 1963, and was highly successful. The winning syndicate submitted its bid based on a 4 percent coupon rate and acquired the $250 million issue of 30-year bonds at 99.85111, resulting in an interest cost to the Treasury of 4.008 percent. The bonds were reoffered at par to yield 4 percent.

The experience of the postwar years had demonstrated a clear need to develop new approaches for marketing long-term Treasury bonds if
continued progress toward a more balanced maturity structure for the Federal debt is to be made in 1963 and in the years beyond. As a technique, competitive bidding offers the great advantage of employing in a new way the energies of the financial community in selling long-term Treasury obligations. Only further experience can test, however, whether it will prove to be a way of selling long-term Treasury bonds at lower interest costs and with less disturbance to other sectors of the capital markets than the traditional procedures. Certainly in the first offering, the Treasury succeeded in placing $250 million in thirty-year bonds at a rate of interest lower than the traditional marketing procedure would have required.

It is only through a willingness to seek out and to experiment with new methods and new procedures, such as these, that the problems of managing a debt in excess of $300 billion can successfully be met in a continuously changing economic environment.

Tax Policy

The first step toward a needed reform of our Federal tax system was taken during 1962 with the enactment of the Revenue Act of 1962. This act, which was based on the President’s recommendations to the 87th Congress, was designed to stimulate the growth of our economy and to improve the U.S. balance-of-payments position. It also contains many provisions to make our tax laws fairer and to eliminate unwarranted special tax treatment.

The 1962 act encourages business expenditures on productive facilities by granting a 7 percent tax credit—3 percent for public utilities—for investment in depreciable machinery and equipment used in the United States. Another major stimulus to our continued economic growth was provided in 1962 by the announcement of new guidelines and procedures for determining depreciation of equipment for tax purposes. The suggested new asset lives automatically permit a more rapid writeoff for approximately 70 to 80 percent of the machinery and equipment presently in use for manufacturing. They are 32 percent shorter on the average than the old guidelines. For 1962 alone the new liberalized depreciation allowances, combined with the tax reduction from the investment credit, provided over $2 billion of tax benefits to industry. Together, these measures raise the rate of return on investment, provide more incentives to cost-cutting and increases in productivity, and augment the flow of internal funds available for modernization and expansion.

The investment credit and the depreciation reform give U.S. industry tax treatment on new investment in machinery and equipment approximating that of its chief foreign competitors in domestic and foreign markets.
The 1962 Revenue Act also stimulates domestic investment by removing unwarranted tax inducements to investment in industrialized countries abroad. U.S. shareholders are made taxable currently on tax haven earnings of foreign corporations controlled by them. Dividends distributed by foreign subsidiaries of U.S. corporations in industrialized countries are made taxable at the full domestic corporation income tax rates less a credit for foreign taxes. Profits from sales of U.S. patents to foreign subsidiaries are made taxable at ordinary rates rather than at capital gains rates. The tax advantages previously granted to investment companies created abroad are removed. The exemption from U.S. tax of earned income of citizens establishing their residence abroad is restricted.

The 1962 act extends the reporting requirements on dividend and interest payments to aid in disclosing income not reported for tax purposes.

It provides a basis for greatly curtailing abuses in the expense account area.

It prevents the conversion of ordinary income into capital gain through the sale of depreciable personal property.

The tax advantages previously possessed by mutual thrift associations over competing financial institutions are substantially reduced with regard to the tax-free accumulation of earnings as bad debt reserves.

Earnings of cooperatives are taxed currently either at the cooperative level or the patron level.

Disputes between taxpayers and tax administrators are reduced by permitting salvage value up to 10 percent of the cost of the original asset to be disregarded in determining allowable depreciation deductions.

Mutual fire and casualty insurance companies are made taxable on their underwriting income as well as on their investment income.

The substantial tax changes adopted in 1962 set the stage for the major tax reduction and reform program proposed by the administration in 1963. The primary objectives of this program are to restore the Nation's economy to maximum use of its human and physical resources and to achieve a more rapid rate of growth. These aims would be attained by easing the unrealistically heavy burden now imposed by war-born Federal income taxes. Proposed lower tax rates for both individuals and corporations would enlarge the market for consumer goods and services and substantially improve incentives for risk-taking and investment. In addition, the program would minimize the diversion of energy and resources from more productive activities to tax avoidance, make the economy more responsive to essential market forces, achieve greater equity and relieve the low-
income and older taxpayers of hardships imposed by the present tax system.

Tax rates for individuals would be lowered by an across-the-board average of more than 20 percent, from the present range of 20 to 91 percent to a new level of 14 to 65 percent. To lighten the tax burden of the one-third of all taxpayers whose entire taxable income falls in the lower half of the present first bracket, it is recommended that this bracket be split, with a 14 percent rate for the first half and a 16 percent rate for the second half. When in effect for a full calendar year, lowered tax rates would reduce individual income tax liabilities by $11 billion (at 1963 levels of income).

Corporate tax rates would also be reduced. A reduction of 5 percentage points in the tax rate applying to large corporations would supplement the investment tax credit and depreciation reform in providing greater incentives to increased productivity, modernization, and expansion. It is further recommended that the first $25,000 of corporate taxable income be subject to a tax rate of 22 percent rather than the present 30 percent, a reduction of almost 27 percent. This change would be particularly helpful to small corporations which must depend on internally generated funds for their capital. These reductions would reduce corporate tax liabilities by $2.6 billion per year.

Reductions in tax rates recommended for individuals and corporations, if unaccompanied by structural reforms, would reduce tax liabilities by $13.6 billion. It is proposed that this substantial reduction be approached in three stages. For individuals, one-quarter of the full reduction would become effective in 1963, three-quarters in 1964, and the full program in 1965. The withholding rate would be reduced twice. In 1963, following enactment of the proposals, the rate would drop to 15.5 percent. The permanent withholding rate of 13.5 percent would become effective on July 1, 1964. There would be a three-stage reduction in corporate income tax rates. For 1963 the tax rate on the first $25,000 of corporate income would drop to 22 percent, while the rate applicable to income in excess of $25,000 would remain at 52 percent. In 1964 the latter rate would be reduced to 50 percent, and in 1965 to 47 percent.

A number of structural reforms are proposed for the relief of individuals and families at the lowest levels of income. These reforms include a minimum standard deduction of $300 for single persons, $400 for a married couple, plus $100 for each dependent up to a maximum of $1,000. This provision affords relief exclusively to low-income persons at a revenue cost far lower than that which would be entailed if the personal exemption were increased.
ANNUAL REPORT ON THE FINANCES

It is also recommended that the deduction for the care of children and disabled dependents be liberalized to give recognition to present day income levels and costs.

The $300 tax credit proposed for older persons would reduce the tax burdens of low-income older persons, provide more equitable taxation of income from different sources and particularly of wage income, and simplify the preparation of tax returns.

The proposal which would permit averaging of income over a five-year period in cases where a marked fluctuation in income occurred would provide fairer tax treatment for authors, professional artists, actors, athletes, and all others whose incomes may vary widely from one year to another.

The program would permit a deduction for the moving expenses of all employees and would thereby increase labor mobility and achieve greater fairness to taxpayers.

Other proposals would simplify the upper limit of the deduction for charitable contributions and the computation of the floor under medical expenses.

The following base broadening proposals would recoup revenue, making it possible to achieve the rate reductions recommended by the President and still keep overall tax reduction within the limits of prudent fiscal policy. The base broadening reforms would also achieve important equity objectives. The most important of the reforms in this category is the proposed 5 percent floor under itemized deductions. A separate floor equal to 4 percent of adjusted gross income is proposed for the casualty loss deduction to restrict its use to cases that involve hardship. The unlimited deduction for charitable contributions, which affects only a small handful of high-income taxpayers, would be repealed.

Repeal of the exclusion applied to wage continuation payments, known as the "sick pay" exclusion, is recommended except in cases of disability.

Repeal of the dividend credit and exclusion is proposed. They fail either to encourage equity investment or to provide a satisfactory partial offset to the so-called double taxation of dividend income, and currently involve an annual loss of $485 million of tax revenue. Other proposals would require taxation to the employee of the current annual value of employer financed group term life insurance, with the exception of the first $5,000 of coverage, and would correct deficiencies in the taxation of personal holding companies.

The reduction in corporate tax rates would be accompanied by revisions to limit related corporations subject to 80 percent common ownership and control to a single surtax exemption.
Fiscal Year Ended June 30, 1962

1962 REPORT OF THE SECRETARY OF THE TREASURY

Proposals relating to the taxation of income from natural resources would limit serious defects which now arise in connection with the 50 percent net income limitation on percentage depletion, the grouping of oil and gas properties for tax purposes, the deduction from ordinary income of amounts later recovered and taxed at capital gains rates, and the use of tax concessions on foreign mineral production to reduce the tax liability that would otherwise be due on income from domestic and nonmineral foreign sources.

Revenue recouped by these structural reforms would be offset in part by repeal of the 2 percent tax on consolidated returns and a current expense deduction for capital expenditures for machinery and equipment used directly and specifically for research and development activities.

Another measure, which would affect neither the tax liabilities imposed upon corporations nor the method of computing those liabilities, is the acceleration of corporate tax payments for large corporations to a more current basis over a five-year transition period. This measure would yield about $1.5 billion in revenue during each of the years of transition.

Proposed changes in the taxation of capital gains and losses are designed to release growth stimulating investment. The present capital gains provisions, which have not undergone basic revision since 1942, are both inequitable in essential respects and a deterrent to the mobility of investment capital and liquidity in capital markets. The President recommended that the 50 percent inclusion ratio for capital gains be reduced to 30 percent and that unabsorbed capital losses be carried forward indefinitely until exhausted. These changes will increase taxpayer willingness to realize capital gains and stimulate a larger turnover of capital assets. The lower inclusion ratio combined with reduced tax rates will establish capital gains tax rates ranging from 4.2 percent to a maximum of 19.5 percent, compared with an existing range of 10 percent to 25 percent. The holding period which defines long-term capital gains would be lengthened from 6 months to one year to permit the more liberal treatment of bona fide investment gains without applying unjustified reductions to speculative profits. It is also proposed that net gains accrued on capital assets at the time of their transfer by reason of death or gift be taxed at capital gains rates. This would not apply to assets transferred as charitable gifts or bequests. The proposal, which would be accompanied by several features that would effectively eliminate hardships that might otherwise arise, would encourage investors to turn over their assets during their lifetime rather than hold them for eventual tax-free transfer at death. Proposed changes in the definition of capital gains would restrict the use of stock options, sales of mineral
interests, sales of timber, and lump-sum pension and profit-sharing distributions, as means of converting ordinary income into capital gains.

Structural reforms for the relief of hardship and the encouragement of growth would reduce individual income tax liabilities by $740 million and corporate tax liabilities by $50 million. Reforms to broaden the tax base and improve equity, on the other hand, would recoup $3.1 billion from individuals and $250 million from corporations. The capital gains provisions would increase revenues by an estimated $750 million, largely by inducing the more rapid turnover of capital assets. Structural revisions combined with tax rate reductions would result in net annual tax reductions aggregating $10.3 billion by 1965 when the program would be fully effective.

Under the three-stage approach to the implementation of the program, structural revisions would not become effective until 1964. The rate reductions effected in 1963 would result in a $3.1 billion decrease in tax liabilities. In 1964, structural revisions would be linked with three-quarters of the full tax rate reduction. The effect would be a reduction in tax liabilities of $6.3 billion. In 1965 tax reductions would total $10.3 billion.

International Finance

Steps taken during 1962 built upon the financial framework set up during 1961 and buttressed still further the free world’s international payments system. During 1961 the Treasury undertook a more active role in the foreign exchange markets while the Federal Reserve was deeply involved in establishing increasingly close relationships among the various central banks. During 1962 the Treasury pushed further its operations in the foreign exchange markets and expanded its borrowings of foreign currencies, enlarging the total and extending the maturities. The Federal Reserve undertook in February 1962 to operate in the exchange market for its own account and established a circle of currency swap arrangements with central banks abroad. These various measures were instrumental in strengthening confidence both in the payments system and in the system’s key currency, the U.S. dollar, by providing a strong bulwark against speculative and other pressures that might otherwise prove highly disruptive. The establishment of the Special Borrowing Arrangement added substantially to the resources of the International Monetary Fund available to deal with pressures threatening the international payments system.

At the same time, the U.S. balance of payments—the position of which in a final sense shapes longer run market developments—showed some further improvement over 1961. Reinforced U.S. governmental effort was pointed toward trimming the balance-of-payments deficit, both directly, in so far as the deficit reflected
transactions on governmental account, and indirectly, in the sense of encouraging the private sector to push imaginatively and aggressively into foreign markets. Moreover, coordinated Treasury-Federal Reserve policies were directed toward sustaining short-term interest rates in the United States in order to alleviate pressures which might otherwise be induced by flows of capital triggered by significant spreads between short-term domestic and foreign interest rates. Early in 1963 the President sent to Congress a tax program designed to improve fundamentally and significantly the investment climate at home and thus to restrain outward flows of capital.

The combined impact of this tax program and the depreciation reform and investment tax credit of 1962 should foster the greater modernization and efficiency vital to meeting international competition. The overall program is designed to stimulate economic growth in the United States in an atmosphere of continued price stability and enhanced competitiveness in relation to foreign products, both at home and abroad. In this way, the United States can reach and maintain its goal of reasonable equilibrium in its balance of payments and thus contribute to the enduring strength of the dollar.

Export expansion

In more specific terms, the goal of eliminating the remaining deficit in U.S. international payments depends importantly on increasing the U.S. commercial trade surplus. Central to this task is the need for a continued and accelerated expansion of commercial exports. Although export expansion depends primarily on the competitive vigor of the private sector, the Government, in addition to its measures to improve the basic economic framework, gives impetus to the export drive through assistance in export financing and through export promotion.

In the field of export financing the United States has now developed export credit facilities which are the equal of those anywhere in the world. The Export-Import Bank has improved its existing facilities and in cooperation with a large group of private insurance companies has formed the Foreign Credit Insurance Association (FCIA). The FCIA inaugurated in February 1962 a comprehensive program of short-term export credit insurance. In mid-July 1962 it also began to issue medium-term export credit insurance. The Export-Import Bank offers direct exporter credits and provides medium-term Bank guarantees for exports in addition to its other financial assistance to U.S. exports. In January 1963 further significant improvements were made in the FCIA-Export-Import Bank program, and work is going forward on continued improvement.

In addition, the general program of export promotion is being intensified. To spearhead this campaign, a national export expan-
sion coordinator was appointed in July 1962 and a series of concrete U.S. Government programs are under way here and abroad to promote increased U.S. business interest in exporting and increased sales opportunities for U.S. products in potential markets abroad. More intensified efforts are planned for 1963.

**Governmental expenditures abroad**

Tighter scrutiny and control of foreign expenditures under all Government programs have been undertaken and will be continued. During the past year we have had substantial further success in reducing the net impact of the Government's own transactions on the balance of payments. In particular, our net foreign expenditures for defense have been reduced through savings which do not impair our overseas military effectiveness and through the cooperation of other countries in accelerating purchases of U.S. military equipment which is most economically manufactured in the United States.

We must continue to press ahead with these arrangements, and also with our efforts to obtain a greater sharing of the responsibilities of defense and of economic assistance to less-developed countries by other industrial nations. We will continue, while our balance-of-payments situation requires it, to emphasize policies designed to assure that the bulk of our foreign aid is given in the form of U.S. goods and services rather than dollars.

**International movements of capital**

The substantial volume of private foreign investment in recent years has enabled American business to take advantage of growing opportunities in foreign countries. Although more vigorous growth at home should reduce the movement of such funds abroad by increasing the attractiveness of investment opportunities here to both domestic and foreign investors, it remains in our own interest and in that of the free world that the United States continue to function as a major international source of capital.

But, we should not be alone in providing such capital. To correct this situation we have called the attention of the European countries to the lag in the development of their own capital markets and their facilities for foreign investment behind the spectacular growth of their economic output and their larger availabilities of savings. During the past year several European countries have begun to devote increasing attention to their capital markets and their potentialities for foreign investment.

Pending the more effective development of other forms of foreign lending, several European countries utilized a part of their accruing dollar holdings to make advance repayments of intergovernmental debt due to the United States.
18 1962 REPORT OF THE SECRETARY OF THE TREASURY

Short-term capital movements and the international monetary system

During the past year, two broad types of additional steps to strengthen the international monetary system have been taken. Arrangements were completed under which major financial countries agree to make available to the International Monetary Fund up to $6 billion, if needed, to avoid a threatened impairment of the international monetary system. The existence of these facilities acts as a strong deterrent to speculation against the dollar and other currencies.

The United States has also undertaken, in close cooperation with foreign financial officials, further significant improvements in meeting potential strains on world currencies, whether directed against the dollar or others, and in promoting the efficiency of the free world payments system and thereby of world trade. In 1961, for the first time since the thirties, the Treasury undertook operations in the foreign exchange markets. These were reinforced by the Federal Reserve's own operations, inaugurated in 1962, as well as its reciprocal currency agreements with the monetary authorities of other industrialized countries.

The Treasury has also undertaken direct borrowing arrangements at short- and medium-term from official entities in other countries which are in a strong situation. All of these operations and arrangements have been tested. Their effectiveness in meeting potential strains on currencies was demonstrated at the time of the stock market disturbances in the spring of 1962, during the Canadian exchange crisis, and again during the Cuban showdown. The borrowing and exchange operations have enabled the United States to provide a further bulwark for the dollar and to reduce the outflow of gold, while we progress in our program of reducing and eliminating the deficit in the U.S. balance of payments. They are not intended as, nor can they be, any substitute for the efforts we are making to get our balance of payments in equilibrium, an objective which we continue to pursue with vigor and determination.

DOUGLAS DILLON
Secretary of the Treasury.

TO THE PRESIDENT OF THE SENATE.
TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.
SIRS: I have the honor to report to you on the finances of the Federal Government for the fiscal year 1963.

The sustained economic expansion which began in early 1961 continued through the calendar year 1963. Business investment plans, as well as current signs of growth in other sectors of the economy, point to further substantial gains in 1964. The general reduction in taxes taking effect in 1964 and the President’s strong efforts to reduce Government expenditures ensure the enduring vitality of American free enterprise.

In signing the Revenue Act of 1964 on February 26, the President termed it the single most important step taken to strengthen our economy since World War II. The $11.5 billion tax reduction and structural reform which this law provides have broken rigid tax patterns and opened the way to beneficial changes in our economy. Together with the major legislative and administrative measures of 1962, most importantly the investment tax credit and depreciation reform, it serves as a giant step forward in promoting healthy long-term economic growth. By stimulating domestic expansion, the Revenue Act of 1964 is expected to increase both the demand for and the profitability of capital investment at home, thus slowing the outflow of U.S. investment capital and advancing our efforts to reduce the deficit in the U.S. balance of payments.

Balance-of-Payments Policy

During 1963, the Government heightened its continued efforts to reduce the deficit in the U.S. balance of payments. A deterioration in our international accounts during the first half of the calendar year stemmed primarily from a sharp expansion in the outflow of long-term portfolio capital from the United States. During the latter half of the year this deterioration was arrested, and results for the calendar year demonstrated that progress toward balance was again underway.

Recorded private capital investment abroad during the first half of 1963 reached an annual rate more than $2 billion higher than in 1962. A Cabinet Committee on Balance of Payments, chaired by the Secretary of the Treasury, conducted a major review of our
payments position. Its findings led to President Kennedy's second major message on the balance of payments of July 18, 1963. That message included announcement of a proposed interest equalization tax designed to dampen the rapidly accelerating outflow of long-term portfolio capital from the United States. The President estimated that enactment of this tax, together with the rise in the Federal Reserve discount rate from 3 to 3 1/2 percent, which had occurred just before his message, might be expected to reduce the annual outflow of capital from the United States by $1 billion. The President also proposed administrative measures calculated to reduce by a further $1 billion annually the balance-of-payments impact of U.S. Government overseas expenditures, notably those connected with military defense and with foreign economic assistance.

As provided in the bill passed by the House of Representatives on March 5, the proposed interest equalization tax will have the effect of increasing by approximately one percent a year the cost of foreign long-term borrowing in the U.S. market. The tax will not affect normal export trade financing or apply to borrowing by the developing countries. The tax is designed not to eliminate foreign investment, but to bring it within the limits of our current capacities—while at the same time preserving the traditional role of the market mechanism as the impersonal arbiter in any particular financing. The bill provides that the tax would apply until the end of calendar 1965.

Reductions in capital outflow during the second half of the calendar year were largely responsible for a dramatic improvement in the balance-of-payments position. The deficit on regular transactions, which had reached the clearly unsustainable seasonally adjusted annual rate of over $5 billion during the second quarter, dropped to a rate of about $2 billion in the last half of the year.

The Treasury and the Federal Reserve continued to conduct official foreign exchange operations in most of the major currencies of the world during the year. (These operations are explained more fully elsewhere in this report.) The Treasury continued the sale to foreign monetary authorities of two series of nonmarketable securities, one denominated in dollars and the other denominated in the currency of the buying country. These securities furnish an outlet for the investment of foreign reserve funds and offer an alternative to gold purchases. The proceeds from their sale supply the Treasury with funds for foreign exchange operations. On December 31, 1963, Treasury obligations of these series were outstanding in the amount of more than $1.3 billion.

Gold sales for the calendar year were $461 million, compared with $891 million in the preceding calendar year.
International Monetary and Financial Cooperation

The special borrowing arrangements between the International Monetary Fund and the Group of Ten countries which became effective in October 1962, provide that the members of the group will lend up to a total equivalent of $6 billion in their own currencies to the Fund if such additional resources should be needed to forestall or cope with an impairment of the international monetary system. Thus far it has not been necessary for any of the members of the Group of Ten to supply additional currency to the Fund for this purpose, and the Fund’s transactions have been carried out with the resources available to it from the ordinary subscriptions of member countries. The availability of these resources, however, gives assurance that the major countries are prepared to cooperate in dealing with the financial problems which might arise from sudden or speculative large-scale movements of capital such as may occur now that all the major currencies have returned to convertibility.

For the first time, in July 1963, the United States entered into a standby arrangement with the International Monetary Fund in the amount of $500 million. The primary purpose of this arrangement is to facilitate repayments to the Fund by countries which wish to use part of their dollar holdings for this purpose. Under its Articles of Agreement the Fund may not hold currencies of a member in excess of 75 percent of that member’s quota, unless the member itself has drawn on the Fund. By the end of our fiscal year 1963, the Fund’s holdings of dollars were rapidly approaching this 75-percent limit, not as a result of U.S. borrowing, since, up to that time the United States had never borrowed from the Fund, but as a result of repayments in dollars by those countries which had. Under the new standby arrangement, the United States was prepared to draw from the Fund currencies acceptable under the Fund’s Articles of Agreement and to sell these currencies for dollars to countries which otherwise would have had to convert their dollars in world exchange markets. In this way the dollar’s usefulness in settling international obligations, including obligations to the International Monetary Fund, is maintained while the dollars received by the United States in exchange for the currencies paid to the Fund are, in practice, withdrawn from the foreign exchange market and the potential demand for conversion of dollars into gold is thus reduced.

In February 1964, the dollar holdings of the Fund reached the 75 percent limit. The United States, therefore, made its first drawing of foreign currency from the Fund. The drawing, made under the July 1963 standby agreement for $500 million, was equivalent to $125 million. The drawing was made primarily in equal amounts of
Deutsche Mark and French francs, with a small portion in Italian lire. The drawing was designed to cover a number of transactions expected to take place in ensuing weeks, rather than any single repayment by another country.

The Finance Ministers of the Group of Ten agreed last October to examine the international monetary system and its probable future needs for liquidity, and to evaluate means for meeting these needs. A Working Group of Deputy Finance Ministers from each country under the chairmanship of Under Secretary Roosa has met periodically since then. Along with representatives of the central banks and officials from the International Monetary Fund, the Bank for International Settlements, and the Organization for Economic Cooperation and Development, they have started a systematic examination of the present system and its problems with a view to developing possible new approaches. Related studies have been undertaken by the international organizations. The discussions of the Group of Ten are in large part concerned with the problems which may arise when the United States is no longer supplying additional dollars to the rest of the world through its balance-of-payments deficit. These discussions, therefore, do not in any way reduce the necessity for eliminating our balance-of-payments deficit.

International cooperative efforts to provide capital for the economic progress of the less-developed countries took two significant steps forward during the year. The Inter-American Development Bank has proposed to its constituent members an authorization to increase the Bank’s callable capital by $1 billion. The U.S. portion will be $411.8 million. This enlargement in callable capital will enable the Bank to borrow in world financial markets in a manner that will increase its resources for lending without requiring additional payments by the member governments. The Bank also requested a 50-percent increase in the member quotas in the Fund for Special Operations, which is used to finance development credits on flexible terms to deal with special problems of the member countries. The Fund for Special Operations is financed, however, by direct contributions from the member governments, since its loans do not provide the same basis for borrowing as do loans from the ordinary capital. Of the total increase in the Fund for Special Operations of $73.2 million, the U.S. portion will be $50 million. The Congress passed the necessary legislation to enable the United States to subscribe to the proposed increases in resources in January 1964.

The Congress in May 1964 also approved a proposal submitted by the Administration to authorize an increased contribution by the United States to the International Development Association. This Association, an affiliate of the International Bank for Reconstruction
and Development, makes credits to the less-developed member countries which, because of heavy external debt burdens, cannot afford the repayment terms of conventional international loans. These credits, however, serve the same important purpose of economic development as do conventional IBRD loans. The 17 economically advanced member countries of IDA have agreed to provide additional resources aggregating $750 million over a three-year period, beginning in the fiscal year 1966. The U.S. portion of this contribution, to be appropriated later, will be $104 million for each of the three years. This agreement represents an important additional step in the continuing efforts of the United States to encourage other industrialized nations to share in financing the development of the less fortunate nations of the free world.

Tax Policy

The Revenue Act of 1964 was the third major step in the Administration program to revise basic tax policy. Retroactive to January 1, the act embodies proposals set forth in the tax message of the President to the Congress of January 24, 1963, which recommended general rate reductions and various structural reforms. This legislation followed the Revenue Act of 1962, the second step in the program, which included an investment credit for business expenditures for productive equipment. As the first step, the Treasury in mid-1962 had administratively issued revised guidelines and procedures for determining depreciation of plant and equipment for tax purposes.

Taken together, these measures are designed to nourish vigorous business expansion and sustained economic growth. The balanced reduction of individual and business income taxes is intended to increase consumption and accelerate investment so that the resultant rise in national income will be several times the amount of the initial tax cut.

The investment credit established by the Revenue Act of 1962 and the more rapid rate of depreciation under the revised guidelines reduced calendar 1962 corporate taxes by $2.25 billion. That reduction, together with the $2.4 billion tax reduction when the Revenue Act of 1964 becomes fully effective, lowers corporation income taxes approximately 19 percent. Individual taxpayers as a group also receive a tax reduction of approximately 19 percent when the 1964 act takes full effect.

The Revenue Act of 1964 includes abundant benefits for small business. Small corporations gain from the 27-percent reduction in the corporation tax on the first $25,000 of corporate income, compared with the average overall reduction in corporation tax rates of 9 percent. Owners of unincorporated businesses benefit from the larger individual
rate reductions. They also continue to benefit from the investment credit and the depreciation reform. These measures, combined, will significantly strengthen the small business enterprises of the economy.

The entire individual income tax rate structure is improved. Low income taxpayers benefit from a decrease in the starting rate from 20 to 14 percent and a new minimum standard deduction which frees from tax all single individuals with incomes up to $900 and all married couples with incomes up to $1,600. The two provisions afford substantial tax relief at relatively small cost to individuals whose incomes are at very low levels.

At the upper end of the rate schedule the top surtax rate on individual income falls from 91 percent to 70 percent. Individuals subject to high individual surtax rates receive increases in aftertax income which will do much to restore the incentives necessary for the effective operation of our society. There is no reduction in the alternative tax rate on net long-term capital gains or on the percentage of capital gain excluded from tax. This retention of the alternative tax on capital gains at 25 percent, together with the reduction of individual surtax rates, narrows the existing disparity in the tax treatment of high incomes.

The individual rate reduction occurs in two stages, the first effective as of January 1, 1964, and the second a year later. The act provided, however, that shortly after its enactment the withholding rate on individuals' wages and salaries be reduced to its final level of 14 percent.

Of the several structural changes in the income tax other than those in the rate schedules, some raise revenues and some lower revenues. Although the legislation contains less reform than had been recommended by the Administration, the changes made, coupled with those in the 1962 act, provide the largest amount of revenue-raising reforms in income tax history. The revenue-increasing provisions in the 1962 act raised $855 million of revenue. The revenue-increasing changes in the 1964 act will produce gross increases in the long run of $835 million, compared with $770 million from the revenue-decreasing provisions.

A number of structural revisions in the 1964 act curtail special preferences. They include limitations on tax advantages accruing from group term insurance, bank loan insurance, sick pay exclusion, casualty loss deduction, the utilization of personal holding companies, multiple corporation provisions, gifts of future interest, aggregation of mineral properties for computing depletion, and the realization of capital gains on sales of real estate resulting from excessive depreciation; and further reduction of the exclusion of foreign earned income of bona fide foreign residents. Deductions of certain State and local
taxes that were difficult of uniform and equitable administration were eliminated, as was the dividend credit which unduly advantaged the large investor. All of these provisions increase revenues. The act also completed the process of placing larger corporations on a current tax payment basis.

Revenue-decreasing structural changes other than those in the income tax rate schedules include indefinite extension of the five-year capital loss carryover; income averaging for an individual; liberalization of the investment credit and certain computations of the retirement income credit; liberalization of deductions for child care expense, for moving expenses of workers, and for medical expenses of older persons; and a limited exclusion for gain on the sale of a residence by older taxpayers. The act liberalizes tax treatment of receipt of iron ore royalties, certain charitable contributions, installment sales, and foreign expropriation losses. It repeals the two-percent penalty tax paid by corporations for the privilege of filing a consolidated return. Corporations under common control which elect not to take multiple surtax exemptions are allowed an intercorporate dividends credit of 100 percent.

As a whole, at 1963 income levels the Revenue Act of 1964 can be expected to reduce calendar 1964 tax liabilities by $7.7 billion and calendar 1965 liabilities by $11.5 billion. (The latter amount includes the $7.7 billion reduction.) The calendar 1965 effect is virtually the same as the long-term effect before taking into account any impact of the reductions upon the economy. Of the $11.5 billion reduction in 1965, it is estimated that $9.1 billion, or nearly 80 percent of the total, will go to individuals.

At the 1963 levels of income, the act will decrease revenues in fiscal 1964 by $1.6 billion and in fiscal 1965 by $8.5 billion. (The latter amount includes the $1.6 billion reduction.) Since collection tends to lag behind the accruing of liability, the effects of tax reductions in terms of receipts appear in a later year than they do in terms of liabilities. If the rising expansion of business activity expected to accompany the tax reduction is taken into account, the reduction in fiscal year tax collections is expected to be $1.4 billion in 1964 and $4.4 billion in fiscal 1965.

Debt Management

In calendar 1963, a year in which business activity and private credit demands expanded considerably, the major problem of Treasury debt management again was to finance a budget deficit and refund debt maturities without hampering sustained domestic business expansion, while at the same time bolstering the U.S. international payments position. The specific responsibilities of debt management in furthering
these objectives are reviewed in a later section of this report, dealing with the fiscal year 1963 (see pp. 17 to 24).

The financing requirements which had to be met during calendar 1963 were determined largely by the $39.0 billion of marketable certificates of indebtedness, notes, and bonds maturing in that year plus the new money which had to be raised to finance the calendar year's budget deficit of $6.7 billion. Of the $39.0 billion of those maturities, $2 billion was paid off, $18 billion was extended beyond 1964, and only $19 billion was placed in 1964 maturities. In addition, one-third of the net new money borrowed was raised through issues maturing in longer than one year and $5 billion of the 1964 maturities was extended through prerefunding. These various operations considerably reduced the volume of debt which would have to be refinanced in calendar 1964.

Increases in regular weekly and one-year bill issues, totaling $4.3 billion during calendar 1963, contributed on appropriate occasions to keeping U.S. Treasury bill rates at levels competitive with short-term interest rates available in foreign money centers. At the same time, marketable certificates, notes, and bonds maturing within one year were reduced, thus enabling the Treasury to keep the overall volume of short-term Treasury obligations from exceeding the liquidity needs of the economy. Through advance refundings, the volume of maturities in subsequent nearby years was also reduced, as demonstrated by a decline of $3.2 billion during the calendar year in outstanding obligations maturing in 1-5 years. Debt maturing beyond 5 years was increased by $5.6 billion, with the largest increase ($3.8 billion) occurring in the 10-20 year sector. The net result of these structural changes was an extension of 2 months in the average length of the marketable debt, from 4 years 11 months on December 31, 1962, to 5 years 1 month on December 31, 1963.

In addition to a balanced maturity structure, the Treasury seeks to maintain a balanced ownership of the Federal debt, in both instances for the purpose of limiting the possible encouragement to the development of inflationary forces. Accordingly, budget deficits have been financed in recent years so far as possible through drawing on savings institutions and other nonbank sources of funds rather than on expansion of bank credit.

Like that for the preceding year, the budget deficit for calendar 1963 was financed entirely outside the Nation's commercial banks. U.S. Government securities held by commercial banks, in fact, declined by $3.1 billion during the 1963 calendar year. This reduction was partially offset by an increase of $2.8 billion in the holdings of the Federal Reserve System, undertaken in order to meet the Nation's credit and currency needs during a period of economic expansion.
ANNUAL REPORT ON THE FINANCES

In contrast with this net liquidation of $0.3 billion on the part of the banking system as a whole, savings and other private nonbank investors increased their holdings of Federal obligations by $4.0 billion during the calendar year. Further, $2.4 billion represented net additions to Government investment accounts, which include the large social security and Government employees' retirement trust funds.

A notable feature of the flow of Treasury offerings during the year was the success of the advance refunding technique in placing new issues of longer term debt with the public. Of a total of approximately $15 billion of Treasury offerings with maturities of more than 5 years acquired by the public in calendar 1963, two-thirds resulted from advance refunding operations. Official agencies—Government investment accounts and the Federal Reserve—continued, as in previous years, to purchase Government securities in the market. Government investment accounts acquired $1.6 billion of over 5-year issues in the market and the Federal Reserve acquired $0.6 billion.

A variation in financing techniques in the short-term area was the introduction in August 1963 of a monthly series of one-year Treasury bills to replace eventually the four quarterly one-year bill issues then outstanding in the amount of $9.5 billion. The first issue in the monthly series, for $1.0 billion, was auctioned on August 27 and issued on September 3. This was followed by issues of similar amounts in October, November, and December. As a part of this program, the Treasury retired $2.5 billion of quarterly one-year bill maturities in mid-October 1963, replacing them in part by interim borrowing in the form of tax anticipation bills to mature in March 1964.

Interest rates on Treasury bills, which had changed relatively little during the first 6 months of the calendar year, rose from 3 percent to 3½ percent during the latter half of the year in response to an increase in the Federal Reserve rediscount rate and other measures taken to maintain short-term rates at levels which would provide no incentive to an outflow of short-term capital. Other concurrent actions are discussed in the review of international finance on pp. 53 to 73, below.

As calendar 1964 began, the Treasury again faced the task of financing a budget deficit and meeting debt maturities in a year of business expansion. While the enactment of the new tax legislation removed some uncertainties concerning revenues, the Government's financing requirements could not be clearly calculated until the final action by the Congress on the President's expenditure proposals. Nevertheless, it seemed probable in the early months of the year that the magnitude of Treasury borrowing operations in calendar 1964 would not greatly differ from that of 1963. At the same time, the sharp reduction in the fiscal 1965 budget deficit, projected at $4.9
billion compared with $10.0 billion in fiscal 1964, means that most of the needed borrowing in the latter half of calendar 1964 will be seasonal and temporary and therefore can appropriately be met by issuance of short-term tax anticipation bills which would be retired out of surplus revenues in the first half of calendar 1965. In any case, debt management in the current calendar year will again be centered on financing the debt increase in a manner that will support business expansion without building inflationary potential, while contributing to the support of our balance-of-payments position through appropriate actions in the short-term maturity sector of the debt.

DOUGLAS DILLON,
Secretary of the Treasury.

To the President Pro Tempore of the Senate.
To the Speaker of the House of Representatives.