U.S. Treasury Dept.
Press Releases

from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, Revised, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders.

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decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ 200,000 x(16)x or less for the additional bills dated October 13, 1961 x(17)x, ( 91 x(18)x days remaining until maturity date on April 12, 1962 x(19)x) and noncompetitive tenders for $ 100,000 x(20)x or less for the 182 x(21)x -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 11, 1962 x(22)x, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 11, 1962 x(23)x. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not ~~have any exemption,~~ as such, and loss

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, ~~XXXXXXXX~~ January 2, 1962

~~XXXXXXXXXXXXXXX(1)XXXXXXXXXXXXXXXXX~~

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 1,700,000,000 ~~x(2)x~~, or thereabouts, for cash and in exchange for Treasury bills maturing January 11, 1962 ~~x(3)x~~, in the amount of $ 1,700,573,000 ~~x(4)x~~, as follows:

91 ~~x(5)x~~ -day bills (to maturity date) to be issued January 11, 1962 ~~x(6)x~~, in the amount of $ 1,100,000,000 ~~x(7)x~~, or thereabouts, representing an additional amount of bills dated October 13, 1961 ~~x(8)x~~, and to mature April 12, 1962 ~~x(9)x~~, originally issued in the amount of $ 600,142,000 ~~x(10)x~~, the additional and original bills to be freely interchangeable.

182 ~~x(11)x~~ -day bills, for $ 600,000,000 ~~x(12)x~~, or thereabouts, to be dated January 11, 1962 ~~x(13)x~~, and to mature July 12, 1962 ~~x(14)x~~.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty o'clock p.m., Eastern Standard time, Monday, January 8, 1962 ~~x(15)x~~. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 2, 1962

FOR IMMEDIATE RELEASE

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91-day bills (to maturity date) to be issued January 11, 1962, in the amount of $1,100,000,000, or thereabouts, representing an additional amount of bills dated October 13, 1961, and to mature April 12, 1962, originally issued in the amount of $600,142,000, the additional and original bills to be freely interchangeable.

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Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Departmment of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated October 13, 1961, (91-days remaining until maturity date on April 12, 1962) and noncompetitive tenders for $100,000 or less for the 182-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 11, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 11, 1962. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

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January 3, 1962

IMMEDIATE RELEASE

TREASURY TO RAISE $1-1/2 TO $1-3/4 BILLION
NEW CASH IN JANUARY

The Treasury will receive tenders on Tuesday, January 9, 1962, for $2 billion, or thereabouts, of Treasury Bills to be dated January 15, 1962, and to mature on January 15, 1963. The proceeds of these bills will be used to pay off $1-1/2 billion of one-year Treasury Bills which come due on January 15, 1962, and to supply the Treasury with $500 million of new cash to meet in part its current cash requirements. The customary invitation for tenders to these bills is being issued today.

In addition to the $500 million of new cash to be raised in this auction, the Treasury will announce during the latter part of next week the sale for cash of additional Treasury securities amounting to about $1 to $1-1/4 billion.

The cash to be borrowed in these operations will, it is estimated, in the absence of any unforeseen developments, meet the Treasury's cash requirements until the latter part of March.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 3, 1962

FOR IMMEDIATE RELEASE

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D-349

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ 400,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 15, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 15, 1962. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, January 3, 1962.

TREASURY INCREASES ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for $2,000,000,000, or thereabouts, of 365-day Treasury bills, for cash and in exchange for Treasury bills maturing January 15, 1962, in the amount of $1,501,672,000, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated January 15, 1962, and will mature January 15, 1963, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

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# TREASURY DEPARTMENT



WASHINGTON, D.C.

January 3, 1962

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# TREASURY DEPARTMENT



WASHINGTON, D.C.


January 3, 1961

FOR IMMEDIATE RELEASE

## WITHHOLDING OF APPRAISEMENT ON PORTLAND CEMENT

The Treasury Department is instructing customs field officers to withhold appraisement on white portland cement from Japan pending a determination as to whether this merchandise is being sold in the United States at less than fair value. Notice to this effect is being published in the Federal Register.

Under the Antidumping Act, determination of sales in the United States at less than fair value would require reference of the case to the Tariff Commission, which would consider whether American industry was being injured. Both dumping price and injury must be shown to justify a finding of dumping under the law.

The dollar value of imports received during the first 8 months of 1961 was approximately $200,000.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

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Paris, December 15, 1961

Dear Mr. Minister:

This is in reply to your letter of December 15, 1961, setting forth the understandings reached during the recent discussions in Paris with respect to the procedure to be followed by the Participating Countries and Institutions in connection with the borrowings by the International Monetary Fund of Supplementary Resources under credit arrangements which we expect will be established pursuant to a decision of the Executive Directors of the Fund.

On behalf of the United States of America, I am pleased to confirm that we are in agreement with the statement of understandings as set forth in your letter of December 15, 1961. I am attaching, in accordance with your suggestion, the French text of this letter of confirmation.

Sincerely yours,

(Signed) Douglas Dillon
Douglas Dillon

Monsieur Wilfrid Baumgartner,
Ministre des Finances et des Affaires Economiques,
93, rue de Rivoli,
Paris (1er)

I shall appreciate a reply confirming that the foregoing represent the understandings which have been reached with respect to the procedure to be followed in connection with borrowings by the International Monetary Fund under the credit arrangements to which I have referred.

I am sending identical letters to the other participants - that is Belgium, Canada, Germany, Italy, Japan, The Netherlands, Sweden, the United Kingdom. Attached is a verbatim text of this letter in English. The French and English texts and the replies of the participants in both languages shall be equally authentic. I shall notify all of the participants of the confirmations received in response to this letter.

W. BAUMGARTNER

E. When agreement is reached under paragraph D, each participant shall inform the Managing Director of the calls which it is prepared to meet under its credit arrangement with the Fund.

F. If a participant which has loaned its currency to the Fund under its credit arrangement with the Fund subsequently requests a reversal of its loan which leads to further loans to the Fund by other participants, the participant seeking such reversal shall consult with the Managing Director and with the other participants.

For the purpose of the consultative procedures described above, participants will designate representatives who shall be empowered to act with respect to proposals for use of the Supplementary Resources.

It is understood that in the event of any proposals for calls under the credit arrangements or if other matters should arise under the Fund decision requiring consultations among the participants, a consultative meeting will be held among all the participants. The representative of France shall be responsible for calling the first meeting, and at that time the participants will determine who shall be the Chairman. The Managing Director of the Fund or his representative shall be invited to participate in these consultative meetings.

It is understood that in order to further the consultations envisaged, participants should, to the fullest extent practicable, use the facilities of the international organizations to which they belong in keeping each other informed of developments in their balances of payments that could give rise to the use of the Supplementary Resources.

These consultative arrangements, undertaken in a spirit of international cooperation, are designed to insure the stability of the international payments system.

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B. If the Managing Director makes a proposal for Supplementary Resources to be lent to the Fund, the participants shall consult on this proposal and inform the Managing Director of the amounts of their currencies which they consider appropriate to lend to the Fund, taking into account the recommendations of the Managing Director and their present and prospective balance of payments and reserve positions. The participants shall aim at reaching unanimous agreement.

C. If it is not possible to reach unanimous agreement, the question whether the participants are prepared to facilitate, by lending their currencies, an exchange transaction or stand-by arrangement of the kind covered by the special borrowing arrangements and requiring the Fund's resources to be supplemented in the general order of magnitude proposed by the Managing Director, will be decided by a poll of the participants.

The prospective drawer will not be entitled to vote. A favorable decision shall require the following majorities of the participants which take part in the vote, it being understood that abstentions may be justified only for balance of payments reasons as stated in paragraph D :

(1) a two-thirds majority of the number of participants voting; an

(2) a three-fifths majority of the weighted votes of the participants voting, weighted on the basis of the commitments to the Supplementary Resources.

D. If the decision in paragraph C is favorable, there shall be further consultations among the participants, and with the Managing Director, concerning the amounts of the currencies of the respective participants which will be loaned to the Fund in order to attain a total in the general order of magnitude agreed under paragraph C. If during the consultations a participant gives notice that in its opinion, based on its present and prospective balance of payments and reserve position, calls should not be made on it, or that calls should be for a smaller amount than that proposed, the participants shall consult among themselves and with the Managing Director as to the additional amounts of their currencies which they could provide so as to reach the general order of magnitude agreed under paragraph C.

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MINISTÈRE DES FINANCES

LE MINISTRE

Le 15 Décembre 1961

Dear Mr. Secretary,

The purpose of this letter is to set forth the understandings reached during the recent discussions in Paris with respect to the procedure to be followed by the Participating Countries and Institutions, (hereinafter referred to as "the participants") in connection with borrowings by the International Monetary Fund of Supplementary Resources under credit arrangements which we expect will be established pursuant to a decision of the Executive Directors of the Fund.

This procedure, which would apply after the entry into force of that decision with respect to the participants which adhere to it in accordance with their laws, and which would remain in effect during the period of the decision, is as follows :

A. A Participating Country which has need to draw currencies from the International Monetary Fund or to seek a stand-by agreement with the Fund in circumstances indicating that the Supplementary Resources might be used, shall consult with the Managing Director of the Fund first and then with the other participants.

OVER

e Honorable DOUGLAS DILLON
ECRETARY OF THE TREASURY

~~meetings last September. Discussions are continuing with~~
Le 15 décembre 1961
~~Congressional leaders. While it is not expected that the United States will be called upon to provide additional dollars to the Fund in the next few years, i~~ I t will be necessary to amend the Bretton Woods Agreements Act to give authority to the Treasury to make loans to the Fund under the conditions governing these arrangements.

embodied in the more detailed arrangements which have now been completed, ~~In order to deal with possible strains on the international monetary system~~.

Discussions of this subject were continued, and representatives of the 10 participating countries worked out the detailed arrangements set forth in the letters at meetings in mid-December in Paris. The decision of the Executive Directors of the Fund completed preparations for the establishment of the borrowing arrangement.

The borrowing arrangement will come into effect when at least 7 countries whose commitments total not less than $5.5 billion have formally advised the Fund of their adherence to the arrangement after completion of the necessayy legislative approval or other legal requirements.

The borrowing arrangement could be of great assistance to the United States, as well as to any of the other participating countries, in meeting temporary balance of payments difficulties. xx The Fund's ability to forestall or cope with an impairment of the international monetary system will be greatly strengthened by the new arrangements. This will benefit the entire free world economy.

Participation by the United States is subject to Congressional approval. ~~Several members of the Congress took part in the Vienna~~

Final Draft - approved by the Sec. 1/5/62
18 3:15 p.

~~January 5, 1962 - 1st Revision~~

Draft Press Release

The Treasury today released an exchange of correspondence between M. Wilfrid Baumgartner, Minister of Finance of France, and Treasury Secretary Douglas Dillon. The exchange of letters -- which took place in Paris December 15 -- represents the agreement of the United States to the procedures which would be followed by 10 principal industrial countries in acting to provide supplementary resources to the International Monetary Fund when needed to avoid impairment of the international monetary system. Identical notes are being exchanged between the French Government and the other participating governments -- Belgium, Canada, Germany, Italy, Japan, the Netherlands, Sweden and the United Kingdom.

The International Monetary Fund also announced today the decision of the Fund governing its own participation in the new borrowing arrangements, which will involve $6 billion in commitments by the participants, of which the United States share would be $2 billion.

Under the procedures set forth in the exchange of letters with the Government of France, if one of the 10 participating countries ~~encounters payments difficulties and~~ needs ~~to request~~

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to make a drawing ~~by stand-by arrangement~~ from the International Monetary Fund, requiring use of the new resources, it would consult with the Managing Director of the Fund and with the other participating countries. The Managing Director would then make a proposal to borrow, and the participating countries concerned would inform the Fund of the amounts of their currencies, up to their total commitments, which they would be prepared to lend. The procedures provide that the participating countries should try to reach unanimous agreement. Failing unanimous agreement, a ~~majority~~ voting procedure would be used to decide whether resources should be provided to the Fund in the amounts required.

President Kennedy -- in his balance of payments message ~~of~~ last February 6 -- called for a strengthening and more effective use of international monetary institutions, particularly the Fund, to provide increased reserves, and to provide "the flexibility required to support a healthy and growing world economy."

Soon after that the Fund initiated studies on ways in which the Fund could be strengthened. Secretary Dillon at the same time began discussions with other governments, and in September, at the Annual Meeting of the Fund in Vienna, general agreement was reached among the ten countries on the principles

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January 5, 196
(6:00 pm EST)

Hold for Release
Until Noon, Monday, January 8, 1962
1200 (EST)

20

NEW IMF BORROWING AGREEMENT PROCEDURES

OUTLINED IN BAUMGARTNER-DILLON CORRESPONDENCE

# TREASURY DEPARTMENT

WASHINGTON, D.C.
January 5, 1962

HOLD FOR RELEASE UNTIL 12:00 NOON(EST)
MONDAY, JANUARY 8, 1962

## NEW IMF BORROWING AGREEMENT PROCEDURES OUTLINED IN BAUMGARTNER-DILLON CORRESPONDENCE

The Treasury today released an exchange of correspondence between M. Wilfrid Baumgartner, Minister of Finance of France, and Treasury Secretary Douglas Dillon. The exchange of letters -- which took place in Paris December 15 -- represents the agreement of the United States to the procedures which would be followed by 10 principal industrial countries in acting to provide supplementary resources to the International Monetary Fund when needed to avoid impairment of the international monetary system. Identical notes are being exchanged between the French Government and the other participating governments -- Belgium, Canada, Germany, Italy, Japan, the Netherlands, Sweden and the United Kingdom.

The International Monetary Fund also announced today the decision of the Fund governing its own participation in the new borrowing arrangements, which will involve $6 billion in commitments by the participants, of which the United States' share would be $2 billion.

Under the procedures set forth in the exchange of letters with the Government of France, if one of the 10 participating countries needs to make a drawing from the International Monetary Fund requiring use of the new resources, it would consult with the Managing Director of the Fund and with the other participating countries. The Managing Director would then make a proposal to borrow, and the participating countries concerned would inform the Fund of the amounts of their currencies, up to their total commitments, which they would be prepared to lend. The procedures provide that the participating countries should try to reach unanimous agreement. Failing unanimous agreement, a voting procedure would be used to decide whether resources should be provided to the Fund in the amounts required.

President Kennedy -- in his balance of payments message last February 6 -- called for a strengthening and more effective use of international monetary institutions, particularly the Fund, to provide increased reserves, and to provide "the flexibility required to support a healthy and growing world economy."

Soon after that the Fund initiated studies on ways in which the Fund could be strengthened. Secretary Dillon at the same time began discussions with other governments, and in September, at the Annual Meeting of the Fund in Vienna, general agreement was reached among the ten countries on the principles embodied in the more detailed arrangements which have now been completed.

Discussions of this subject were continued, and representatives of the 10 participating countries worked out the detailed arrangements set forth in the letters at meetings in mid-December in Paris. The decision of the Executive Directors of the Fund completed preparations for the establishment of the borrowing arrangement.

The borrowing arrangement will come into effect when at least 7 countries whose commitments total not less than $5.5 billion have formally advised the Fund of their adherence to the arrangement after completion of the necessary legislative approval or other legal requirements.

The borrowing arrangement could be of great assistance to the United States, as well as to any of the other participating countries, in meeting temporary balance of payments difficulties. The Fund's ability to forestall or cope with an impairment of the international monetary system will be greatly strengthened by the new arrangements. This will benefit the entire free world economy.

Participation by the United States is subject to Congressional approval. It will be necessary to amend the Bretton Woods Agreements Act to give authority to the Treasury to make loans to the Fund under the conditions governing these arrangements.

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MINISTÈRE DES FINANCES

LE MINISTRE

Le 15 Décembre 1961

Dear Mr. Secretary,

The purpose of this letter is to set forth the understandings reached during the recent discussions in Paris with respect to the procedure to be followed by the Participating Countries and Institutions, (hereinafter referred to as "the participants") in connection with borrowings by the International Monetary Fund of Supplementary Resources under credit arrangements which we expect will be established pursuant to a decision of the Executive Directors of the Fund.

This procedure, which would apply after the entry into force of that decision with respect to the participants which adhere to it in accordance with their laws, and which would remain in effect during the period of the decision, is as follows :

A. A Participating Country which has need to draw currencies fro the International Monetary Fund or to seek a stand-by agreement with the Fund in circumstances indicating that the Supplementary Resources might be used, shall consult with the Managing Director of the Fund first and then with the other participants.

OVER

Honorable DOUGLAS DILLON
RETARY OF THE TREASURY

B. If the Managing Director makes a proposal for Supplementary Resources to be lent to the Fund, the participants shall consult on this proposal and inform the Managing Director of the amounts of their currencies which they consider appropriate to lend to the Fund, taking into account the recommendations of the Managing Director and their present and prospective balance of payments and reserve positions. The participants shall aim at reaching unanimous agreement.

C. If it is not possible to reach unanimous agreement, the question whether the participants are prepared to facilitate, by lending their currencies, an exchange transaction or stand-by arrangement of the kind covered by the special borrowing arrangements and requiring the Fund's resources to be supplemented in the general order of magnitude proposed by the Managing Director, will be decided by a poll of the participants.

The prospective drawer will not be entitled to vote. A favorable decision shall require the following majorities of the participants which take part in the vote, it being understood that abstentions may be justified only for balance of payments reasons as stated in paragraph D :

(1) a two-thirds majority of the number of participants voting; and

(2) a three-fifths majority of the weighted votes of the participants voting, weighted on the basis of the commitments to the Supplementary Resources.

D. If the decision in paragraph C is favorable, there shall be further consultations among the participants, and with the Managing Director, concerning the amounts of the currencies of the respective participants which will be loaned to the Fund in order to attain a total in the general order of magnitude agreed under paragraph C. If during the consultations a participant gives notice that in its opinion, based on its present and prospective balance of payments and reserve position, calls should not be made on it, or that calls should be for a smaller amount than that proposed, the participants shall consult among themselves and with the Managing Director as to the additional amounts of their currencies which they could provide so as to reach the general order of magnitude agreed under paragraph C.

....

E. When agreement is reached under paragraph D, each participant shall inform the Managing Director of the calls which it is prepared to meet under its credit arrangement with the Fund.

F. If a participant which has loaned its currency to the Fund under its credit arrangement with the Fund subsequently requests a reversal of its loan which leads to further loans to the Fund by other participants, the participant seeking such reversal shall consult with the Managing Director and with the other participants.

For the purpose of the consultative procedures described above, participants will designate representatives who shall be empowered to act with respect to proposals for use of the Supplementary Resources.

It is understood that in the event of any proposals for calls under the credit arrangements or if other matters should arise under the Fund decision requiring consultations among the participants, a consultative meeting will be held among all the participants. The representative of France shall be responsible for calling the first meeting, and at that time the participants will determine who shall be the Chairman. The Managing Director of the Fund or his representative shall be invited to participate in these consultative meetings.

It is understood that in order to further the consultations envisaged, participants should, to the fullest extent practicable, use the facilities of the international organizations to which they belong in keeping each other informed of developments in their balances of payments that could give rise to the use of the Supplementary Resources.

These consultative arrangements, undertaken in a spirit of international cooperation, are designed to insure the stability of the international payments system.

....
OVER

I shall appreciate a reply confirming that the foregoing represents the understandings which have been reached with respect to the procedure to be followed in connection with borrowings by the International Monetary Fund under the credit arrangements to which I have referred.

I am sending identical letters to the other participants - that is, Belgium, Canada, Germany, Italy, Japan, The Netherlands, Sweden, the United Kingdom. Attached is a verbatim text of this letter in English. The French and English texts and the replies of the participants in both languages shall be equally authentic. I shall notify all of the participants of the confirmations received in response to this letter.

W. BAUMGARTNER

Paris, December 15, 1961

Dear Mr. Minister:

This is in reply to your letter of December 15, 1961, setting forth the understandings reached during the recent discussions in Paris with respect to the procedure to be followed by the Participating Countries and Institutions in connection with the borrowings by the International Monetary Fund of Supplementary Resources under credit arrangements which we expect will be established pursuant to a decision of the Executive Directors of the Fund.

On behalf of the United States of America, I am pleased to confirm that we are in agreement with the statement of understandings as set forth in your letter of December 15, 1961. I am attaching, in accordance with your suggestion, the French text of this letter of confirmation.

Sincerely yours,

(Signed) Douglas Dillon
Douglas Dillon

Monsieur Wilfrid Baumgartner,
Ministre des Finances et des Affaires
Economiques,
93, rue de Rivoli,
Paris (1er)

25 Jan. 8, 1962

~~Draft Press Release~~
FOR IMMEDIATE RELEASE

WILLIAM N. TURPIN NAMED DIRECTOR
OF THE EXECUTIVE SECRETARIAT OF THE TREASURY

Secretary Dillon today named William N. Turpin to be Director of the Executive Secretariat of the Treasury, the central coordinating staff of the Treasury Department which serves the Secretary and the Under Secretary. Mr. Turpin, who has been serving as Deputy Director of the Secretariat, replaces Thomas W. Wolfe, who has been appointed to a one-year executive fellowship at the Center for Advanced Study of the Brookings Institution.

Mr. Turpin was born in Macon, Georgia. He is a graduate of Dartmouth College and holds an M.A. degree from Oxford University, where he studied as a Rhodes Scholar. He served in the Marine Corps during the second World War. He has been a Foreign Service Officer since 1948, serving at posts in Munich and Belgrade as well as in Washington. He was Consul and economic officer at the American Embassy in Moscow from 1956 to 1958.

Mr. Wolfe, who ha~~d~~s headed the Executive Secretariat since its creation on January 23, 1961, will, during his year at Brookings make a study of the impact of the public debt on the economy. He joined the Treasury as a fiscal economist in 1949, and was formerly Assistant Chief of the Debt Analysis Staff.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 8, 1962

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"Accordingly, we do not presently see that any sound public purpose would be served by the elimination of the Security National Bank as an independent institution.

"Finally, it should be pointed out that an acquisition such as this would, in the interest of consistency of approach to banking problems of a similar nature, undoubtedly face this office with the question of possible reconsideration of its recent denial of the merger of the National Bank of Westchester and The First National City Bank of New York."

James J. Saxon

January ~~4~~ 8, 1962

Immediate Release

Comptroller of the Currency Comments on Proposed Acquisition of Security National Bank of Long Island by the Marine Midland Corp.

The Comptroller of the Currency made the following comment on the announcement of the proposed acquisition of the Security National Bank of Long Island by the Marine Midland Corporation:

"It would be regrettable indeed if the Security National Bank were now to pass from the banking scene as an independent institution, and no justification is now seen for such an occurrence. It seems clear that the public interest would best be served if the Security National Bank were to remain in independent competition with the Franklin National Bank, The Meadow Brook National Bank, and the other banks in Long Island. The management conflict in the Security National Bank, ~~to which the New York Times refers~~, should be resolved by the introduction of new direction and management, free of any connection with the present conflicting management interests, as this office has strongly urged.

"The Security National Bank has enjoyed good growth, and obviously has superb growth prospects with its fine branch system on the Island. Maintenance of the Security National Bank as an independent institution is also essential to a balanced banking structure and to the service of the convenience and needs of the people on Long Island.

# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 8, 1962

FOR IMMEDIATE RELEASE

COMPTROLLER OF THE CURRENCY COMMENTS ON PROPOSED ACQUISITION OF SECURITY NATIONAL BANK OF LONG ISLAND BY THE MARINE MIDLAND CORPORATION

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"The Security National Bank has enjoyed good growth, and obviously has superb growth prospects with its fine branch system on the Island. Maintenance of the Security National Bank as an independent institution is also essential to a balanced banking structure and to the service of the convenience and needs of the people on Long Island.

"Accordingly, we do not presently see that any sound public purpose would be served by the elimination of the Security National Bank as an independent institution.

"Finally, it should be pointed out that an acquisition such as this would, in the interest of consistency of approach to banking problems of a similar nature, undoubtedly face this office with the question of possible reconsideration of its recent denial of the merger of the National Bank of Westchester and The First National City Bank of New York."

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# TREASURY DEPARTMENT

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WASHINGTON, D.C.

January 8, 1962

FOR IMMEDIATE RELEASE

In regard to the proposed consolidation of Security National Bank of Long Island, Huntington, New York and the Peconic Bank, Sag Harbor, New York, under the charter and title of the former, the Comptroller of the Currency, James J. Saxon, today advised the presidents of the banks that the proposal would not be acted upon pending disposition of the proposed acquisition of Security National Bank of Long Island by Marine Midland Corporation.

James J. Saxon

# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 8, 1962

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FOR RELEASE A. M. NEWSPAPERS,
Tuesday, January 9, 1962.

January 8, 1962

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated October 13, 1961 and the other series to be dated January 11, 1962, which were offered on January 2, were opened at the Federal Reserve Banks on January 8. Tenders were invited for $1,100,000,000 or thereabouts, of 91-day bills and for $600,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

| RANGE OF ACCEPTED COMPETITIVE BIDS: | 91-day Treasury bills maturing April 12, 1962 | | 182-day Treasury bills maturing July 12, 1962 | |
|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | Price | Approx. Equiv. Annual Rate |
| High | 99.296 a/ | 2.785% | 98.460 b/ | 3.046% |
| Low | 99.283 | 2.836% | 98.438 | 3.090% |
| Average | 99.286 | 2.823% 1/ | 98.447 | 3.073% 1/ |

a/ Excepting one tender of $100,000; b/ Excepting two tenders totaling $312,000
70 percent of the amount of 91-day bills bid for at the low price was accepted
45 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | Applied For | Accepted |
|---|---|---|---|---|
| Boston | $ 41,472,000 | $ 36,872,000 | $ 13,278,000 | $ 13,278,000 |
| New York | 1,493,437,000 | 648,657,000 | 917,483,000 | 464,683,000 |
| Philadelphia | 28,760,000 | 13,760,000 | 12,421,000 | 7,421,000 |
| Cleveland | 62,038,000 | 43,538,000 | 18,632,000 | 13,632,000 |
| Richmond | 14,747,000 | 14,747,000 | 2,198,000 | 2,198,000 |
| Atlanta | 24,368,000 | 22,128,000 | 8,999,000 | 8,799,000 |
| Chicago | 237,090,000 | 175,190,000 | 102,067,000 | 46,517,000 |
| St. Louis | 36,387,000 | 30,087,000 | 8,468,000 | 6,468,000 |
| Minneapolis | 21,870,000 | 15,570,000 | 5,650,000 | 4,150,000 |
| Kansas City | 38,236,000 | 27,236,000 | 8,380,000 | 8,280,000 |
| Dallas | 24,600,000 | 22,300,000 | 4,636,000 | 4,636,000 |
| San Francisco | 84,278,000 | 50,278,000 | 30,227,000 | 19,977,000 |
| TOTALS | $2,107,283,000 | $1,100,363,000 c/ | $1,132,439,000 | $600,039,000 d/ |

c/ Includes $245,336,000 noncompetitive tenders accepted at the average price of 99.286
d/ Includes $57,962,000 noncompetitive tenders accepted at the average price of 98.447
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.88%, for the 91-day bills, and 3.16%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

D-353 MM W.T.H.-

# TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, January 9, 1962.

January 8, 1962

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| Average | 99.286 | 2.823% 1/ | 98.447 | 3.073% 1/ |

a/ Excepting one tender of $100,000; b/ Excepting two tenders totaling $312,000
70 percent of the amount of 91-day bills bid for at the low price was accepted
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TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | Applied For | Accepted |
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| Kansas City | 38,236,000 | 27,236,000 | 8,380,000 | 8,280,000 |
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Includes $245,336,000 noncompetitive tenders accepted at the average price of 99.286
Includes $57,962,000 noncompetitive tenders accepted at the average price of 98.447

On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.88%, for the 91-day bills, and 3.16%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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FOR RELEASE A. M. NEWSPAPERS,
Wednesday, January 10, 1962.

January 9, 1962

RESULTS OF TREASURY'S ONE-YEAR BILL OFFERING

The Treasury Department announced last evening that the tenders for $2,000,000,000 or thereabouts, of 365-day Treasury bills to be dated January 15, 1962, and to mature January 15, 1963, which were offered on January 3, were opened at the Federal Reserve Banks on January 9.

The details of this issue are as follows:

Total applied for - $3,649,647,000
Total accepted - 2,000,032,000 (includes $189,199,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting 4 tenders totaling $4,120,000)

| | | |
|---|---|---|
| High | - 96.614 | Equivalent rate of discount approx. 3.340% per annum |
| Low | - 96.572 | " " " " " 3.381% " " |
| Average | - 96.588 | " " " " " 3.366% " " 1/ |

(49 percent of the amount bid for at the low price was accepted)

| Federal Reserve District | Total Applied for | Total Accepted |
|---|---|---|
| Boston | $ 64,599,000 | $ 33,099,000 |
| New York | 2,574,105,000 | 1,441,350,000 |
| Philadelphia | 52,954,000 | 22,954,000 |
| Cleveland | 171,466,000 | 85,946,000 |
| Richmond | 41,146,000 | 27,046,000 |
| Atlanta | 47,078,000 | 39,828,000 |
| Chicago | 322,506,000 | 127,956,000 |
| St. Louis | 24,296,000 | 15,406,000 |
| Minneapolis | 36,980,000 | 17,930,000 |
| Kansas City | 61,946,000 | 37,946,000 |
| Dallas | 37,176,000 | 22,176,000 |
| San Francisco | 215,395,000 | 128,395,000 |
| TOTAL | $3,649,647,000 | $2,000,032,000 |

1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide a yield of 3.50%. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

A-354 Mm W.T.H.-

# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 9, 1962

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Mr. Watson is 41 years old and a native of Cleveland, Ohio. He is a graduate of Western Reserve University in Cleveland and the Central States Banking School of the University of Wisconsin in Madison, Wisconsin. The new Chief Examiner served as a Lieutenant and bomber pilot with the Eighth Air Force in England during World War II. Mr. Watson is married and has one son.

(Signed) James J. Saxon

James J. Saxon
Comptroller of the Currency

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE

WASHINGTON, D.C.

January 8, 1962

COMPTROLLER OF THE CURRENCY APPOINTS JUSTIN T. WATSON CHIEF NATIONAL BANK EXAMINER

Comptroller of the Currency James J. Saxon today announced the appointment of Mr. Justin T. Watson as Chief National Bank Examiner of the United States to succeed Mr. Reed Dolan who resigned effective January 5, 1962.

Mr. Dolan has had a long and distinguished career in the Office of the Comptroller of the Currency since 1925. In September 1941 Mr. Dolan was appointed District Chief National Bank Examiner of the Sixth Federal Reserve District and since that time has served as District Chief National Bank Examiner of the Eighth, Tenth and Eleventh Federal Reserve Districts. Mr. Dolan was appointed Chief National Bank Examiner of the United States in May 1960.

Mr. Watson has been a member of the Comptroller's staff since 1945. He was commissioned a National Bank Examiner in 1951 and examined banks in the Fourth Federal Reserve District until 1957 when he was appointed an Assistant Chief National Bank Examiner in the Washington Office. Mr. Watson has been District Chief National Bank Examiner of the Fourth Federal Reserve District in Cleveland to which post he was appointed in May 1960. He assumed his new duties today.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 9, 1962

FOR IMMEDIATE RELEASE

COMPTROLLER OF THE CURRENCY APPOINTS
JUSTIN T. WATSON CHIEF NATIONAL BANK EXAMINER

Comptroller of the Currency James J. Saxon today announced the appointment of Mr. Justin T. Watson as Chief National Bank Examiner of the United States to succeed Mr. Reed Dolan who resigned effective January 5, 1962.

Mr. Dolan has had a long and distinguished career in the Office of the Comptroller of the Currency since 1925. In September 1951 Mr. Dolan was appointed District Chief National Bank Examiner of the Sixth Federal Reserve District and since that time has served as District Chief National Bank Examiner of the Eighth, Tenth and Eleventh Federal Reserve Districts. Mr. Dolan was appointed Chief National Bank Examiner of the United States in May 1960.

Mr. Watson has been a member of the Comptroller's staff since 1945. He was commissioned a National Bank Examiner in 1951 and examined banks in the Fourth Federal Reserve District until 1957 when he was appointed an Assistant Chief National Bank Examiner in the Washington Office. Mr. Watson has been District Chief National Bank Examiner of the Fourth Federal Reserve District in Cleveland to which post he was appointed in May 1960. He assumed his new duties today.

Mr. Watson is 41 years old and a native of Cleveland, Ohio. He is a graduate of Western Reserve University in Cleveland and the Central States Banking School of the University of Wisconsin in Madison, Wisconsin. The new Chief Examiner served as a Lieutenant and bomber pilot with the Eighth Air Force in England during World War II. Mr. Watson is married and has one son.

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sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 ~~(16)~~ or less for the additional bills dated October 19, 1961 ~~(17)~~, ( 91 ~~(18)~~ days remaining until maturity date on April 19, 1962 ~~(19)~~) and noncompetitive tenders for $100,000 ~~(20)~~ or less for the 182 ~~(21)~~ -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 18, 1962 ~~(22)~~, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 18, 1962 ~~(23)~~. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the

TREASURY DEPARTMENT
Washington

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FOR IMMEDIATE RELEASE

January 10, 1962

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 18, 1962, in the amount of $1,700,096,000, as follows:

91-day bills (to maturity date) to be issued January 18, 1962, in the amount of $1,100,000,000, or thereabouts, representing an additional amount of bills dated October 19, 1961, and to mature April 19, 1962, originally issued in the amount of $ 600,357,000, the additional and original bills to be freely interchangeable.

182-day bills, for $600,000,000, or thereabouts, to be dated January 18, 1962, and to mature July 19, 1962.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, January 15, 1962. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 10, 1962

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 1,700,000,000,or thereabouts, for cash and in exchange for Treasury bills maturing January 18, 1962, in the amount of $1,700,096,000, as follows:

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The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

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Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Departmment of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated October 19, 1961, (91-days remaining until maturity date on April 19, 1962) and noncompetitive tenders for $ 100,000 or less for the 182-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 18, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 18, 1962. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962

D-357

PRELIMINARY DATA ON IMPORTS FOR CONSUMPTION OF UNMANUFACTURED LEAD AND ZINC CHARGEABLE TO THE QUOTAS ESTABLISHED BY PRESIDENTIAL PROCLAMATION NO. 3257 OF SEPTEMBER 22, 1958

QUARTERLY QUOTA PERIOD - January 1 - March 31, 1962

IMPORTS - January 1 - January 6, 1962 ( or as noted)

| Country of Production | ITEM 391 Lead-bearing ores, flue dust, and mattes | | ITEM 392 Lead bullion or base bullion, lead in pigs and bars, lead dross, reclaimed lead, scrap lead, antimonial lead, antimonial scrap lead, type metal, all alloys or combinations of lead n.s.p.f. | | ITEM 393 Zinc-bearing ores of all kinds, except pyrites containing not over 3% of zinc | | ITEM 394 Zinc in blocks, pigs, or slabs; old and worn-out zinc, fit only to be remanufactured, zinc dross, and zinc skimmings | |
|---|---|---|---|---|---|---|---|---|
| | Quarterly Quota Dutiable Lead (Pounds) | Imports | Quarterly Quota Dutiable Lead (Pounds) | Imports | Quarterly Quota Dutiable Zinc (Pounds) | Imports | Quarterly Quota By Weight (Pounds) | Imports |
| Australia | 10,080,000 | 5,877,325* | 23,680,000 | 9,931,157 | - | - | - | - |
| Belgian Congo | - | - | - | - | - | - | 5,440,000 | - |
| Belgium and Luxemburg (total) | - | - | - | - | - | - | 7,520,000 | 7,065,448* |
| Bolivia | 5,040,000 | 1,808,549* | - | - | - | - | - | - |
| Canada | 13,440,000 | 13,440,000 | 15,920,000 | 1,470,098* | 66,480,000 | 14,418,193 | 37,840,000 | 4,269,278 |
| Italy | - | - | - | - | - | - | 3,600,000 | - |
| Mexico | - | - | 36,880,000 | 84,182 | 70,480,000 | 3,204,138 | 6,320,000 | - |
| Peru | 16,160,000 | - | 12,880,000 | - | 35,120,000 | 2,519,685 | 3,760,000 | - |
| Un. So. Africa | 14,880,000 | 14,880,000 | - | - | - | - | - | - |
| Yugoslavia | - | - | 15,760,000 | 661,256* | - | - | - | - |
| All other foreign countries (total) | 6,560,000 | 6,560,000 | 6,080,000 | 6,080,000 | 17,840,000 | 17,840,000 | 6,080,000 | 6,080,000 |

*Imports as of January 8

The above country designations are those specified in Presidential Proclamation No. 3257 of September 22, 1958. Since that date the names of certain countries have been changed.

PREPARED IN THE BUREAU OF CUSTOMS

TREASURY DEPARTMENT
Washington, D. C.



IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962

D-357

PRELIMINARY DATA ON IMPORTS FOR CONSUMPTION OF UNMANUFACTURED LEAD AND ZINC CHARGEABLE TO THE QUOTAS ESTABLISHED BY PRESIDENTIAL PROCLAMATION NO. 3257 OF SEPTEMBER 22, 1958

QUARTERLY QUOTA PERIOD - January 1 - March 31, 1962

IMPORTS - January 1 - January 6, 1962 ( or as noted)

| Country of Production | ITEM 391: Lead-bearing ores, flue dust, and mattes — Quarterly Quota Dutiable Lead (Pounds) | ITEM 391: Imports (Pounds) | ITEM 392: Lead bullion or base bullion, lead in pigs and bars, lead dross, reclaimed lead, scrap lead, antimonial lead, antimonial scrap lead, type metal, all alloys or combinations of lead n.s.p.f. — Quarterly Quota Dutiable Lead (Pounds) | ITEM 392: Imports (Pounds) | ITEM 393: Zinc-bearing ores of all kinds, except pyrites containing not over 3% of zinc — Quarterly Quota Dutiable Zinc (Pounds) | ITEM 393: Imports (Pounds) | ITEM 394: Zinc in blocks, pigs, or slabs; old and worn-out zinc, fit only to be remanufactured, zinc dross, and zinc skimmings — Quarterly Quota By Weight (Pounds) | ITEM 394: Imports (Pounds) |
|---|---|---|---|---|---|---|---|---|
| Australia | 10,080,000 | 5,877,325* | 23,680,000 | 9,931,157 | - | - | - | - |
| Belgian Congo | - | - | - | - | - | - | 5,440,000 | - |
| Belgium and Luxemburg (total) | - | - | - | - | - | - | 7,520,000 | 7,065,448* |
| Bolivia | 5,040,000 | 1,808,549* | - | - | - | - | - | - |
| Canada | 13,440,000 | 13,440,000 | 15,920,000 | 1,470,098* | 66,480,000 | 14,418,193 | 37,840,000 | 4,269,278 |
| Italy | - | - | - | - | - | - | 3,600,000 | - |
| Mexico | - | - | 36,880,000 | 84,182 | 70,480,000 | 3,204,138 | 6,320,000 | - |
| Peru | 16,160,000 | - | 12,880,000 | - | 35,120,000 | 2,519,685 | 3,760,000 | - |
| Un. So. Africa | 14,880,000 | 14,880,000 | - | - | - | - | - | - |
| Yugoslavia | - | - | 15,760,000 | 661,256* | - | - | - | - |
| All other foreign countries (total) | 6,560,000 | 6,560,000 | 6,080,000 | 6,080,000 | 17,840,000 | 17,840,000 | 6,080,000 | 6,080,000 |

*Imports as of January 8

The above country designations are those specified in Presidential Proclamation No. 3257 of September 22, 1958. Since that date the names of certain countries have been changed.

TREASURY DEPARTMENT
Washington, D. C.



IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962

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PRELIMINARY DATA ON IMPORTS FOR CONSUMPTION OF UNMANUFACTURED LEAD AND ZINC CHARGEABLE TO THE QUOTAS ESTABLISHED BY PRESIDENTIAL PROCLAMATION NO. 3257 OF SEPTEMBER 22, 1958

QUARTERLY QUOTA PERIOD - October 1 - December 31, 1961

IMPORTS - October 1 - December 31, 1961

| Country of Production | ITEM 391 Lead-bearing ores, flue dust, and mattes | | ITEM 392 Lead bullion or base bullion, lead in pigs and bars, lead dross, reclaimed lead, scrap lead, antimonial lead, antimonial scrap lead, type metal, all alloys or combinations of lead n.s.p.f. | | ITEM 393 Zinc-bearing ores of all kinds, except pyrites containing not over 3% of zinc | | ITEM 394 Zinc in blocks, pigs, or slabs; old and worn-out zinc, fit only to be remanufactured, zinc dross, and zinc skimmings | |
|---|---|---|---|---|---|---|---|---|
| | Quarterly Quota Dutiable Lead (Pounds) | Imports | Quarterly Quota Dutiable Lead (Pounds) | Imports | Quarterly Quota Dutiable Zinc (Pounds) | Imports | Quarterly Quota By Weight (Pounds) | Imports |
| Australia | 10,080,000 | 10,080,000 | 23,680,000 | 23,680,000 | - | | - | |
| Belgian Congo | - | | - | | - | | 5,440,000 | 5,438,847 |
| Belgium and Luxemburg (total) | - | | - | | - | | 7,520,000 | 7,520,000 |
| Bolivia | 5,040,000 | 5,040,000 | - | | - | | - | - |
| Canada | 13,440,000 | 13,440,000 | 15,920,000 | 15,920,000 | 66,480,000 | 66,480,000 | 37,840,000 | 37,840,000 |
| Italy | - | | - | | - | | 3,600,000 | - |
| Mexico | - | | 36,880,000 | 36,880,000 | 70,480,000 | 70,480,000 | 6,320,000 | 5,004,962 |
| Peru | 16,160,000 | 16,160,000 | 12,880,000 | 12,875,964 | 35,120,000 | 35,120,000 | 3,760,000 | 3,759,838 |
| Un. So. Africa | 14,880,000 | 14,880,000 | - | | - | | - | - |
| Yugoslavia | - | | 15,760,000 | 15,695,674 | - | | - | - |
| All other foreign countries (total) | 6,560,000 | 6,560,000 | 6,080,000 | 6,080,000 | 17,840,000 | 17,840,000 | 6,080,000 | 6,080,000 |

The above country designations are those specified in Presidential Proclamation No. 3257 of September 22, 1958. Since that date the names of certain countries have been changed

PREPARED IN THE BUREAU OF CUSTOMS

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962

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PRELIMINARY DATA ON IMPORTS FOR CONSUMPTION OF UNMANUFACTURED LEAD AND ZINC CHARGEABLE TO THE QUOTAS ESTABLISHED BY PRESIDENTIAL PROCLAMATION NO. 3257 OF SEPTEMBER 22, 1958

QUARTERLY QUOTA PERIOD - October 1 - December 31, 1961

IMPORTS - October 1 - December 31, 1961

| Country of Production | ITEM 391 Lead-bearing ores, flue dust, and mattes | | ITEM 392 Lead bullion or base bullion, lead in pigs and bars, lead dross, reclaimed lead, scrap lead, antimonial lead, antimonial scrap lead, type metal, all alloys or combinations of lead n.s.p.f. | | ITEM 393 Zinc-bearing ores of all kinds, except pyrites containing not over 3% of zinc | | ITEM 394 Zinc in blocks, pigs, or slabs; old and worn-out zinc, fit only to be remanufactured, zinc dross, and zinc skimmings | |
|---|---|---|---|---|---|---|---|---|
| | Quarterly Quota Dutiable Lead (Pounds) | Imports | Quarterly Quota Dutiable Lead (Pounds) | Imports | Quarterly Quota Dutiable Zinc (Pounds) | Imports | Quarterly Quota By Weight (Pounds) | Imports |
| Australia | 10,080,000 | 10,080,000 | 23,680,000 | 23,680,000 | - | | - | |
| Belgian Congo | - | | - | | - | | 5,440,000 | 5,438,847 |
| Belgium and Luxemburg (total) | - | | - | | - | | 7,520,000 | 7,520,000 |
| Bolivia | 5,040,000 | 5,040,000 | - | | - | | - | - |
| Canada | 13,440,000 | 13,440,000 | 15,920,000 | 15,920,000 | 66,480,000 | 66,480,000 | 37,840,000 | 37,840,000 |
| Italy | - | | - | | - | | 3,600,000 | - |
| Mexico | - | | 36,880,000 | 36,880,000 | 70,480,000 | 70,480,000 | 6,320,000 | 5,004,962 |
| Peru | 16,160,000 | 16,160,000 | 12,880,000 | 12,875,964 | 35,120,000 | 35,120,000 | 3,760,000 | 3,759,838 |
| Un. So. Africa | 14,880,000 | 14,880,000 | - | | - | | - | - |
| Yugoslovia | - | | 15,760,000 | 15,695,674 | - | | - | - |
| All other foreign countries (total) | 6,560,000 | 6,560,000 | 6,080,000 | 6,080,000 | 17,840,000 | 17,840,000 | 6,080,000 | 6,080,000 |

The above country designations are those specified in Presidential Proclamation No. 3257 of September 22, 1958. Since that date the names of certain countries have been changed

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962

D-359

The Bureau of Customs announced today the following preliminary figures showing the imports for consumption from January 1, 1961, to December 30, 1961, inclusive, of commodities for which quotas were established pursuant to the Philippine Trade Agreement Revision Act of 1955:

| Commodity | Established Annual Quota Quantity | Unit of Quantity | Imports as of Dec. 30, 1961 |
|---|---|---|---|
| Buttons............. | 765,000 | Gross | 261,567 |
| Cigars.............. | 180,000,000 | Number | 7,428,947 |
| Coconut oil......... | 403,200,000 | Pound | 162,093,272 |
| Cordage............. | 6,000,000 | Pound | 5,406,817 |
| Tobacco............. | 5,850,000 | Pound | 5,958,105 |

TREASURY DEPARTMENT
Washington



IMMEDIATE RELEASE
**THURSDAY, JANUARY 11, 1962**

D-359

The Bureau of Customs announced today the following preliminary figures showing the imports for consumption from January 1, 1961, to December 30, 1961, inclusive, of commodities for which quotas were established pursuant to the Philippine Trade Agreement Revision Act of 1955:

| Commodity | Established Annual Quota Quantity | Unit of Quantity | Imports as of Dec. 30, 1961 |
|---|---|---|---|
| Buttons............. | 765,000 | Gross | 261,567 |
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| Coconut oil......... | 403,200,000 | Pound | 162,093,272 |
| Cordage............. | 6,000,000 | Pound | 5,406,817 |
| Tobacco............. | 5,850,000 | Pound | 5,958,105 |

## COTTON WASTES
(In pounds)

**COTTON CARD STRIPS** made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany, and Italy:

| Country of Origin | Established TOTAL QUOTA | Total Imports Sept. 20, 1961, to Jan. 8, 1962 | Established 33-1/3% of Total Quota | Imports 1/ Sept. 20, 1961 to Jan. 8, 1962 |
|---|---|---|---|---|
| United Kingdom | 4,323,457 | 1,598,082 | 1,441,152 | 1,441,152 |
| Canada | 239,690 | 239,690 | - | - |
| France | 227,420 | 75,807 | 75,807 | 75,807 |
| British India | 69,627 | 69,627 | - | - |
| Netherlands | 68,240 | 22,747 | 22,747 | 22,747 |
| Switzerland | 44,388 | 42,019 | 14,796 | 12,505 |
| Belgium | 38,559 | - | 12,853 | - |
| Japan | 341,535 | 335,000 | - | - |
| China | 17,322 | - | - | - |
| Egypt | 8,135 | - | - | - |
| Cuba | 6,544 | - | - | - |
| Germany | 76,329 | 34,462 | 25,443 | 23,484 |
| Italy | 21,263 | | 7,088 | - |
| | 5,482,509 | 2,417,434 | 1,599,886 | 1,575,695 |

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

The country designations listed in this press release are those specified in Presidential Proclamation No. 2351 of September 5, 1939. Since that date the names of certain countries have been changed.

TREASURY DEPARTMENT
Washington, D. C.

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IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962

Preliminary data on imports for consumption of cotton and cotton waste chargeable to the quotas established by the President's Proclamation of September 5, 1939, as amended

COTTON (other than linters) (in pounds)
Cotton under 1-1/8 inches other than rough or harsh under 3/4"
Imports September 20, 1961, to January 8, 1962

| Country of Origin | Established Quota | Imports | Country of Origin | Established Quota | Imports |
|---|---|---|---|---|---|
| Egypt and the Anglo-Egyptian Sudan ........ | 783,816 | 779,456 | Honduras .............. | 752 | - |
| Peru .................... | 247,952 | 22,050 | Paraguay .............. | 871 | - |
| British India ........... | 2,003,483 | 1,372,035 | Colombia .............. | 124 | - |
| China ................... | 1,370,791 | | Iraq .................. | 195 | - |
| Mexico .................. | 8,883,259 | 8,883,259 | British East Africa ... | 2,240 | - |
| Brazil .................. | 618,723 | 618,723 | Netherlands E. Indies . | 71,388 | - |
| Union of Soviet Socialist Republics ... | 475,124 | 114,908 | Barbados .............. | - | - |
| Argentina ............... | 5,203 | | 1/Other British W. Indies | 21,321 | - |
| Haiti ................... | 237 | | Nigeria ............... | 5,377 | - |
| Ecuador ................. | 9,333 | | 2/Other British W. Africa | 16,004 | - |
| | | | 3/Other French Africa ... | 689 | - |
| | | | Algeria and Tunisia ... | - | - |

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

Cotton 1-1/8" or more
Imports August 1, 1961, - January 8, 1962

Established Quota (Global) - 45,656,420 Lbs.

| Staple Length | Allocation | Imports |
|---|---|---|
| 1-3/8" or more | 39,590,778 | 39,590,778 |
| 1-5/32" or more and under 1-3/8" (Tanguis) | 1,500,000 | 548,588 |
| 1-1/8" or more and under 1-3/8" | 4,565,642 | 4,565,642 |

TREASURY DEPARTMENT
Washington, D. C.

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IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962

D-360

Preliminary data on imports for consumption of cotton and cotton waste chargeable to the quotas established by the President's Proclamation of September 5, 1939, as amended

COTTON (other than linters) (in pounds)
Cotton under 1-1/8 inches other than rough or harsh under 3/4"
Imports September 20, 1961, to January 8, 1962

| Country of Origin | Established Quota | Imports |
|---|---|---|
| Egypt and the Anglo-Egyptian Sudan | 783,816 | 779,456 |
| Peru | 247,952 | 22,050 |
| British India | 2,003,483 | 1,372,035 |
| China | 1,370,791 | |
| Mexico | 8,883,259 | 8,883,259 |
| Brazil | 618,723 | 618,723 |
| Union of Soviet Socialist Republics | 475,124 | 114,908 |
| Argentina | 5,203 | |
| Haiti | 237 | |
| Ecuador | 9,333 | |
| Honduras | 752 | - |
| Paraguay | 871 | - |
| Colombia | 124 | - |
| Iraq | 195 | - |
| British East Africa | 2,240 | - |
| Netherlands E. Indies | 71,388 | - |
| Barbados | - | - |
| 1/Other British W. Indies | 21,321 | - |
| Nigeria | 5,377 | - |
| 2/Other British W. Africa | 16,004 | - |
| 3/Other French Africa | 689 | - |
| Algeria and Tunisia | - | - |

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

Cotton 1-1/8" or more
Imports August 1, 1961, - January 8, 1962

Established Quota (Global) - 45,656,420 Lbs.

| Staple Length | Allocation | Imports |
|---|---|---|
| 1-3/8" or more | 39,590,778 | 39,590,778 |
| 1-5/32" or more and under 1-3/8" (Tanguis) | 1,500,000 | 548,588 |
| 1-1/8" or more and under 1-3/8" | 4,565,642 | 4,565,642 |

## COTTON WASTES
(In pounds)

COTTON CARD STRIPS made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany, and Italy:

| Country of Origin | Established TOTAL QUOTA | Total Imports Sept. 20, 1961, to Jan. 8, 1962 | Established 33-1/3% of Total Quota | Imports 1/ Sept. 20, 1961 to Jan. 8, 1962 |
|---|---|---|---|---|
| United Kingdom | 4,323,457 | 1,598,082 | 1,441,152 | 1,441,152 |
| Canada | 239,690 | 239,690 | - | - |
| France | 227,420 | 75,807 | 75,807 | 75,807 |
| British India | 69,627 | 69,627 | - | - |
| Netherlands | 68,240 | 22,747 | 22,747 | 22,747 |
| Switzerland | 44,388 | 42,019 | 14,796 | 12,505 |
| Belgium | 38,559 | - | 12,853 | - |
| Japan | 341,535 | 335,000 | - | - |
| China | 17,322 | - | - | - |
| Egypt | 8,135 | - | - | - |
| Cuba | 6,544 | - | - | - |
| Germany | 76,329 | 34,462 | 25,443 | 23,484 |
| Italy | 21,263 | | 7,088 | - |
| | 5,482,509 | 2,417,434 | 1,599,886 | 1,575,695 |

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

The country designations listed in this press release are those specified in Presidential Proclamation No. 2351 of September 5, 1939. Since that date the names of certain countries have been changed.

TREASURY DEPARTMENT
Washington, D. C.



IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962.

D-361

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and wheat flour authorized to be entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamation of April 13, 1942, for the 12 months commencing May 29, 1961, as follows:

| Country of Origin | Wheat | | Wheat flour, semolina, crushed or cracked wheat, and similar wheat products | |
|---|---|---|---|---|
| | Established Quota | Imports May 29, 1961, to Jan. 8, 1962 | Established Quota | Imports May 29, 1961, to Jan. 8, 1962 |
| | (Bushels) | (Bushels) | (Pounds) | (Pounds) |
| Canada | 795,000 | 795,000 | 3,815,000 | 3,815,000 |
| China | - | - | 24,000 | - |
| Hungary | - | - | 13,000 | - |
| Hong Kong | - | - | 13,000 | - |
| Japan | - | - | 8,000 | - |
| United Kingdom | 100 | - | 75,000 | - |
| Australia | - | - | 1,000 | 150 |
| Germany | 100 | - | 5,000 | - |
| Syria | 100 | - | 5,000 | - |
| New Zealand | - | - | 1,000 | - |
| Chile | - | - | 1,000 | - |
| Netherlands | 100 | - | 1,000 | - |
| Argentina | 2,000 | - | 14,000 | - |
| Italy | 100 | - | 2,000 | - |
| Cuba | - | - | 12,000 | - |
| France | 1,000 | - | 1,000 | - |
| Greece | - | - | 1,000 | - |
| Mexico | 100 | - | 1,000 | - |
| Panama | - | - | 1,000 | - |
| Uruguay | - | - | 1,000 | - |
| Poland and Danzig | - | - | 1,000 | - |
| Sweden | - | - | 1,000 | - |
| Yugoslavia | - | - | 1,000 | - |
| Norway | - | - | 1,000 | - |
| Canary Islands | - | - | 1,000 | - |
| Rumania | 1,000 | - | - | - |
| Guatemala | 100 | - | - | - |
| Brazil | 100 | - | - | - |
| Union of Soviet Socialist Republics | 100 | 24 | - | - |
| Belgium | 100 | - | - | - |
| | 800,000 | 795,024 | 4,000,000 | 3,815,150 |

IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962. D-361

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| Country of Origin | Wheat | | Wheat flour, semolina, crushed or cracked wheat, and similar wheat products | |
|---|---|---|---|---|
| | Established Quota | Imports May 29, 1961, to Jan. 8, 1962 | Established Quota | Imports May 29, 1961, to Jan. 8, 1962 |
| | (Bushels) | (Bushels) | (Pounds) | (Pounds) |
| Canada | 795,000 | 795,000 | 3,815,000 | 3,815,000 |
| China | - | - | 24,000 | - |
| Hungary | - | - | 13,000 | - |
| Hong Kong | - | - | 13,000 | - |
| Japan | - | - | 8,000 | - |
| United Kingdom | 100 | - | 75,000 | - |
| Australia | - | - | 1,000 | 150 |
| Germany | 100 | - | 5,000 | - |
| Syria | 100 | - | 5,000 | - |
| New Zealand | - | - | 1,000 | - |
| Chile | - | - | 1,000 | - |
| Netherlands | 100 | - | 1,000 | - |
| Argentina | 2,000 | - | 14,000 | - |
| Italy | 100 | - | 2,000 | - |
| Cuba | - | - | 12,000 | - |
| France | 1,000 | - | 1,000 | - |
| Greece | - | - | 1,000 | - |
| Mexico | 100 | - | 1,000 | - |
| Panama | - | - | 1,000 | - |
| Uruguay | - | - | 1,000 | - |
| Poland and Danzig | - | - | 1,000 | - |
| Sweden | - | - | 1,000 | - |
| Yugoslavia | - | - | 1,000 | - |
| Norway | - | - | 1,000 | - |
| Canary Islands | - | - | 1,000 | - |
| Rumania | 1,000 | - | - | - |
| Guatemala | 100 | - | - | - |
| Brazil | 100 | - | - | - |
| Union of Soviet Socialist Republics | 100 | 24 | - | - |
| Belgium | 100 | - | - | - |
| | 800,000 | 795,024 | 4,000,000 | 3,815,150 |

| Commodity | Period and Quantity | | Unit of Quantity | Imports as of Dec. 30, 1961 |
|---|---|---|---|---|
| Absolute Quotas: | | | | |
| Butter substitutes, including butter oil, containing 45% or more butter fat.............. | Calendar Year 1961 | 1,200,000 | Pound | Quota Filled |
| | Calendar Year 1962 | 1,200,000 | Pound | Quota Filled* |
| Cotton products, except cotton wastes, produced in any stage preceding the spinning into yarn............................ | 12 mos. from Sept. 11, 1961 | 1,000 | Pound | Quota Filled |
| Peanuts, shelled, unshelled, blanched, salted, prepared or preserved (incl. roasted peanuts but not peanut butter)...... | 12 mos. from Aug. 1, 1961 | 1,709,000 | Pound | 682,102* |
| Tung Oil......................... | Nov. 1, 1961- Jan. 31, 1962 | | | |
| | Argentina | 5,525,000 | Pound | 2,694,254* |
| | Paraguay | 741,000 | Pound | 630* |
| | Other Countries | 234,000 | Pound | |

*Imports through January 8, 1962

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962

D-362

The Bureau of Customs announced today preliminary figures showing the imports for consumption of the commodities listed below within quota limitations from the beginning of the quota periods to December 30, 1961, inclusive, as follows:

| Commodity | Period and Quantity | | Unit of Quantity | Imports as of Dec. 30, 1961 |
|---|---|---|---|---|
| Tariff-Rate Quotas: | | | | |
| Cream, fresh or sour............ | Calendar Year | 1,500,000 | Gallon | 282 |
| Whole Milk, fresh or sour........ | Calendar Year | 3,000,000 | Gallon | 206 |
| Cattle, 700 lbs. or more each (other than dairy cows)......... | Oct. 1, 1961- Dec. 31, 1961 | 120,000 | Head | 42,708 |
| Cattle less than 200 lbs. each... | 12 mos. from April 1, 1961 | 200,000 | Head | 32,107 |
| Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish......... | Calendar Year | 32,600,645 | Pound | Quota Filled |
| Tuna Fish....................... | Calendar Year | 57,114,714 | Pound | 56,252,179 |
| White or Irish potatoes: | | | | |
| Certified seed.................. | 12 mos. from | 114,000,000 | Pound | 23,300,050 |
| Other........................... | Sept. 15, 1961 | 36,000,000 | Pound | 2,597,395 |
| Walnuts......................... | Calendar Year | 5,000,000 | Pound | Quota Filled |
| Stainless steel table flatware (table knives, table forks, table spoons)................. | Nov. 1, 1961- Oct. 31, 1962 | 69,000,000 | Pieces | 47,211,133* |

*Imports through January 5, 1962

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, JANUARY 11, 1962

D-362

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*Imports through January 5, 1962

| Commodity | Period and Quantity | | Unit of Quantity | Imports as of Dec. 30, 1961 |
|---|---|---|---|---|
| Absolute Quotas: | | | | |
| Butter substitutes, including butter oil, containing 45% or more butter fat............... | Calendar Year 1961 | 1,200,000 | Pound | Quota Filled |
| | Calendar Year 1962 | 1,200,000 | Pound | Quota Filled* |
| Cotton products, except cotton wastes, produced in any stage preceding the spinning into yarn............................ | 12 mos. from Sept. 11, 1961 | 1,000 | Pound | Quota Filled |
| Peanuts, shelled, unshelled, blanched, salted, prepared or preserved (incl. roasted peanuts but not peanut butter)...... | 12 mos. from Aug. 1, 1961 | 1,709,000 | Pound | 682,102* |
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| | Other Countries | 234,000 | Pound | |

*Imports through January 8, 1962

COMPTROLLER OF THE CURRENCY
TREASURY DEPARTMENT
WASHINGTON 25

ADDRESS REPLY TO
"COMPTROLLER OF THE CURRENCY"

JAN 10 1962

TO ALL NATIONAL BANKS:

Heretofore it has been the general policy and practice of this Office in granting approval to an application for the establishment of a branch to require that it open for business within a period of not more than six months after approval. Similarly, extensions of time have been granted for periods generally not exceeding six months. Moreover, such applications have been initially addressed to this Office for consideration.

Careful re-examination has resulted in the finding that these policies and procedures are unrealistic, and have also placed a heavy and unnecessary administrative burden on this Office.

Therefore, effective February 1, 1962, approval of all branch applications will be granted with an expiration date of twelve months. Extensions of time, when justified, will similarly be given for a period up to twelve months. Requests for extensions of time must be submitted in writing directly to the office of the appropriate District Chief National Bank Examiner no later than sixty days prior to the original expiration date. Such requests for extension must be supported by evidence of tangible progress toward establishment of the branch.

Under normal circumstances, extensions of time for the establishment of branches will not be granted unless the foregoing conditions have been met.

James J. Saxon

JAMES J. SAXON
Comptroller of the Currency

FOR IMMEDIATE RELEASE January 11, 1962

TREASURY WILL BORROW $1 BILLION BY
OFFERING MORE 4 PERCENT BONDS

The Treasury announced today that it will complete the borrowing for its present seasonal cash requirements by offering investors an additional $1 billion of the 4 percent bonds maturing October 1, 1969. About $1.4 billion of these bonds are already outstanding, of which about $1.2 billion are held outside Federal Reserve and other official accounts. Subscriptions will be received for one day only, on Monday, January 15, at a price of 99.75 (to yield about 4.04%), plus the accrued interest from last October 1 to the payment date. Payment may be made through credit to Treasury tax and loan accounts, and will be due on January 24.

In addition to the amount of bonds to be offered for public subscription, the Secretary of the Treasury reserves the right to allot up to $100 million of the bonds to Government Investment Accounts.

Any subscriptions for the bonds addressed to a Federal Reserve Bank or Branch, or to the Treasurer of the United States, Washington 25, D. C., and placed in the mail before midnight, January 15, will be considered as timely.

Subscriptions to the 4 percent Treasury Bonds of 1969 from banking institutions generally for their own account and from States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, will be received without deposit. Subscriptions from all others must be accompanied by payment of 25 percent of the amount of bonds applied for, not subject to withdrawal until after allotment. Subscriptions from commercial banks for their own account will be restricted in each case to an amount not exceeding 5 percent of the combined amount of time and savings deposits, including time certificates of deposit, or 15 percent of the combined capital, surplus and undivided profits, of the subscribing bank, whichever is greater.

The Secretary of the Treasury reserves the right to reject or reduce any subscription, to allot less than the amount of bonds applied for, and to make different percentage allotments to various classes of subscribers.

Commercial banks and other lenders are requested to refrain from making unsecured loans, or loans collateralized in whole or in part by the bonds subscribed for, to cover the deposits required to be paid when subscriptions are entered, and banks will be required to make the usual certification to that effect.

All subscribers to the bonds are required to agree not to purchase or to sell or to make any agreements with respect to the purchase or sale or other disposition of the additional bonds subscribed for under this offering, until after midnight, January 15.

# TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE January 11, 1962

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oOo

D-363

TREASURY DEPARTMENT
Washington

59

January 12, 1962

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY OF THE UNITED STATES
UPON ARRIVAL IN OTTAWA OF THE AMERICAN MEMBERS
OF THE JOINT UNITED STATES-CANADIAN COMMITTEE
ON TRADE AND ECONOMIC AFFAIRS, FRIDAY,
JANUARY 12, 1962, 10:00 A.M.

It is a genuine pleasure for my colleagues and me to be in Ottawa for the Seventh meeting of the Joint United States-Canadian Committee on Trade and Economic Affairs.

These frank and friendly consultations are proof positive of the determination of our two governments to seek harmonious resolution of the problems confronting us in these difficult and changing times.

We are looking forward to the discussions we shall have here today and tomorrow with our Canadian colleagues, for we are convinced that problems shared by our two countries can best be solved in the spirit of candor and mutual understanding that has always characterized the meetings of the Joint Committee. We are equally convinced that the discussions will better enable both Canada and the United States to take advantage of the increasing opportunities for freer trade and accelerated economic progress that lie ahead.

oOo

TREASURY DEPARTMENT
Washington

January 12, 1962

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oOo

1/11/62

FOR RELEASE UPON DELIVERY

TOAST DELIVERED BY THE HONORABLE DOUGLAS DILLON,
SECRETARY OF THE TREASURY OF THE UNITED STATES,
AT A DINNER MEETING OF THE JOINT UNITED STATES-
CANADIAN COMMITTEE ON TRADE AND ECONOMIC AFFAIRS,
OTTAWA COUNTRY CLUB, OTTAWA, CANADA,
FRIDAY, JANUARY 12, 1962, 8:00 P.M.

Honorable Ministers and Distinguished Guests:

The changing pattern of international events is constantly creating new economic problems -- as well as fresh opportunities -- for both Canada and the United States.

The resolution of these problems may require readjustment, and even sacrifice. The fulfillment of our opportunities will call for joint effort and cooperation. I believe that both problems and opportunities can best be met to our mutual benefit if we adhere to our shared principle of encouraging expanded international trade by reducing trade barriers.

We of the United States attach great importance to the meetings

TREASURY DEPARTMENT
Washington

January 12, 1962

FOR RELEASE UPON DELIVERY

TOAST DELIVERED BY THE HONORABLE DOUGLAS DILLON, SECRETARY OF THE TREASURY OF THE UNITED STATES, AT A DINNER MEETING OF THE JOINT UNITED STATES-CANADIAN COMMITTEE ON TRADE AND ECONOMIC AFFAIRS, OTTAWA COUNTRY CLUB, OTTAWA, CANADA, FRIDAY, JANUARY 12, 1962, 8:00 P. M.

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We of the United States attach great importance to the meetings of the Joint United States-Canadian Committee on Trade and Economics for we are discussing more than matters of mutual adjustment. We are discussing ways in which to take advantage of trading developments in the whole new era opening up before us. Success in our efforts will help to create an ever-rising level of material well-being, not only for our own peoples, but for all free men, everywhere. It will also augment the security of the free world.

We are, today, at an historic moment -- a crossroads, if you will -- and future generations may well look back upon the coming months in international economic affairs as a period in which our efforts helped measurably to shape their future for the better.

And now, I should like to propose a toast:

Gentlemen, the Queen!

oOo

The security is a new denomination in the series of Treasury Bills, the shortest term security sold by the Treasury. Each Bill is distinguished by a portrait of a former Secretary of the Treasury. The first of the $50,000 denomination were dated January 15, 1962, and were issued today as part of the sale of $2 billion of 365 day Treasury Bills to mature on January 15, 1963. The new denomination was added to permit easier handling of large dollar amounts of Treasury Bills, and in so doing to save considerable expense by the Government.

Although termed "Treasury Bills", these securities differ from the familiar wallet-size currency in both size and usage. The Bills produced by the Treasury's Bureau of Engraving and Printing are sold at a special type of auction each week, and the resulting average price -- or discount below face value -- represents the current weekly "Treasury Bill rate." They are also sold in special issues when the Treasury borrows funds within a short term period of time.

The likeness of Secretary Carter Glass on the new Bill is an adaptation of an engraving made in 1919 by G. F. C. Smillie, based on a photograph by Underwood and Underwood of New York City. The recent adaptation was done by Charles A. Brooks.

Other members of the Glass family attending the ceremony and to whom the brochures were presented were: Admiral Richard P. Glass and wife of Washington, D.C.; Mrs. Elizabeth Glass Barlow of Bronxville, N.Y.; Thomas R. Glass and wife, of Lynchburg, Virginia, a member of the House of Delegates of the Commonwealth of Virginia; Carter Glass, III and wife and son, Carter, IV, of Lynchburg, Virginia; General Manager of the News and the Daily Advance of that City; Miss Margaret Bannister of Charlottesville, Virginia; Mrs. Susie Glass Lee and husband, Rev. Richard H. of Reidsville, N.C.; Mrs. Jennie Glass McDaniel of Lynchburg, Virginia. Mrs. Margaret Lucado Garlick of Charlottesville, Virginia; Powell Glass, Jr. and wife and daughter Ann of Bay St. Louis, Mississippi, Dr. Robert M. Boatwright of Danville, Virginia; and Mrs. Glenn B. Updike, Jr., of Danville, Virginia.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 15, 1962

FOR RELEASE AFTER 3:00 p.m.
January 15, 1962

NEW GOVERNMENT SECURITY TO HONOR CARTER GLASS

Secretary Douglas Dillon today announced the first issue of a new $50,000 security in the Treasury Bill series at a ceremony attended by members of the family of the former Senator Carter Glass, whose portrait is engraved on the new security.

Senator Harry F. Byrd of Virginia, Chairman of the Senate Finance Committee, joined Treasury Secretary Dillon and Under Secretary Henry H. Fowler in a ceremony in the latter's office, in which hangs a portrait of Senator Glass as Secretary of the Treasury in President Woodrow Wilson's Cabinet.

Secretary Dillon welcomed to the Treasury 21 members of the Glass family, including Dr. Meta Glass of Charlottesville, Virginia, sister, and Mrs. John G. (Mary Archer Glass) Boatwright, daughter of the former Secretary, who resides in Danville, Virginia. Senator Byrd presented members of the family with a descriptive brochure commemorating the issuance of the new security. The brochure contains an enlarged illustration of the face of the new Treasury Bill and a tribute to Carter Glass who served as Secretary of the Treasury from December 16, 1918, until February 2, 1920, when he resigned to accept appointment as Senator from Virginia. He served in the Senate for 26 years.

Secretary Dillon, in welcoming the group to the Treasury, said that although Carter Glass's service to the country as Senator was over a longer span of years "his contribution as Secretary of the Treasury was no less distinguished". The Secretary also reminded his listeners that President Woodrow Wilson, on November 17, 1919, wrote to Secretary Glass, who was resigning his cabinet post before entering the Senate:

> "While your occupancy of the Office of Secretary of the Treasury has been brief, the Administration of its affairs under your guidance has moved forward to the highest levels of efficiency and high devotion to the public interest."

# TREASURY DEPARTMENT

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January 15, 1962

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Secretary Dillon welcomed to the Treasury 21 members of the Glass family, including Dr. Meta Glass of Charlottesville, Virginia, sister, and Mrs. John G. (Mary Archer Glass) Boatwright, daughter of the former Secretary, who resides in Danville, Virginia. Senator Byrd presented members of the family with a descriptive brochure commemorating the issuance of the new security. The brochure contains an enlarged illustration of the face of the new Treasury Bill and ~~a~~ tribute to Carter Glass who served as Secretary of the Treasury from December 16, 1918, until February 2, 1920, when he resigned to accept appointment as Senator from Virginia. He served in the Senate for 26 years.

Secretary Dillon, in welcoming the group to the Treasury, said that although Carter Glass's service to the country as Senator was over a longer span of years "his contribution as Secretary of the Treasury was no less distinguished". The Secretary also reminded his listeners that President Woodrow Wilson, on November 17, 1919, wrote to Secretary Glass, who was resigning his cabinet post before entering the Senate:

> "While your occupancy of the Office of Secretary of the Treasury has been brief, the Administration of its affairs under your guidance has moved forward to the highest levels of efficiency and high devotion to the public interest."

The security is a new denomination in the series of Treasury Bills, the shortest term security sold by the Treasury. Each Bill is distinguished by a portrait of a former Secretary of the Treasury. The first of the $50,000 denomination were dated January 15, 1962, and were issued today as part of the sale of $2 billion of 365 day Treasury Bills to mature on January 15, 1963. The new denomination was added to permit easier handling of large dollar amounts of Treasury Bills, and in so doing to save considerable expense by the Government.

Although termed "Treasury Bills", these securities differ from the familiar wallet-size currency in both size and usage. The Bills produced by the Treasury's Bureau of Engraving and Printing are sold at a special type of auction each week, and the resulting average price -- or discount below face value -- represent the current weekly "Treasury Bill rate." They are also sold in special issues when the Treasury borrows funds within a short term period of time.

The likeness of Secretary Carter Glass on the new Bill is an adaptation of an engraving made in 1919 by G. F. C. Smillie, based on a photograph by Underwood and Underwood of New York City. The recent adaptation was done by Charles A. Brooks.

Other members of the Glass family attending the ceremony and to whom the brochures were presented were: Admiral Richard P. Glass and wife of Washington, D.C.; Mrs. Elizabeth Glass Barlow of Bronxville, N.Y.; Thomas R. Glass and wife, of Lynchburg, Virginia, a member of the House of Delegates of the Commonwealth of Virginia; Carter Glass, III and wife and son, Carter, IV, of Lynchburg, Virginia; General Manager of the News and the Daily Advance of that City; Miss Margaret Bannister of Charlottesville, Virginia; Mrs. Susie Glass Lee and husband, Rev. Richard H. of Reidsville, N.C.; Mrs. Jennie Glass McDaniel of Lynchburg, Virginia; Mrs. Margaret Lucado Garlick of Charlottesville, Virginia; Powell Glass, Jr. and wife and daughter Ann of Bay St. Louis, Mississippi, Dr. Robert M. Boatwright of Danville, Virginia; and Mrs. Glenn B. Updike, Jr., of Danville, Virginia.

oOo

January 8, 1962

MEMORANDUM TO MR. MARTIN L. MOORE:

The follow transactions were made in direct and guaranteed securities of the government for Treasury Investment and other accounts during the month of December:

| | |
|---|---|
| Purchases ............ | $ 94,537,000.00 |
| Sales ................ | 66,710,800.00 |
| Net Purchases .... | $ 27,826,200.00 |

MM

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

~~December 15, 1961~~
Jan. 15, 1962

IMMEDIATE RELEASE

December
TREASURY MARKET TRANSACTIONS IN ~~NOVEMBER~~

December
During ~~November~~ 1961, market transactions in direct and guaranteed securities of the government for Treasury investment and other accounts resulted in net purchases by the Treasury Department of $27,826,200 [redacted]

oOo

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~~D-334~~

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 15, 1962

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN DECEMBER

During December 1961, market transactions in direct and guaranteed securities of the government for Treasury investment and other accounts resulted in net purchases by the Treasury Department of $27,826,200.

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D-365

# STATUTORY DEBT LIMITATION

As of December 31, 1961

Washington, Jan. 15, 1962

Section 21 of Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authority of that Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), "shall not exceed in the aggregate $285,000,000,000 (Act of June 30, 1959; U. S. C., title 31, sec. 757b), outstanding at any one time. For purposes of this section the current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder shall be considered as its face amount." The Act of June 30, 1961 (P. L. 87-69 87th Congress) provides that during the period beginning on July 1, 1961 and ending June 30, 1962, the above limitation ($285,000,000,000) shall be temporarily increased by $13,000,000,000.

The following table shows the face amount of obligations outstanding and the face amount which can still be issued under this limitation:

| | | | |
|---|---|---|---|
| Total face amount that may be outstanding at any one time | | | $298,000.000.000 |
| Outstanding - | | | |
| Obligations issued under Second Liberty Bond Act, as amended | | | |
| Interest-bearing: | | | |
| Treasury bills | $43,443,626,000 | | |
| Certificates of indebtedness | 5,509,218,000 | | |
| Treasury notes | 71,526,282,000 | $120,479,126,000 | |
| Bonds - | | | |
| Treasury | 75,485,565,050 | | |
| *Savings (current redemption value) | 47,457,867,248 | | |
| Depositary | 153,621,500 | | |
| R. E. A. series | 22,619,000 | | |
| Investment series | 5,074,247,000 | 128,193,919,798 | |
| Certificates of Indebtedness - | | | |
| Foreign series | 450,000,000 | | |
| Foreign Currency series | 46,285,000 | 496,285,000 | |
| Special Funds - | | | |
| Certificates of indebtedness | 6,380,094,000 | | |
| Treasury notes | 6,921,833,000 | | |
| Treasury bonds | 30,217,837,000 | 43,519,764,000 | |
| Total interest-bearing | | 292,689,094,798 | |
| Matured, interest-ceased | | 460,582,410 | |
| Bearing no interest: | | | |
| United States Savings Stamps | 51,637,810 | | |
| Excess profits tax refund bonds | 738,535 | | |
| Special notes of the United States: | | | |
| Internat'l Monetary Fund series | 2,388,000,000 | | |
| Internat'l Develop. Ass'n. series | 115,304,400 | | |
| Inter-American Develop. Bank series | 25,000,000 | 2,580,680,745 | |
| Total | | 295,730,357,953 | |
| Guaranteed obligations (not held by Treasury): | | | |
| Interest-bearing: | | | |
| Debentures: F. H. A. & DC Stad. Bds. | 329,671,000 | | |
| Matured, interest-ceased | 488,525 | 330,159,525 | |
| Grand total outstanding | | | 296,060,517,478 |
| Balance face amount of obligations issuable under above authority | | | 1,939,482,522 |

Reconcilement with Statement of the Public Debt December 31, 1961
(Date)

(Daily Statement of the United States Treasury, December 29, 1961
(Date)

| | |
|---|---|
| Outstanding - | |
| Total gross public debt | 296,168,761,215 |
| Guaranteed obligations not owned by the Treasury | 330,159,525 |
| Total gross public debt and guaranteed obligations | 296,498,920,740 |
| Deduct - other outstanding public debt obligations not subject to debt limitation | 438,403,262 |
| | 296,060,517,478 |

# STATUTORY DEBT LIMITATION

As of December 31, 1961

Washington, Jan. 15, 1962

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| Certificates of indebtedness | 5,509,218,000 | | |
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| Bonds - | | | |
| Treasury | 75,485,565,050 | | |
| *Savings (current redemption value) | 47,457,867,248 | | |
| Depositary | 153,621,500 | | |
| R. E. A. series | 22,619,000 | | |
| Investment series | 5,074,247,000 | 128,193,919,798 | |
| Certificates of Indebtedness - | | | |
| Foreign series | 450,000,000 | | |
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| Certificates of indebtedness | 6,380,094,000 | | |
| Treasury notes | 6,921,833,000 | | |
| Treasury bonds | 30,217,837,000 | 43,519,764,000 | |
| Total interest-bearing | | 292,689,094,798 | |
| Matured, interest-ceased | | 460,582,410 | |
| Bearing no interest: | | | |
| United States Savings Stamps | 51,637,810 | | |
| Excess profits tax refund bonds | 738,535 | | |
| Special notes of the United States: | | | |
| Internat'l Monetary Fund series | 2,388,000,000 | | |
| Internat'l Develop. Ass'n. series | 115,304,400 | | |
| Inter-American Develop. Bank series | 25,000,000 | 2,580,680,745 | |
| Total | | 295,730,357,953 | |
| Guaranteed obligations (not held by Treasury): | | | |
| Interest-bearing: | | | |
| Debentures: F. H. A. & DC Stad. Bds. | 329,671,000 | | |
| Matured, interest-ceased | 488,525 | 330,159,525 | |
| Grand total outstanding | | | 296,060,517,478 |
| Balance face amount of obligations issuable under above authority | | | 1,939,482,522 |

Reconcilement with Statement of the Public Debt December 31, 1961
(Date)

(Daily Statement of the United States Treasury, December 29, 1961)
(Date)

| | |
|---|---|
| Outstanding - | |
| Total gross public debt | 296,168,761,215 |
| Guaranteed obligations not owned by the Treasury | 330,159,525 |
| Total gross public debt and guaranteed obligations | 296,498,920,740 |
| Deduct - other outstanding public debt obligations not subject to debt limitation | 438,403,262 |
| | 296,060,517,478 |

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FOR RELEASE A. M. NEWSPAPERS,
Tuesday, January 16, 1962.

January 15, 1962

## RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated October 19, 1961, and the other series to be dated January 18, 1962, which were offered on January 10, were opened at the Federal Reserve Banks on January 15. Tenders were invited for $1,100,000,000, or thereabouts, of 91-day bills and for $600,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

| RANGE OF ACCEPTED COMPETITIVE BIDS: | 91-day Treasury bills maturing April 19, 1962 | | 182-day Treasury bills maturing July 19, 1962 | |
|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | Price | Approx. Equiv. Annual Rate |
| High | 99.306 | 2.745% | 98.507 | 2.953% |
| Low | 99.297 | 2.781% | 98.496 | 2.975% |
| Average | 99.300 | 2.770% 1/ | 98.499 | 2.970% 1/ |

12 percent of the amount of 91-day bills bid for at the low price was accepted
57 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | Applied For | Accepted |
|---|---|---|---|---|
| Boston | $ 31,764,000 | $ 15,759,000 | $ 3,785,000 | $ 3,773,000 |
| New York | 1,538,285,000 | 661,685,000 | 1,114,376,000 | 509,064,000 |
| Philadelphia | 34,989,000 | 16,989,000 | 9,165,000 | 4,165,000 |
| Cleveland | 56,037,000 | 29,913,000 | 14,703,000 | 8,508,000 |
| Richmond | 12,983,000 | 12,583,000 | 2,355,000 | 2,291,000 |
| Atlanta | 24,738,000 | 19,014,000 | 6,368,000 | 5,672,000 |
| Chicago | 208,199,000 | 151,879,000 | 95,887,000 | 30,998,000 |
| St. Louis | 41,006,000 | 34,006,000 | 8,419,000 | 6,704,000 |
| Minneapolis | 20,560,000 | 14,090,000 | 7,236,000 | 3,236,000 |
| Kansas City | 45,285,000 | 32,660,000 | 9,902,000 | 8,687,000 |
| Dallas | 18,604,000 | 18,104,000 | 6,432,000 | 5,332,000 |
| San Francisco | 126,593,000 | 95,065,000 | 27,427,000 | 11,723,000 |
| TOTALS | $2,159,043,000 | $1,101,747,000 a/ | $1,306,055,000 | $600,153,000 |

a/ Includes $260,913,000 noncompetitive tenders accepted at the average price of 99.300
b/ Includes $63,019,000 noncompetitive tenders accepted at the average price of 98.499
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.83%, for the 91-day bills, and 3.06%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, January 16, 1962.

January 15, 1962

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|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | Price | Approx. Equiv. Annual Rate |
| High | 99.306 | 2.745% | 98.507 | 2.953% |
| Low | 99.297 | 2.781% | 98.496 | 2.975% |
| Average | 99.300 | 2.770% 1/ | 98.499 | 2.970% 1/ |

12 percent of the amount of 91-day bills bid for at the low price was accepted
57 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | Applied For | Accepted |
|---|---|---|---|---|
| Boston | $ 31,764,000 | $ 15,759,000 | $ 3,785,000 | $ 3,773,000 |
| New York | 1,538,285,000 | 661,685,000 | 1,114,376,000 | 509,064,000 |
| Philadelphia | 34,989,000 | 16,989,000 | 9,165,000 | 4,165,000 |
| Cleveland | 56,037,000 | 29,913,000 | 14,703,000 | 8,508,000 |
| Richmond | 12,983,000 | 12,583,000 | 2,355,000 | 2,291,000 |
| Atlanta | 24,738,000 | 19,014,000 | 6,368,000 | 5,672,000 |
| Chicago | 208,199,000 | 151,879,000 | 95,887,000 | 30,998,000 |
| St. Louis | 41,006,000 | 34,006,000 | 8,419,000 | 6,704,000 |
| Minneapolis | 20,560,000 | 14,090,000 | 7,236,000 | 3,236,000 |
| Kansas City | 45,285,000 | 32,660,000 | 9,902,000 | 8,687,000 |
| Dallas | 18,604,000 | 18,104,000 | 6,432,000 | 5,332,000 |
| San Francisco | 126,593,000 | 95,065,000 | 27,427,000 | 11,723,000 |
| TOTALS | $2,159,043,000 | $1,101,747,000 a/ | $1,306,055,000 | $600,153,000 b/ |

a/ Includes $260,913,000 noncompetitive tenders accepted at the average price of 99.300
b/ Includes $63,019,000 noncompetitive tenders accepted at the average price of 98.499
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.83%, for the 91-day bills, and 3.06%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ **200,000** or less for the additional bills dated **October 26, 1961**, ( **91** days remaining until maturity date on **April 26, 1962**) and noncompetitive tenders for $ **100,000** or less for the **182** -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **January 25, 1962**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **January 25, 1962**. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, January 17, 1962

**TREASURY'S WEEKLY BILL OFFERING**

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ **1,700,000,000** , or thereabouts, for cash and in exchange for Treasury bills maturing **January 25, 1962** , in the amount of $ **1,701,361,000** , as follows:

**91** -day bills (to maturity date) to be issued **January 25, 1962** , in the amount of $ **1,100,000,000** , or thereabouts, representing an additional amount of bills dated **October 26, 1961** , and to mature **April 26, 1962** , originally issued in the amount of $ **600,143,000** , the additional and original bills to be freely interchangeable.

**182** -day bills, for $ **600,000,000** , or thereabouts, to be dated **January 25, 1962** , and to mature **July 26, 1962** .

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, **Monday, January 22, 1962** . Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 17, 1962

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of \$ 1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 25, 1962, in the amount of \$ 1,701,361,000, as follows:

91-day bills (to maturity date) to be issued January 25, 1962, in the amount of \$1,100,000,000, or thereabouts, representing an additional amount of bills dated October 26, 1961, and to mature April 26, 1962, originally issued in the amount of \$ 600,143,000, the additional and original bills to be freely interchangeable.

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Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Departmment of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated October 26, 1961, (91-days remaining until maturity date on April 26, 1962) and noncompetitive tenders for $ 100,000 or less for the 182-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 25, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 25, 1962. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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# TREASURY DEPARTMENT

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WASHINGTON, D.C.

January 17, 1962

FOR IMMEDIATE RELEASE

RESULTS OF TREASURY'S CURRENT CASH OFFERING

The Treasury today announced a 60 percent allotment on subscriptions in excess of $50,000 for the current cash offering of an additional $1 billion, or thereabouts, of 4 percent Treasury Bonds of 1969. Subscriptions for $50,000 or less will be allotted in full. Subscriptions for more than $50,000 will be allotted not less than $50,000.

In addition to the amount allotted to the public, $100 million of these bonds were allotted to Government Investment Accounts.

Reports received thus far from the Federal Reserve Banks show that subscriptions for the bonds total about $1,619 million, of which about $215 million were received from subscribers in the savings-type investor groups, $1,258 million from commercial banks for their own account and $146 million from all others.

Details by Federal Reserve Districts as to subscriptions and allotments will be announced next week.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 17, 1962

FOR IMMEDIATE RELEASE

RESULTS OF TREASURY'S CURRENT CASH OFFERING

The Treasury today announced a 60 percent allotment on subscriptions in excess of $50,000 for the current cash offering of an additional $1 billion, or thereabouts, of 4 percent Treasury Bonds of 1969. Subscriptions for $50,000 or less will be allotted in full. Subscriptions for more than $50,000 will be allotted not less than $50,000.

In addition to the amount allotted to the public, $100 million of these bonds were allotted to Government Investment Accounts.

Reports received thus far from the Federal Reserve Banks show that subscriptions for the bonds total about $1,619 million, of which about $215 million were received from subscribers in the savings-type investor groups, $1,258 million from commercial banks for their own account and $146 million from all others.

Details by Federal Reserve Districts as to subscriptions and allotments will be announced next week.

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TREASURY DEPARTMENT 80

WASHINGTON, D.C.

January 18, 1962

FOR IMMEDIATE RELEASE

TREASURY DECISION ON TELEPHONE CABLE
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that paper-insulated, lead-covered telephone cable from Canada is not being, nor likely to be, sold in the United States at less than fair value within the meaning of the Antidumping Act. Notice of the determination will be published in the Federal Register.

Virtually all of the shipments were for defense purposes and the statistics as to the volume of imports are not available.

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It is my conviction that depreciation reform, including both the administrative revision of depreciation guidelines and the investment credit, is not only the best way to bring about a higher investment level, but is absolutely necessary if we are to grow at a more rapid rate and maintain widespread international confidence in our currency.

Summary and conclusion

I consider our program of depreciation reform -- including the investment credit -- a central part of our economic policy. Our two most important long-range economic problems today are to stimulate growth in the domestic economy and to eliminate the deficit in our balance of payments.

Comparison with other industrialized countries shows, as would be expected, that those countries with higher levels of investment in productive equipment have higher levels of economic expansion. As for our balance of payments, the most effective way to eliminate that deficit is to increase our exports. Indications are that other countries have been modernizing more rapidly, thus stepping up their productivity, lowering costs, and offering stiffer competition to our own producers, not only in foreign markets, but in domestic markets within the United States as well. To meet that competition our manufacturers need the increased stimulus to investment and modernization which can best be brought about by these changes in tax policy.

It is no exaggeration to say that at the present time, one of the most important policy goals of the Administration is to increase productive private investment, for both domestic and international reasons. We need to make sure that our tax laws are fostering a strong flow of funds into investment in new productive facilities.

of textile products. This was followed, early this week, by similar action with respect to apparel manufacturers. Revised tax lives for other segments of the textile industry are being developed as rapidly as possible.

The Treasury accelerated action with respect to the textile industry in response to the President's directive of May 2. Our actions taken thus far have provided reductions in Bulletin "F" guideline lives for depreciation of machinery and equipment of about 40 percent, specifically from 25 years or more to 15 years for production machinery and from 15 to 20 years to 12 years for finishing equipment in the textile mill products industry and from 15 to 9 years for sewing equipment. Because many firms were depreciating their assets on the basis of lives considerably shorter than those suggested in Bulletin "F", the actual average reduction in tax lives will be equal to 12 to 15 percent.

The new guidelines for the textile industry are designed to take into account increased rates of obsolescence due to such factors as acceleration of technological innovation and increasingly intensive international competition. They are far more realistic lives than the old ones and will bring a reduction in the wide variance among firms in depreciation allowances, thus improving equity. In addition, the new lives involve fewer differences among closely related assets. They will recognize the growing importance of the use of the system approach to factory organization (in contrast with an assemblage of more or less unrelated machines). They will also simplify accounting for depreciation, and facilitate the use of composite and group depreciation.

involves establishment of tax lives for broad classes of assets. At the same time our procedures must be sufficiently flexible to allow for recognition of the varying circumstances surrounding the economics of the operation of individual firms within industries as well as varying practices with respect to replacement policy, intensity of use of machinery and equipment, and practices with respect to repairs and maintenance.

Substantial simplification and elimination of controversy between the tax agent and the taxpayer will be achieved with the enactment by Congress of that feature of the bill now before the Ways and Means Committee which will permit disregarding the first 10 percent of salvage value for purposes of computing annual depreciation charges. Flexibility and simplification of the system of depreciation will require one important safeguard. This important safeguard is available in the Treasury's proposal to tax as ordinary income gains from the sale of depreciable assets to the extent of prior depreciation charged after December 31, 1960. This amendment of section 1231 of the Internal Revenue Code, now pending before the Ways and Means Committee, will assist greatly in facilitating the achievement of administrative depreciation practices that are fully in keeping with the requirements of the economy of 1962.

As you know, we began to move ahead with our revision of depreciation guidelines in October, when we announced new average useful lives for machinery and equipment used in the spinning and weaving engineering studies and statistical analyses will provide, on the basis of information never before gathered in such volume and detail, the necessary guidance for this full scale revision. Our basic objective is to provide realistic tax lives in the light of past actual practices and present and foreseeable technological innovations and other factors affecting obsolescence. Following the promulgation of the new guidelines, further revisions may be forthcoming with respect to any particular industry on the basis of subsequent engineering studies that may be requested and found necessary.

Complementary to, but not subsidiary to this objective of providing realistic lives, is our aim of achieving a far more simple and flexible system of depreciation under the directive of the Internal Revenue Code which, as I indicated earlier, requires that "reasonable allowances" for depreciation be permitted.

The existing Bulletin "F", with its suggested useful lives for some 5,000 items of depreciable property, is a morass of detail. One of the important goals of our revision program is to reduce this detail. I intend to move toward guideline lives for broad classes of assets used by each of the industries in our economy. The Treasury Depreciation Survey has clearly demonstrated that one of the major irritants now experienced by American business stems from the detail of existing guidelines. A large proportion of our respondents has expressed a strong preference for a system that

The data presented in the bottom portion of Table 1 demonstrate clearly that, especially within the first two years of the life of an asset, even a revision to provide realistic tax lives will not, by itself, place the United States in a position comparable to that of its most immediate foreign competitors. The achievement of this objective, rather, requires both the investment tax credit and the faster write-offs that would be permitted under depreciation policies, which, in broader recognition of the increasing importance of obsolescence in the postwar world, would permit American firms to assume shorter tax lives for depreciable property.

Reviewing this summary and analysis, three important conclusions emerge: (1) Shorter tax lives alone will not do the job of bringing American industry abreast of its foreign competitors with respect to tax allowances for investment. (2) The investment credit will make a major contribution toward achieving that goal. (3) The combination of the credit and the forthcoming revision of depreciation guidelines will place the United States on substantially equal footing with other major industrial nations. These conclusions underscore the necessity for the Treasury's two-pronged program of revised, realistic depreciation and the investment credit.

Objectives of depreciation revision

It is my firm intention to announce new guidelines for depreciation during the course of the spring of this year. These guidelines will cover all major assets for all industries. The combination of

This picture changes dramatically, however, when the proposed investment credit enters. In terms of its effect on current liability, the 8 percent investment tax credit is equivalent to an incentive allowance of approximately 16 percent for corporations subject to the 52 percent corporate income tax rate and about 27 percent for corporations subject only to the normal tax rate of 30 percent. 1/ The bottom seven rows of Table 1 indicate the effect on comparable allowances for new depreciable assets that would be achieved if the 8 percent investment tax credit were currently in force. Assuming the existing weighted average Bulletin "F" life of about 19 years, the equivalent first-year deductions would be 26.5 percent. In combination with a somewhat shorter life of 15 years, we find that the first year's equivalent deductions in the United States would be equal to 29.3 percent of the cost of new depreciable assets. This proportion is higher than that which obtains in Belgium, France, West Germany, Italy, and the Netherlands. First-year deductions or their equivalents would remain substantially higher than those permitted in the United States only in Japan and the United Kingdom. For the first five years of the life of the asset, permissible deductions would still exceed appreciably those allowed in the United States in Belgium, France, Italy, the Netherlands, and Sweden. But allowances in the United States would be approximately the same as those allowed in Canada, West Germany, Japan, and the United Kingdom.

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1/ Both the investment credit and the incentive allowance have greater overall effects than a similar initial allowance because they do not reduce the amount of depreciation that may be taken over the life of an asset.

Table 1

Comparison of depreciation deductions, initial and incentive allowances 1/ for industrial equipment in leading industrial countries with similar deductions and allowances in the United States under actual and various proposed plans

| | Representative tax lives | Depreciation deductions, initial and incentive allowances | | |
|---|---|---|---|---|
| | | First year | First 2 years | First 5 years |
| | | (Percentage of cost of asset) | | |
| Belgium | 8 years | 22.5% | 45.0% | 92.5% |
| Canada | 10 | 30.0 | 44.0 | 71.4 |
| France | 10 | 25.0 | 43.8 | 76.3 |
| West Germany | 10 | 20.0 | 36.0 | 67.2 |
| Italy | 10 | 25.0 | 50.0 | 100.0 |
| Japan | 16 | 43.4 | 51.0 | 68.2 |
| Netherlands | 10 | 26.2 | 49.6 | 85.6 |
| Sweden | 5 | 30.0 | 51.0 | 100.0 |
| United Kingdom | 27 | 39.0 | 46.3 | 64.0 |
| United States: | | | | |
| Without investment credit and lives equal to current Bulletin "F" weighted average of 19 years | | 10.5 | 19.9 | 42.7 |
| With lives of: | | | | |
| 15 years | | 13.3 | 24.9 | 51.1 |
| 14 years | | 14.3 | 26.5 | 53.7 |
| 13 years | | 15.4 | 28.4 | 56.6 |
| 12 years | | 16.7 | 30.6 | 59.8 |
| 11 years | | 18.2 | 33.1 | 63.0 |
| 10 years | | 20.0 | 36.0 | 67.2 |
| With investment credit and lives equal to current Bulletin "F" weighted average of 19 years | | 26.5 | 35.9 | 58.7 |
| With lives of: | | | | |
| 15 years | | 29.3 | 40.9 | 67.1 |
| 14 years | | 30.3 | 42.5 | 69.7 |
| 13 years | | 31.4 | 44.4 | 72.6 |
| 12 years | | 32.7 | 46.6 | 75.8 |
| 11 years | | 34.2 | 49.1 | 79.0 |
| 10 years | | 36.0 | 52.0 | 83.2 |

Treasury Department, Office of Tax Analysis — January 18, 1962

1/ The deductions and allowances for each of the foreign countries have been computed on the basis that the investment qualifies fully for any special allowances or deductions permitted. The deductions in the United States have been determined under the double declining balance depreciation method, without regard to the limited first-year allowances for small business.

2/ For purposes of this table, the proposed 8 percent investment credit has been considered as equivalent to a 16 percent investment allowance. For corporations subject only to the 30 percent normal tax it is equivalent to an incentive allowance of 27 percent. The initial allowance of 20 percent of each year's investment up to $10,000, is not taken into account because of its relatively small impact.

incentive allowances. Initial allowances, which add very appreciably to the deduction that may be taken in the year of acquisition of a depreciable asset, are permitted in Canada, Italy, Japan, the Netherlands, Sweden, and the United Kingdom.

The impact of ordinary depreciation plus initial and incentive allowances on the amounts that may be deducted in the year in which a new asset is acquired is shown in the second column of the table. Here it may be seen that the percentage of the cost of an asset that may be deducted in the first year ranges from 20 percent in West Germany to 43.4 percent in Japan, compared with as low as 10.5 percent in United States.

Columns 3 and 4 of Table 1 show the percentage of the cost of the asset that may be deducted during the first two and first five years of its life. Here, again, it may be seen that the deductions permitted in each of the nine industrialized foreign countries comprise a far higher proportion of the cost of industrial machinery and equipment than is permitted under current law and practices in the United States. For the first five years of the life of the asset, the relevant proportion falls within the range of 60 to 70 percent for West Germany, Japan, and the United Kingdom, between 70 and 80 percent for Canada and France, and 85 to as much as 100 percent for Belgium, Italy, the Netherlands, and Sweden. In sharp contrast, the applicable percentage in the United States is 42.7 under the present average Bulletin "F" life and 51.1 percent for the commonly used 15-year life.

Depreciation abroad

Because American industry does not operate in a setting entirely of our own making, but is actively in competition at home and abroad with foreign producers, our practices with respect to depreciation policy need to be examined in the light of foreign experience. Thus the Treasury has gathered a substantial amount of information on depreciation practices in leading foreign industrial nations from a wide variety of published and unpublished sources, including our Embassy personnel and officials of foreign governments.

In today's highly competitive world we find widespread use of initial allowances and incentive allowances supplementing depreciation charges. Thus for the major industrialized nations of the free world -- Belgium, Canada, France, West Germany, Italy, Japan, the Netherlands, Sweden, and the United Kingdom -- we have assembled reliable information with respect not only to depreciation practices, but also regarding initial and incentive allowances.

The information presented in the first column of Table 1 shows that the typical or representative tax life permitted with respect to production machinery and equipment in each of these countries, except Japan and the United Kingdom, is substantially lower than it is in the United States. Moreover, in addition to ordinary depreciation, Belgium, the Netherlands, the United Kingdom, and under certain conditions, Sweden, permit the deduction from income of

Another source of information being used is the major suppliers of machinery and equipment to each of the industries. Officials of the firms producing the various types of capital goods are being interviewed with a view to obtaining insights into technological developments which may be expected to have a bearing on the useful life of the machinery and equipment used and expected to be used in each of the industries.

Conferences with major trade associations and individual firms representing large segments of these industries have been arranged. At these conferences taxpayers and spokesmen for groups of taxpayers have been encouraged to present briefs supporting each industry's position with respect to depreciation policy. These conferences have thus far proved to be an excellent forum for the exchange of views between industry representatives, the Treasury and the technical personnel of the Internal Revenue Service.

As a final step, an engineering report is being prepared by each of the industry teams, setting out its findings and recommendations with respect to the average useful lives of items of depreciable property used in the industry studied. These reports are expected to reflect the expert opinions of the engineers, after giving full consideration to all of the factors brought into the picture.

Each engineer assigned to a team has the experience and training which qualify him to render expert opinion as to the useful life of depreciable assets used in the industry under study. In most cases the engineering team is made up of one engineer designated by the Washington office and two field engineers.

After the engineering teams were formed, they were assembled in the national office simultaneously for briefing and general instructions. At that time each team arranged a tentative schedule of activities, including conferences with industry personnel and inspection trips to selected representative plants.

The selection of these plants has been subject to extreme care, so as to insure access to the greatest possible variety of operating conditions within each industry. Inspection trips involve the observation of actual plant operations and discussions with management officials associated with each plant. The discussions are designed to elicit management views as to the useful lives they believe should be assigned to various items of depreciable property. In order to secure fullest cooperation, all visits to plants have been preceded by letters from the Commissioner of Internal Revenue to the appropriate company officials, briefly explaining the project and requesting cooperation and assistance.

Our engineers seek further information through the inspection of plant records of purchases and retirements of machinery and equipment and other records which may have a bearing on the taxpayer's operating practices and policies.

With the help of consultants the Treasury is proceeding as rapidly as possible with the analysis of the data. Our findings thus far tend to confirm those arrived at on the basis of the Treasury Depreciation Survey in that they too tend to demonstrate that the existing depreciation guidelines are outmoded and in need of revision.

The engineering studies

In order to supplement the statistical data being developed we have also undertaken engineering studies. While statistical data show what practice has been, engineering studies are designed to disclose the nature of current and prospective technological developments. Internal Revenue Service engineers have completed an engineering study of the textile industry and are currently engaged in similar studies in the following industries: aircraft, automobiles, electrical machinery and equipment, machine tools, railroads, and steel. The six were selected because they are large, basic industries and because, among them, they represent major types of U.S. business activity. They also differ widely in their level of automation and their recent experience with technological change. The studies being conducted for these industries are expected to be completed by the end of this month.

Because of their importance in our program of revision and because of the widespread publicity which has been accorded to them, I should like to describe briefly for you the nature of our engineering studies.

For the purpose of carrying out our studies of the industries named, seven teams of three engineers each were formed and each team was assigned to conduct a study of one of the selected industries.

The life of depreciable assets study

Our second study, designed to complement the Treasury Depreciation Survey, was also started on a full scale in 1960 and pursued with sharply stepped-up intensity after the beginning of 1961. This study, known as the Life of Depreciable Assets Study, is based on a tabulation of the detailed depreciation information submitted on 1959 corporation income tax returns. The data are drawn from the returns of a large representative statistical sample of more than 50,000 corporations. It is designed to provide more detailed information by asset type, year of acquisition, and depreciation method used than that obtained from the Treasury Depreciation Survey. Moreover, whereas the latter provides information primarily for corporations with assets in excess of $5 million, the LDA covers the full range of corporations classified by size.

The great mass of data provided by the Life of Depreciable Assets Study is indicated by the fact that when all of the tabulations have been delivered to the Treasury they will be contained in a pile of documents that will stand seven feet high. Final deliveries are expected within the next few weeks. I regard this unprecedentedly detailed and massive compilation of data as a potential source of information of great value. It will not only provide hitherto unavailable information on depreciation practices, but it will also be extremely useful as a source of information that has not been available in the past on many aspects of the operation of our corporate economy.

of the depreciation system. With the cooperation of the Small Business Administration, the questionnaire portion of the survey material was also mailed to approximately 7,600 small businesses. Completed returns were received from about 2,000 of the large corporations and 1,300 of the smaller firms.

A preliminary report on the questionnaire portion of this survey, dealing chiefly with business opinions on alternative approaches to depreciation reform, was issued in January 1961. Early in 1961 the processing of the statistical data was accelerated and by the fall of that year, thanks to the prodigious efforts put forth by the Statistics Division of the Internal Revenue Service, the compilations of the data were completed.

These compilations provide a vast mass of data which the Treasury is intensively engaged in analyzing. This analysis is not yet complete, but some indications of the nature of the findings may be indicated at this point. The 1,900 corporations which responded with usable data account for close to one-half of all corporate depreciable assets and approximately half of all corporate depreciation charges taken in 1959.

The survey results available at this date indicate that in general depreciation charges allowed to American corporations have by no means been liberal. This conclusion is based on two major findings. One is that the amount of fully depreciated assets reported is surprisingly small. The other is that the ratio of depreciation reserves to gross depreciable assets is below the level commonly accepted as a measure of conservative depreciation practices.

The Treasury depreciation studies

In order to obtain fuller insight into the problem, the Treasury, in 1960, initiated two major studies designed to provide an adequate factual background on the operation of existing depreciation practices and tax lives actually being used. We have, in addition, carefully studied depreciation practices in nine of the other leading industrial nations of the world.

Both of the Treasury's major depreciation studies are elaborate, detailed, statistical surveys. One is based on a questionnaire survey of corporations. The other draws its data from a tabulation of information contained in the depreciation schedules submitted as part of the corporate income tax returns for 1959. These studies were first undertaken on a pilot study basis in 1959, designed to test their feasibility and to perfect statistical procedures.

The Treasury depreciation survey

In July 1960 the Treasury Department asked approximately 2,700 large corporations to supply information on the amount of their depreciable assets, reserves for depreciation, depreciation deductions, and fully depreciated property, as well as the service lives being used in the depreciation of various types of property, and the extent to which the new methods of depreciation permitted under the Internal Revenue Code of 1954 had been adopted. In addition, a questionnaire was distributed to these corporations requesting information on depreciation practices, experience under the existing law, and opinions on various alternative proposals for revision

This policy has since been incorporated into the regulations under the 1954 Internal Revenue Code.

The Revenue Act of 1954 marked an important new direction in depreciation policy. New liberalized methods--the declining-balance method at twice the corresponding straight-line rate and the sum-of-the-years-digits formula--were specifically authorized. These new methods permit acceleration of the timing of deductions for depreciation and concentrate more of the capital recovery for tax purposes in the early years of an asset's life. However, neither the 1954 Code nor administrative policy provided changes with respect to useful lives over which assets might be written off.

In the period following the 1954 Code liberalization the Treasury continued to study the question of useful life determination and possible revision of Bulletin F. It was recognized that Bulletin F was outmoded, but the task of carrying through a realistic revision proved difficult.

One major project the object of which was to revise Bulletin F was undertaken by the Treasury with the cooperation of non-government advisers in the years 1956 to 1958. This project provided suggested new guideline schedules for tax lives, but the Treasury believed that these schedules did not give adequate recognition to increasingly rapid obsolescence and, consequently, did not indicate a sufficient shortening of useful lives in many cases.

allowances in a manner which would be more equitable than an arbitrary and broadside percentage reduction. This proposal was accepted by the Congressional committees and the Treasury proceeded to issue its now rather famous T. D. 4422. This document shifted to the taxpayer the burden of proof as to the correctness of depreciation and paved the way for re-determining useful lives of depreciable property for tax purposes along more stringent lines. Following the issuance of T.D. 4422, the administration of depreciation was considerably tightened, although the extent of readjustment has sometimes been exaggerated.

Subsequently, in 1942, the still used Bulletin F was issued as a guide to tax lives. Conflict and controversy between taxpayers and administrative officials continued, although eased somewhat by several developments.

The first of these were the provisions for accelerated amortization for defense and defense related facilities, adopted as emergency measures in 1940 and again in 1950. In 1946 more general administrative approval was given to the use of the 150 percent declining-balance method of computing depreciation. A major change in administrative policy was introduced in 1953. This new policy, designed to reduce controversies over depreciation, was contained in Revenue Rulings 90 and 91. These new rulings implied in large measure a return to pre-1934 arrangements. They stated, in effect, that the Internal Revenue Service would generally not disturb depreciation deductions claimed and revenue agents would propose adjustments only where there was a clear and convincing basis for a change.

deduction a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)...." of property used in a trade or business or held for the production of income.

Brief history of depreciation under the income tax

Because I believe that the history of administrative and legislative procedures in the depreciation area will help to place the present situation in proper focus, I shall briefly describe that history.

For the twenty years following the introduction of our modern income tax, considerable freedom was allowed to the taxpayer in the determination of depreciation. Deductions taken by taxpayers for depreciation were generally not challenged by the Internal Revenue Service unless it could be shown by clear and convincing evidence that they were unreasonable. Through most of this period tax rates were relatively low--the top rates of the corporate and personal income taxes, for example, were at 12.5 and 25 percent, respectively--and depreciation evoked few problems.

However, in the early thirties when tax rates were raised substantially, Congress became very much concerned about the level of depreciation allowance In 1933 a Subcommittee of the Committee on Ways and Means reviewed depreciation policy in connection with the major tax revision of 1934. It reported that excessive depreciation was being taken and recommended legislation to provide a 25 percent across-the-board reduction in depreciation allowances for the next three years.

The Treasury objected to this approach and suggested instead that it be permitted administrative discretion to tighten up depreciation

Introduction

Depreciation is one of the most difficult items of business costs to deal with under income tax accounting. As a charge against income or addition to business costs, it is designed to spread the cost to business of using depreciable capital assets over their useful economic lives. Its purpose is to charge to each accounting year a proportion of the original cost of each asset so that over the life of the asset there will be reflected its loss of value due to wear and tear, including the destructive forces of the elements, and obsolescence.

At best, the depreciation to be charged against each year's income can be only an informed estimate. Establishing the rate at which any given asset is to be depreciated over its economically useful life is made particularly difficult by the fact that obsolescence is a function of prospective developments and future changes in technology, wage rates relative to the cost of capital, competitive conditions, consumer tastes, preferences and demand, and other forces that cannot be foreseen with accuracy. And it is not surprising that depreciation for income tax purposes has long been a subject of controversy among accountants, economists, and lawyers, and between the taxpayer and those responsible for administration of the income tax. In consequence it is appropriate that the general rule governing depreciation, as set forth in the Internal Revenue Code of 1954, states only that "There shall be allowed as a depreciation

The changes being made will assist American business in its efforts to modernize and expand. The law calls for a reasonable allowance for depreciation, including a recognition of obsolescence as a factor. The new guidelines will be designed to meet this requirement.

The new guidelines will be based on three major sources of information. The first, initiated by my predecessor, is a survey of business opinion and practice regarding depreciation. The second, also started by Secretary Anderson, is a study based on information drawn from corporate tax returns. This was designed to supply additional data on actual current experience. The third, begun late last year, is a group of engineering studies of six major industries aimed at supplementing the statistical data. In addition, we have studied foreign depreciation laws and practices.

Although our work has not been completed, there is sufficient evidence to indicate a real need for revision. We also plan to establish procedures for continuous review and revision of the new guidelines to take account of current developments affecting depreciation.

This administrative revision of depreciation -- if complemented by the investment credit now before the Congress -- will place American industry on a substantially equal footing with its foreign competitors.

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION
JANUARY 18, 1962
2:00 P.M.

I am happy to have this opportunity to appear before this Committee to discuss the work the Treasury has been doing in the area of depreciation reform. As you know, the first step of this reform was completed last fall with the announcement of new depreciation guidelines for a major part of the textile industry. A further step was taken this week with the announcement of new guidelines for machinery and equipment used by apparel manufacturers. This spring we plan to announce new guidelines for major types of assets for all other industries.

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The Treasury objected to this approach and suggested instead that it be permitted administrative discretion to tighten up depreciation allowances in a manner which would be more equitable than an arbitrary and broadside percentage reduction. This proposal was accepted by the Congressional committees and the Treasury proceeded to issue its now rather famous T. D. 4422. This document shifted to the taxpayer the burden of proof as to the correctness of depreciation and paved the way for re-determining useful lives of depreciable property for tax purposes along more stringent lines. Following the issuance of T.D. 4422, the administration of depreciation was considerably tightened, although the extent of readjustment has sometimes been exaggerated.

Subsequently, in 1942, the still used Bulletin F was issued as a guide to tax lives. Conflict and controversy between taxpayers and administrative officials continued, although eased somewhat by several developments.

The first of these were the provisions for accelerated amortization for defense and defense related facilities, adopted as emergency measures in 1940 and again in 1950. In 1946 more general administrative approval was given to the use of the 150 percent declining-balance method of computing depreciation. A major change in administrative policy was introduced in 1953. This new policy, designed to reduce controversies over depreciation, was contained in Revenue Rulings 90 and 91. These new rulings implied in large measure a return to pre-1934 arrangements. They stated, in effect, that the Internal Revenue Service would generally not disturb depreciation deductions claimed and revenue agents would propose adjustments only where there was a clear and convincing basis for a change.

This policy has since been incorporated into the regulations under the 1954 Internal Revenue Code.

The Revenue Act of 1954 marked an important new direction in depreciation policy. New liberalized methods--the declining-balance method at twice the corresponding straight-line rate and the sum-of-the-years-digits formula--were specifically authorized. These new methods permit acceleration of the timing of deductions for depreciation and concentrate more of the capital recovery for tax purposes in the early years of an asset's life. However, neither the 1954 Code nor administrative policy provided changes with respect to useful lives over which assets might be written off.

In the period following the 1954 Code liberalization the Treasury continued to study the question of useful life determination and possible revision of Bulletin F. It was recognized that Bulletin F was outmoded, but the task of carrying through a realistic revision proved difficult.

One major project the object of which was to revise Bulletin F was undertaken by the Treasury with the cooperation of non-government advisers in the years 1956 to 1958. This project provided suggested new guideline schedules for tax lives, but the Treasury believed that these schedules did not give adequate recognition to increasingly rapid obsolescence and, consequently, did not indicate a sufficient shortening of useful lives in many cases.

The Treasury depreciation studies

In order to obtain fuller insight into the problem, the Treasury, in 1960, initiated two major studies designed to provide an adequate factual background on the operation of existing depreciation practices and tax lives actually being used. We have, in addition, carefully studied depreciation practices in nine of the other leading industrial nations of the world.

Both of the Treasury's major depreciation studies are elaborate, detailed, statistical surveys. One is based on a questionnaire survey of corporations. The other draws its data from a tabulation of information contained in the depreciation schedules submitted as part of the corporate income tax returns for 1959. These studies were first undertaken on a pilot study basis in 1959, designed to test their feasibility and to perfect statistical procedures.

The Treasury depreciation survey

In July 1960 the Treasury Department asked approximately 2,700 large corporations to supply information on the amount of their depreciable assets, reserves for depreciation, depreciation deductions, and fully depreciated property, as well as the service lives being used in the depreciation of various types of property, and the extent to which the new methods of depreciation permitted under the Internal Revenue Code of 1954 had been adopted. In addition, a questionnaire was distributed to these corporations requesting information on depreciation practices, experience under the existing law, and opinions on various alternative proposals for revision of the depreciation system. With the cooperation of the Small Business Administration, the questionnaire portion of the survey material was also mailed to approximately 7,600 small businesses. Completed returns were received from about 2,000 of the large corporations and 1,300 of the smaller firms.

A preliminary report on the questionnaire portion of this survey, dealing chiefly with business opinions on alternative approaches to depreciation reform, was issued in January 1961. Early in 1961 the processing of the statistical data was accelerated and by the fall of that year, thanks to the prodigious efforts put forth by the Statistics Division of the Internal Revenue Service, the compilations of the data were completed.

These compilations provide a vast mass of data which the Treasury is intensively engaged in analyzing. This analysis is not yet complete, but some indications of the nature of the findings may be indicated at this point. The 1,900 corporations which responded with usable data account for close to one-half of all corporate depreciable assets and approximately half of all corporate depreciation charges taken in 1959.

The survey results available at this date indicate that in general depreciation charges allowed to American corporations have by no means been liberal. This conclusion is based on two major findings. One is that the amount of fully depreciated assets reported is surprisingly small. The other is that the ratio of depreciation reserves to gross depreciable assets is below the level commonly accepted as a measure of conservative depreciation practices.

The life of depreciable assets study

Our second study, designed to complement the Treasury Depreciation Survey, was also started on a full scale in 1960 and pursued with sharply stepped-up intensity after the beginning of 1961. This study, known as the Life of Depreciable Assets Study, is based on a tabulation of the detailed depreciation information submitted on 1959 corporation income tax returns. The data are drawn from the returns of a large representative statistical sample of more than 50,000 corporations. It is designed to provide more detailed information by asset type, year of acquisition, and depreciation method used than that obtained from the Treasury Depreciation Survey. Moreover, whereas the latter provides information primarily for corporations with assets in excess of $5 million, the LDA covers the full range of corporations classified by size.

The great mass of data provided by the Life of Depreciable Assets Study is indicated by the fact that when all of the tabulations have been delivered to the Treasury they will be contained in a pile of documents that will stand seven feet high. Final deliveries are expected within the next few weeks. I regard this unprecedentedly detailed and massive compilation of data as a potential source of information of great value. It will not only provide hitherto unavailable information on depreciation practices, but it will also be extremely useful as a source of information that has not been available in the past on many aspects of the operation of our corporate economy.

With the help of consultants the Treasury is proceeding as rapidly as possible with the analysis of the data. Our findings thus far tend to confirm those arrived at on the basis of the Treasury Depreciation Survey in that they too tend to demonstrate that the existing depreciation guidelines are outmoded and in need of revision.

The engineering studies

In order to supplement the statistical data being developed we have also undertaken engineering studies. While statistical data show what practice has been, engineering studies are designed to disclose the nature of current and prospective technological developments. Internal Revenue Service engineers have completed an engineering study of the textile industry and are currently engaged in similar studies in the following industries: aircraft, automobiles, electrical machinery and equipment, machine tools, railroads, and steel. The six were selected because they are large, basic industries and because, among them, they represent major types of U.S. business activity. They also differ widely in their level of automation and their recent experience with technological change. The studies being conducted for these industries are expected to be completed by the end of this month.

Because of their importance in our program of revision and because of the widespread publicity which has been accorded to them, I should like to describe briefly for you the nature of our engineering studies.

For the purpose of carrying out our studies of the industries named, seven teams of three engineers each were formed and each team was assigned to conduct a study of one of the selected industries.

Each engineer assigned to a team has the experience and training which qualify him to render expert opinion as to the useful life of depreciable assets used in the industry under study. In most cases the engineering team is made up of one engineer designated by the Washington office and two field engineers.

After the engineering teams were formed, they were assembled in the national office simultaneously for briefing and general instructions. At that time each team arranged a tentative schedule of activities, including conferences with industry personnel and inspection trips to selected representative plants.

The selection of these plants has been subject to extreme care, so as to insure access to the greatest possible variety of operating conditions within each industry. Inspection trips involve the observation of actual plant operations and discussions with management officials associated with each plant. The discussions are designed to elicit management views as to the useful lives they believe should be assigned to various items of depreciable property. In order to secure fullest cooperation, all visits to plants have been preceded by letters from the Commissioner of Internal Revenue to the appropriate company officials, briefly explaining the project and requesting cooperation and assistance.

Our engineers seek further information through the inspection of plant records of purchases and retirements of machinery and equipment and other records which may have a bearing on the taxpayer's operating practices and policies.

Another source of information being used is the major suppliers of machinery and equipment to each of the industries. Officials of the firms producing the various types of capital goods are being interviewed with a view to obtaining insights into technological developments which may be expected to have a bearing on the useful life of the machinery and equipment used and expected to be used in each of the industries.

Conferences with major trade associations and individual firms representing large segments of these industries have been arranged. At these conferences taxpayers and spokesmen for groups of taxpayers have been encouraged to present briefs supporting each industry's position with respect to depreciation policy. These conferences have thus far proved to be an excellent forum for the exchange of views between industry representatives, the Treasury and the technical personnel of the Internal Revenue Service.

As a final step, an engineering report is being prepared by each of the industry teams, setting out its findings and recommendations with respect to the average useful lives of items of depreciable property used in the industry studied. These reports are expected to reflect the expert opinions of the engineers, after giving full consideration to all of the factors brought into the picture.

Depreciation abroad

Because American industry does not operate in a setting entirely of our own making, but is actively in competition at home and abroad with foreign producers, our practices with respect to depreciation policy need to be examined in the light of foreign experience. Thus the Treasury has gathered a substantial amount of information on depreciation practices in leading foreign industrial nations from a wide variety of published and unpublished sources, including our Embassy personnel and officials of foreign governments.

In today's highly competitive world we find widespread use of initial allowances and incentive allowances supplementing depreciation charges. Thus for the major industrialized nations of the free world -- Belgium, Canada, France, West Germany, Italy, Japan, the Netherlands, Sweden, and the United Kingdom -- we have assembled reliable information with respect not only to depreciation practices, but also regarding initial and incentive allowances.

The information presented in the first column of Table 1 shows that the typical or representative tax life permitted with respect to production machinery and equipment in each of these countries, except Japan and the United Kingdom, is substantially lower than it is in the United States. Moreover, in addition to ordinary depreciation, Belgium, the Netherlands, the United Kingdom, and under certain conditions, Sweden, permit the deduction from income of incentive allowances. Initial allowances, which add very appreciably to the deduction that may be taken in the year of acquisition of a depreciable asset, are permitted in Canada, Italy, Japan, the Netherlands, Sweden, and the United Kingdom.

The impact of ordinary depreciation plus initial and incentive allowances on the amounts that may be deducted in the year in which a new asset is acquired is shown in the second column of the table. Here it may be seen that the percentage of the cost of an asset that may be deducted in the first year ranges from 20 percent in West Germany to 43.4 percent in Japan, compared with as low as 10.5 percent in the United States.

Columns 3 and 4 of Table 1 show the percentage of the cost of the asset that may be deducted during the first two and first five years of its life. Here, again, it may be seen that the deductions permitted in each of the nine industrialized foreign countries comprise a far higher proportion of the cost of industrial machinery and equipment than is permitted under current law and practices in the United States. For the first five years of the life of the asset, the relevant proportion falls within the range of 60 to 70 percent for West Germany, Japan, and the United Kingdom, between 70 and 80 percent for Canada and France, and 85 to as much as 100 percent for Belgium, Italy, the Netherlands, and Sweden. In sharp contrast, the applicable percentage in the United States is 42.7 under the present average Bulletin "F" life and 51.1 percent for the commonly used 15-year life.

Table 1

Comparison of depreciation deductions, initial and incentive allowances 1/ for industrial equipment in leading industrial countries with similar deductions and allowances in the United States under actual and various proposed plans

| | Representative tax lives | Depreciation deductions, initial and incentive allowances: First year | First 2 years | First 5 years |
|---|---|---|---|---|
| | | (Percentage of cost of asset) | | |
| Belgium | 8 years | 22.5% | 45.0% | 92.5% |
| Canada | 10 | 30.0 | 44.0 | 71.4 |
| France | 10 | 25.0 | 43.8 | 76.3 |
| West Germany | 10 | 20.0 | 36.0 | 67.2 |
| Italy | 10 | 25.0 | 50.0 | 100.0 |
| Japan | 16 | 43.4 | 51.0 | 68.2 |
| Netherlands | 10 | 26.2 | 49.6 | 85.6 |
| Sweden | 5 | 30.0 | 51.0 | 100.0 |
| United Kingdom | 27 | 39.0 | 46.3 | 64.0 |
| United States: | | | | |
| Without investment credit and lives equal to current Bulletin "F" weighted average of 19 years | | 10.5 | 19.9 | 42.7 |
| With lives of: | | | | |
| 15 years | | 13.3 | 24.9 | 51.1 |
| 14 years | | 14.3 | 26.5 | 53.7 |
| 13 years | | 15.4 | 28.4 | 56.6 |
| 12 years | | 16.7 | 30.6 | 59.8 |
| 11 years | | 18.2 | 33.1 | 63.0 |
| 10 years | | 20.0 | 36.0 | 67.2 |
| With investment credit and lives equal to current Bulletin "F" weighted average of 19 years 2/ | | 26.5 | 35.9 | 58.7 |
| With lives of: | | | | |
| 15 years | | 29.3 | 40.9 | 67.1 |
| 14 years | | 30.3 | 42.5 | 69.7 |
| 13 years | | 31.4 | 44.4 | 72.6 |
| 12 years | | 32.7 | 46.6 | 75.8 |
| 11 years | | 34.2 | 49.1 | 79.0 |
| 10 years | | 36.0 | 52.0 | 83.2 |

Treasury Department, Office of Tax Analysis — January 18, 1962

1/ The deductions and allowances for each of the foreign countries have been computed on the basis that the investment qualifies fully for any special allowances or deductions permitted. The deductions in the United States have been determined under the double declining balance depreciation method, without regard to the limited first-year allowances for small business.

2/ For purposes of this table, the proposed 8 percent investment credit has been considered as equivalent to a 16 percent investment allowance. For corporations subject only to the 30 percent normal tax it is equivalent to an incentive allowance of 27 percent. The initial allowance of 20 percent of each year's investment, up to $10,000, is not taken into account because of its relatively small impact.

This picture changes dramatically, however, when the proposed investment credit enters. In terms of its effect on current liability, the 8 percent investment tax credit is equivalent to an incentive allowance of approximately 16 percent for corporations subject to the 52 percent corporate income tax rate and about 27 percent for corporations subject only to the normal tax rate of 30 percent. 1/ The bottom seven rows of Table 1 indicate the effect on comparable allowances for new depreciable assets that would be achieved if the 8 percent investment tax credit were currently in force. Assuming the existing weighted average Bulletin "F" life of about 19 years, the equivalent first-year deductions would be 26.5 percent. In combination with a somewhat shorter life of 15 years, we find that the first year's equivalent deductions in the United States would be equal to 29.3 percent of the cost of new depreciable assets. This proportion is higher than that which obtains in Belgium, France, West Germany, Italy, and the Netherlands. First-year deductions or their equivalents would remain substantially higher than those permitted in the United States only in Japan and the United Kingdom. For the first five years of the life of the asset, permissible deductions would still exceed appreciably those allowed in the United States in Belgium, France, Italy, the Netherlands, and Sweden. But allowances in the United States would be approximately the same as those allowed in Canada, West Germany, Japan, and the United Kingdom.

1/ Both the investment credit and the incentive allowance have greater overall effects than a similar initial allowance because they do not reduce the amount of depreciation that may be taken over the life of an asset.

The data presented in the bottom portion of Table 1 demonstrate clearly that, especially within the first two years of the life of an asset, even a revision to provide realistic tax lives will not, by itself, place the United States in a position comparable to that of its most immediate foreign competitors. The achievement of this objective, rather, requires both the investment tax credit and the faster write-offs that would be permitted under depreciation policies, which, in broader recognition of the increasing importance of obsolescence in the postwar world, would permit American firms to assume shorter tax lives for depreciable property.

Reviewing this summary and analysis, three important conclusions emerge: (1) Shorter tax lives alone will not do the job of bringing American industry abreast of its foreign competitors with respect to tax allowances for investment. (2) The investment credit will make a major contribution toward achieving that goal. (3) The combination of the credit and the forthcoming revision of depreciation guidelines will place the United States on substantially equal footing with other major industrial nations. These conclusions underscore the necessity for the Treasury's two-pronged program of revised, realistic depreciation and the investment credit.

Objectives of depreciation revision

It is my firm intention to announce new guidelines for depreciation during the course of the spring of this year. These guidelines will cover all major assets for all industries. The combination of engineering studies and statistical analys s will provide, on the basis of information never before gathered in such volume and detail, the necessary guidance for this full scale revision. Our basic objective is to provide realistic tax lives in the light of past actual practices and present and foreseeable technological innovations and other factors affecting obsolescence. Following the promulgation of the new guidelines, further revisions may be forthcoming with respect to any particular industry on the basis of subsequent engineering studies that may be requested and found necessary.

Complementary to, but not subsidiary to this objective of providing realistic lives, is our aim of achieving a far more simple and flexible system of depreciation under the directive of the Internal Revenue Code which, as I indicated earlier, requires that "reasonable allowances" for depreciation be permitted.

The existing Bulletin "F", with its suggested useful lives for some 5,000 items of depreciable property, is a morass of detail. One of the important goals of our revision program is to reduce this detail. I intend to move toward guideline lives for broad classes of assets used by each of the industries in our economy. The Treasury Depreciation Survey has clearly demonstrated that one of the major irritants now experienced by American business stems from the detail of existing guidelines. A large proportion of our respondents has expressed a strong preference for a system that involves establishment of tax lives for broad classes of assets. At the same time our procedures must be sufficiently flexible to allow for recognition of the varying circumstances surrounding the economics of the operation of individual firms within industries as well as varying practices with respect to replacement policy, intensity of use of machinery and equipment, and practices with respect to repairs and maintenance.

Substantial simplification and elimination of controversy between the tax agent and the taxpayer will be achieved with the enactment by Congress of that feature of the bill now before the Ways and Means Committee which will permit disregarding the first 10 percent of salvage value for purposes of computing annual depreciation charges. Flexibility and simplification of the system of depreciation will require one important safeguard. This important safeguard is available in the Treasury's proposal to tax as ordinary income gains from the sale of depreciable assets to the extent of prior depreciation charged after December 31, 1960. This amendment of section 1231 of the Internal Revenue Code, now pending before the Ways and Means Committee, will assist greatly in facilitating the achievement of administrative depreciation practices that are fully in keeping with the requirements of the economy of 1962.

As you know, we began to move ahead with our revision of depreciation guidelines in October, when we announced new average useful lives for machinery and equipment used in the spinning and weaving of textile products. This was followed, early this week, by similar action with respect to apparel manufacturers. Revised tax lives for other segments of the textile industry are being developed as rapidly as possible.

The Treasury accelerated action with respect to the textile industry in response to the President's directive of May 2. Our actions taken thus far have provided reductions in Bulletin "F" guideline lives for depreciation of machinery and equipment of about 40 percent, specifically from 25 years or more to 15 years for production machinery and from 15 to 20 years to 12 years for finishing equipment in the textile mill products industry and from 15 to 9 years for sewing equipment. Because many firms were depreciating their assets on the basis of lives considerably shorter than those suggested in Bulletin "F", the actual average reduction in tax lives will be equal to 12 to 15 percent.

The new guidelines for the textile industry are designed to take into account increased rates of obsolescence due to such factors as acceleration of technological innovation and increasingly intensive international competition. They are far more realistic lives than the old ones and will bring a reduction in the wide variance among firms in depreciation allowances, thus improving equity. In addition, the new lives involve fewer differences among closely related assets. They will recognize the growing importance of the use of the system approach to factory organization (in contrast with an assemblage of more or less unrelated machines). They will also simplify accounting for depreciation, and facilitate the use of composite and group depreciation.

Summary and conclusion

I consider our program of depreciation reform -- including the investment credit -- a central part of our economic policy. Our two most important long-range economic problems today are to stimulate growth in the domestic economy and to eliminate the deficit in our balance of payments.

Comparison with other industrialized countries shows, as would be expected, that those countries with higher levels of investment in productive equipment have higher levels of economic expansion. As for our balance of payments, the most effective way to eliminate that deficit is to increase our exports. Indications are that other countries have been modernizing more rapidly, thus stepping up their productivity, lowering costs, and offering stiffer competition to our own producers, not only in foreign markets, but in domestic markets within the United States as well. To meet that competition our manufacturers need the increased stimulus to investment and modernization which can best be brought about by these changes in tax policy.

It is no exaggeration to say that at the present time, one of the most important policy goals of the Administration is to increase productive private investment, for both domestic and international reasons. We need to make sure that our tax laws are fostering a strong flow of funds into investment in new productive facilities.

It is my conviction that depreciation reform, including both the administrative revision of depreciation guidelines and the investment credit, is not only the best way to bring about a higher investment level, but is absolutely necessary if we are to grow at a more rapid rate and maintain widespread international confidence in our currency.

TREASURY DEPARTMENT
SAVINGS BONDS DIVISION



January 19, 1962

FOR IMMEDIATE RELEASE

A number of queries have recently been received along the lines of the following question:

> In light of the action of many banks in raising interest rates on savings accounts to the new 4 percent ceiling permitted by the Federal Reserve Board, does the Treasury plan to increase the rates paid on Series E and H Savings Bonds?

The Treasury has responded as follows:

> No. Considering all of the advantages of Savings Bonds to the individual saver, we believe the yield of 3-3/4% to maturity is an attractive one. Not only does this rate compare favorably with the nationwide average rate for savings, but the Savings Bond offers the individual the ultimate in security, a highly liquid asset with an assured return guaranteed by the full faith and credit of the United States Government. That is why, once a savings bond is purchased, the owner can be assured of the interest for the full life of the bond. No bank can give that kind of assurance; there is no certainty as to how long any bank can continue to pay any particular rate of interest.
>
> In addition, the owner of a Savings Bond enjoys many other special advantages. The bond can readily be converted to cash in time of emergency. If it is lost, stolen, or destroyed, it will be replaced without charge. It can be purchased in installments through the Payroll Savings Plan in industry, and many banks also offer an automatic purchase plan, without charge to the customer. For many people, the automatic quality of saving through Savings Bonds is of great value in itself. In addition, there are certain tax advantages -- accrued interest on E Bonds need not be declared for income tax purposes until the bonds are cashed or reach final maturity.
>
> Finally, the Savings Bond has a unique appeal to the patriotic American. Through the Savings Bond Program, he can buy a share in his country's future and a stake in the free way of life. For all of these reasons, we are confident that the present Savings Bond package will continue to merit an important place in the savings plans of all Americans.

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our nation to its true potential, to distribute the benefits of growth among ~~all~~ our people, and to share our way of life with all the peoples of the world who choose the path of freedom.

oOo

guarantee that there will never be another recession. To prepare for that possibility, President Kennedy has asked for three major counter-cyclical measures: broadened unemployment insurance, a standby program of public works, and the authority to promptly initiate limited and temporary tax reductions. These are needed in the earliest stages of recession -- when quick action can accomplish effective results.

The achievement of our economic goals will not be easy. But it is our responsibility to demonstrate to the world the economic vitality of a free nation, and the value of a free enterprise society

AND GOVERNMENT

where government, labor, business, and finance work together within the framework of a competitive price system, responding to the market forces of supply and demand.

WORLD'S

The stimulus of competition has brought us the highest standard of living in the world. Let us use our economic strength to develop

At home, I think everyone agrees that our first obligation is to reduce the unacceptably high level of unemployment. To be sure, for the last two months unemployment has dropped close to six percent, after hovering near seven percent most of the year. And we expect it to drop ~~to~~ below five percent ~~or less this~~ by the end of the year, as ~~the~~ long-range expansion ~~fed by increasing investment~~ takes hold. However, there is a hard core of unemployment which continued expansion may not touch. That is why we urgently need a manpower retraining bill, to ~~eliminate~~ ease the lingering human misery and chronic economic waste that such unemployment represents.

In addition, nearly a million young people in our country are neither earning nor learning. This dismal fact illustrates the need for a Youth Employment Opportunities Act, to ~~see~~ ENSURE that such frightening waste of our national potential does not continue.

And finally, although we look forward to prosperity, we cannot

$1-1/2 billion. However, we also lost $5 billion in gold. ~~which~~ Thus ~~meant that~~ our overall gold and international investment position show a loss for the three year period of only about $3.5 billion net, in contrast to the deterioration in our current ~~liquidity~~ position of $11 billion as measured by our balance of payments account.

While this ~~indicates~~ DEMONSTRATES that our position ~~on a~~ long-term ~~basis~~ is considerably stronger than ~~the~~ balance of payments figures alone ~~might~~ indicate, it in no way reduces the importance of putting an early end to the substantial ~~B/P~~ payments deficits ~~that~~ we have ~~been having~~ HAD since 1949. ~~For~~ the fact is that we cannot look only to our long-term position but must also ~~put~~ GET our current balance in order ~~so as~~ to end the drain on our gold stocks.

I have outlined the principal elements of our foreign and domestic economic policy. Our prospects, both at home and abroad, are good, but we have much to do to ensure that they remain so.

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long-term claims represented by U. S. ~~[illegible]~~ investment abroad. For the three years 1958 through 1960, for instance, our payments deficits totalled $11 billion, of which about $5 billion represented

UR gold losses and $6 billion represented liquid dollar gains by foreigners. However, ~~the increase in claims by foreigners on U.S. gold and all other types of dollar assets~~ This loss was to a large extent ~~offset during this period~~ matched by increased U. S. holdings of both short-term and long-term foreign assets. ~~In other words~~ while we lost ~~gain~~ gold and liquid dollar assets, our claims upon foreigners increased.

Total foreign assets and investments of all sorts in the United States ~~increased~~ ROSE by a bout $13 billion from the end of 1957 to the end of 1960. During the same period, total U. S. government and private loans and investments abroad (excluding loans repayable in local currency) increased by about $14.5 billion -- a net gain to the United States of

Such short term flows, when carried to excess, can be unhealthy - even dangerous. We have worked hard in many ways to neutralize them. We have held our short-term interest rates at levels that largely negated the attraction of foreign market rates. The Federal Reserve has increased the legal limit on the interest that may be paid on time deposits, thus enabling American banks to compete more effectively with their foreign counterparts. Our most recent step was taken earlier this month when the United States and nine other members of the International Monetary Fund agreed that $6 billion in additional resources should be provided for standby lending commitments to the Fund. These supplementary resources would be used to protect the world payments system, and would be available to the 10 participating countries, including the United States.

One aspect of our balance of payments deficit is worth stressing: The balance of payments is an accounting of transactions that affect the gold and liquid liability ~~liquidity position~~ of the United States. It does not reflect flow from one financial center to another ~~with increasing rapidity~~ in search of higher interest rates or speculative ~~gains~~ PROFITS. The ~~the~~ result was a substantial outflow of short-term funds from the United States, which in 1960 amounted to $2 billion ~~and in 1961 to only slightly less~~.

~~In 1960,~~ This large short-term outflow obscured the dramatic improvement although altered in nature

This large short-term outflow obscured the dramatic improvement in our basic balance during 1960 and led to an overall deficit of $3.9 billion — Although altered in nature, substantial short-term outflow continued during 1961.

These ~~Short-term~~ flows can be caused by various ~~many~~ factors — a lessening of confidence ~~[illegible]~~ or disparities in interest rates — as in the fall of 1960 — or credits related to trade ~~straight commercial transactions~~ — as was largely the case this past year, when ~~[illegible]~~ a substantial portion of the outflow was in the form of bank loans to Japan to finance her growing imports.

is just beginning to probe huge potential markets for them. Success in developing these markets ~~selling our products~~ will require bold enterprise and skillful competition.

If American business is to find new customers in Europe, we must deal with the Common Market on the matter of mutual tariff reduction. Congress must grant the President power to negotiate on a broader basis than present legislation allows. If Congress fails to provide this authority, American producers will be seriously handicapped in their efforts to retain and to expand their share of this large and rich trading area.

Now, let me turn to our overall payments deficit, which ~~includes~~ reflects both our basic deficit and short-term capital flows. ~~Apart from the basic deficit I described earlier, our overall deficit also includes short-term capital flows.~~ Through 1959, ~~these~~ SHORT-TERM flows were small and usually favorable to our balance of payments ~~position~~. This was natural, since the currencies of other industrialized countries were not generally convertible, hence, not too attractive to foreign holders. However, with convertibility, money began to

Export-Import Bank and the insurance industry. Finally, American business -- of which only a small percentage is now in the export field ~~business is now in the export field -- of which only a small percentage~~ ~~are~~ must aggressively search out foreign trading opportunities wherever they may be. This is in the best tradition of our trading forebears, and it has never been more necessary than today.

Fortunately, the possibilities for increasing our overseas sales are excellent. The world is entering an entirely new trading era that holds out great promise for our exporters. In the case of our existing markets, we have only to look at the scope of the resurgent prosperity of Western Europe, and the emergence of the European Common Market, to see Europe's potential for our ~~goods.~~ exports. And, although our markets in less-developed areas are limited today, as these countries grow and prosper, their demands for our ~~products~~ goods will also grow.

Furthermore, in Europe and other parts of the world, thousands of American products are still virtually unknown. American business third affects our payments position. We are making vigorous efforts to cut the balance of payments impact of foreign economic aid still further, and we hope to get it down to approximately ~~twenty per cent~~ ONE FIFTH.

In the long run, however, the only way to eliminate our basic deficit is by increasing our export surplus. This will require the combined efforts of management, labor, and government. Management and labor must work together to assure reasonable price stability so that our exporters can maintain their price competitiveness -- and, we hope, improve it. Industry must modernize at a rapid rate. I have already told you what the Government is doing in the field of depreciation reform to assisT modernization. Government must also help to assure a supply of export credit to our traders as good as that available to their overseas competitors. We ~~are now in a~~ will very soon a position to do so for the first time through the operation of an export credit insurance program developed jointly ~~with the combined efforts of~~ BY the or offsetting the dollar outflow that inevitably accompanies the stationing of troops overseas. We are doing just that through a combination of economies and cooperative arrangements with certain of our allies. As a result, we can look forward to a substantial reduction in the dollar drain of our overseas forces.

In the case of private investment, we do not desire to reduce the flow abroad by imposing controls that would run counter to the principles of free trade and free competition so basic to our national purpose. We can, however, lessen the special inducements to American investment in other industrial countries that are part of our present tax system. That is why we are urging tax legislation to minimize such incentives.

Although our foreign assistance programs contribute to our annual dollar ~~loss~~ OUTFLOW, they do so to a far lesser degree than their over-all amount might suggest. Two-thirds of all foreign aid expenditures are now being made here in the United States. Only the remaining oil to Europe, 1961 provided the best record since we started running deficits in 1949. True, advance repayments of long-term debts -- amounting to $650 million -- were unusually large last year. However, the improvement was still substantial.

But improvement in our basic deficit is not enough. We must bring it under complete control so that we can look forward to full balance -- and to surpluses, whenever they may be required in our overall national interest. We can accomplish this only by enlarging our export surplus, and by reducing outpayments when we can do so without ~~diminishing~~ CURTAILING activities vitally important to our Nation's future.

Our ~~national~~ OWN security and our responsibilities to the free world require us to keep our troops abroad. We cannot endanger our security by withdrawing them in order to balance our international accounts. But we can and must find every possible way of limiting

American products or services.

Our trade surplus -- the excess of commercial exports over imports of goods and services -- is substantial. But in recent years it has not been large enough to offset the balance of payments impact of our overseas operations. ~~This~~ THAT shortfall constitutes the basic deficit in our international payments.

Preliminary figures indicate that last year our basic deficit was ~~only~~ no more than a third of the basic deficit of $1.9 billion in 1960, and was far below the $4.3 billion in 1959. During the first six months of 1961 we actually ran a surplus in our basic accounts, as imports shrank because of the recession. During the third quarter, a sharp rise in imports brought with it ~~a~~ the renewal of a substantial basic deficit which continued in the final quarter of the year -- ~~but~~ although at a ~~considerably~~ diminished rate. With the sole exception of 1957, when the Suez Canal was closed and we exported unusual quantities of advances which have altered previous standards of obsolescence. This has already been largely accomplished for the textile industry, and we plan to announce revisions in depreciation guidelines for all other major industries this Spring.

Such use of tax policy to stimulate the modernization and expansion of productive equipment is a major part of our effort to accelerate the long-range economic growth we need to achieve our true potential and to improve our balance of payments.

~~We have also taken a number of steps to improve our balance of payments.~~ The heart of our balance of payments problem is this: We must generate a large enough commercial trade surplus to counterbalance our essential expenditures abroad. These expenditures include, in relative order of magnitude: first, the cost of our military forces overseas; second, private American investment in other countries; and third, that portion of our foreign aid not spent here for as new markets create new demand, and increased research and technology penetrate new manufacturing frontiers.

Finally, and most important, heavier investment will help to maintain price stability through lower production costs and higher productivity~~ -- thereby permitting wage rises to be met from productivity gains without upward pressure on prices, and increasing the prospect of price reductions that will benefit the consumer~~.

In addition to presenting a balanced budget, we are also proposing changes in our tax treatment of depreciation to stimulate business investment in productive machinery and equipment. Our program of depreciation reform involves both new legislation and the full use of existing administrative authority. On the legislative side, we are asking for an eight percent tax credit for new investment in productive equipment. On the administrative side, we are updating depreciation schedules to take account of technological

By contributing to rapid modernization of productive machinery and equipment. More modern equipment means more efficient production, and lower unit cost -- hence more competitive capacity. As a result, friendly foreign nations are providing increasingly stiff competition for American manufacturers, both here and abroad.

For the future, then, a major goal of our economic policy is a sharply increased level of productive private investment, because: it will:

-- It will help our balance of payments by making our manufacturers more competitive, thus increasing our export surplus.

-- It will help speed ~~our domestic~~ economic growth by increasing our productive capacity, ~~by contributing to a higher level of productivity, and by expanding demand for our goods in new markets abroad.~~

-- It will help reduce unemployment by providing more jobs

Our policy of balancing the budget and simultaneously stimulating the flow of funds into private channels, reflects our firm belief that government spending is not a satisfactory substitute for private investment. We look to private funds to finance the new factories, new tools, and new machinery that create more, better, and cheaper goods. A substantial and increasing flow of private investment is essential to economic growth in our free society. IT IS DISTURBING, THEREFORE, THAT OUR PRESENT LEVEL OF INVESTMENT,

Over the past decade, nearly all of the major industrial nations of the free world had a substantially higher rate of domestic investment than the United States. Furthermore, their ratio of productive investment to total output has been growing, whereas ours has been declining. Investment sparked the phenomenal growth of Japan and the Common Market countries of Western Europe,

Largely because of increased defense needs, coupled with recession-level revenues, our national budget was in deficit -- a deficit that, because of the recession, was both acceptable and inevitable. However, the economic growth forecast for 1962, with

— BARRING UNPREDICTABLE INTERNATIONAL EMERGENCIES —

resulting higher revenues, makes it both desirable and possible to achieve a fully balanced budget in Fiscal Year 1963, as the President has recommended.

A balanced budget stimulates SUCH investment because it makes it unnecessary for the government to tap the flow of savings and credit that would otherwise be available for private investment. A balanced budget also facilitates the task of our monetary authorities, who STRIVE ~~seek~~ to assure an adequate supply of funds for private investment at the same time that they guard against inflation.

ONE OF OUR MOST URGENT NATIONAL NEEDS IS A HEAVILY ACCELERATED FLOW OF PRIVATE INVESTMENT INTO PRODUCTIVE CHANNELS.

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And, finally, to maintain reasonable price stability, so that our citizens may enjoy the full fruits of their savings, so that our economic gains are not wiped out by inflation, and so that our goods can compete successfully in world market places.

We made considerable progress over the past year toward ~~those~~ These objectives. At the close of 1961, our domestic economy reached record highs in terms of gross national product, personal income, industrial production, and manufacturers' sales and new orders. Unemployment has finally begun to drop, and we expect it to decline further in the months ahead. Our gold loss in 1961 was just half the 1960 figure, the basic deficit in our balance of payments was cut by two-thirds, and the overall deficit by more than a third.

Th~~o~~ese gains were achieved in good measure because our fiscal and monetary policies were geared to the requirements of last year's recession and early recovery.

strong -- idling along at half speed -- or running at full throttle, powered by our tremendous productive potential.

To achieve that potential, our immediate economic goals are these:

First, to reduce unemployment. We simply cannot afford the misery and waste of having a large part of our labor force idle.

Second, to reach a rate of economic growth sufficient to assure jobs for the millions of workers entering the labor market in the years ahead, to guarantee to our citizens the benefits of a thriving economy, and to build the capacity to meet our international obligations, ~~without adding to our already heavy tax burden~~.

Third, to eliminate the deficit in our international balance of payments, and its accompanying gold loss, for a sound dollar is as essential abroad as it is at home.

Treasury Dept
Washington
13 January 19, 1962

For Release P. M. Newspapers
~~FINAL DRAFT~~ Friday, January 19, 1962

~~January 18, 1962~~

REMARKS BY THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
AT THE 1962 SAVINGS BONDS CONFERENCE
SHERATON-PARK HOTEL, WASHINGTON, D. C.
JANUARY 19, 1962, 1:57 P.M.

I want to thank you for your interest in the Savings Bonds Program. We value it as one of the Treasury's most important tools in managing the public debt, as well as a most effective way of encouraging individual citizens to share in the financial affairs of Government. It is also one of our country's most successful volunteer undertakings. Through the years, it has enlisted the patriotic support of hundreds of thousands of people, under the leadership of distinguished individuals like yourselves. With your help, the Savings Bonds program will make an ever greater contribution to the economic strength we urgently require to fulfill the heavy responsibilities history has thrust upon us.

Our economic policy plays a vital role in meeting those responsibilities, for it will determine whether the future finds us weak or

TREASURY DEPARTMENT
Washington

January 19, 1962

FOR RELEASE P.M. NEWSPAPERS
FRIDAY, JANUARY 19, 1962

REMARKS BY THE HONORABLE DOUGLAS DILLON
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First, to reduce unemployment. We simply cannot afford the misery and waste of having a large part of our labor force idle.

Second, to reach a rate of economic growth sufficient to assure jobs for the millions of workers entering the labor market in the years ahead, to guarantee to our citizens the benefits of a thriving economy, and to build the capacity to meet our international obligations.

Third, to eliminate the deficit in our international balance of payments, and its accompanying gold loss, for a sound dollar is as essential abroad as it is at home.

And, finally, to maintain reasonable price stability, so that our citizens may enjoy the full fruits of their savings, so that our economic gains are not wiped out by inflation, and so that our goods can compete successfully in world market places.

We made considerable progress over the past year toward these objectives. At the close of 1961, our domestic economy reached record highs in terms of gross national product, personal income, industrial production, and manufacturers' sales and new orders. Unemployment has finally begun to drop, and we expect it to decline further in the months ahead. Our gold loss in 1961 was just half the 1960 figure, the basic deficit in our balance of payments was cut by two-thirds, and the overall deficit by more than a third.

These gains were achieved in good measure because our fiscal and monetary policies were geared to the requirements of last year's recession and early recovery.

Largely because of increased defense needs, coupled with recession-level revenues, our national budget was in deficit -- a deficit that, because of the recession, was both acceptable and inevitable. However, the economic growth forecast for 1962, with resulting higher revenues, makes it both desirable and possible -- barring unpredictable international emergencies -- to achieve a fully balanced budget in Fiscal Year 1963, as the President has recommended.

One of our most urgent national needs is a heavily accelerated flow of private investment into productive channels. A balanced budget stimulates such investment because it makes it unnecessary for the government to tap the savings and credit that would otherwise be available for private investment. A balanced budget also facilitates the task of our monetary authorities, who strive to assure an adequate supply of funds for private investment at the same time that they guard against inflation.

Our policy of balancing the budget and simultaneously stimulating the flow of funds into private channels, reflects our firm belief that government spending is not a satisfactory substitute for private investment. We look to private funds to finance the new factories, new tools, and new machinery that create more, better, and cheaper goods. A substantial and increasing flow of private investment is essential to economic growth in our free society.

It is disturbing, therefore, that our present level of investment is far from adequate. Over the past decade, nearly all of the major industrial nations of the free world had a substantially higher rate of domestic investment than the United States. Furthermore, their ratio of productive investment to total output has been growing, whereas ours has been declining. Investment sparked the phenomenal growth of Japan and the Common Market countries of Western Europe, by contributing to rapid modernization of productive machinery and equipment. More modern equipment means more efficient production, and lower unit cost -- hence more competitive capacity. As a result, friendly foreign nations are providing increasingly stiff competition for American manufacturers, both here and abroad.

For the future, then, a major goal of our economic policy is a sharply increased level of productive private investment, because it will:

-- Help our balance of payments by making our manufacturers more competitive, thus increasing our export surplus.

-- Help speed economic growth by increasing our productive capacity.

-- Help reduce unemployment by providing more jobs as new markets create new demand, and increased research and technology penetrate new manufacturing frontiers.

Finally, and most important, heavier investment will help to maintain price stability through lower production costs and higher productivity.

In addition to presenting a balanced budget, we are also proposing changes in our tax treatment of depreciation to stimulate business investment in productive machinery and equipment. Our program of depreciation reform involves both new legislation and the full use of existing administrative authority. On the legislative side, we are asking for an eight percent tax credit for new investment in productive equipment. On the administrative side, we are updating depreciation schedules to take account of technological advances which have altered previous standards of obsolescence. This has already been largely accomplished for the textile industry, and we plan to announce revisions in depreciation guidelines for all other major industries this Spring.

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The heart of our balance of payments problem is this: We must generate a large enough commercial trade surplus to counterbalance our essential expenditures abroad. These expenditures include, in relative order of magnitude: first, the cost of our military forces overseas; second, private American investment in other countries; and third, that portion of our foreign aid not spent here for American products or services.

Our trade surplus -- the excess of commercial exports over imports of goods and services -- is substantial. But in recent years it has not been large enough to offset the balance of payments impact of our overseas operations. That shortfall constitutes the basic deficit in our international payments.

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But improvement in our basic deficit is not enough. We must bring it under complete control so that we can look forward to full balance -- and to surpluses; whenever they may be required in our overall national interest. We can accomplish this only by enlarging our export surplus, and by reducing outpayments when we can do so without curtailing activities vitally important to our Nation's future.

Our own security and our responsibilities to the free world require us to keep our troops abroad. We cannot endanger our security by withdrawing them in order to balance our international accounts. But we can and must find every possible way of limiting or offsetting the dollar outflow that inevitably accompanies the stationing of troops overseas. We are doing just that through a combination of economies and cooperative arrangements with certain of our allies. As a result, we can look forward to a substantial reduction in the dollar drain of our overseas forces.

In the case of private investment, we do not desire to reduce the flow abroad by imposing controls that would run counter to the principles of free trade and free competition so basic to our national purpose. We can, however, lessen the special inducements to American investment in other industrial countries that are part of our present tax system. That is why we are urging tax legislation to minimize such incentives.

Although our foreign assistance programs contribute to our annual dollar outflow, they do so to a far lesser degree than their overall amount might suggest. Two-thirds of all foreign aid expenditures are now being made here in the United States. Only the remaining third affects our payments position. We are making vigorous efforts to cut the balance of payments impact of foreign economic aid still further, and we hope to get it down to approximately one fifth.

In the long run, however, the only way to eliminate our basic deficit is by increasing our export surplus. This will require the combined efforts of management, labor, and government. Management and labor must work together to assure reasonable price stability so that our exporters can maintain their price competitiveness -- and, we hope, improve it. Industry must modernize at a rapid rate. I have already told you what Government is doing in the field of depreciation reform to assist modernization. Government must also help to assure a supply of export credit to our traders as good as that available to their overseas competitors. We will very soon be in a position to do so for the first time through the operation of an export credit insurance program developed jointly by the Export-Import Bank and the insurance industry. Finally, American business -- of which only a small percentage is now in the export field -- must aggressively search out foreign trading opportunities wherever they may be. This is in the best tradition of our trading forebears, and it has never been more necessary than today.

Fortunately, the possibilities for increasing our overseas sales are excellent. The world is entering an entirely new trading era that holds out great promise for our exporters. In the case of our existing markets, we have only to look at the scope of the resurgent prosperity of Western Europe, and the emergence of the European Common Market, to see Europe's potential for our exports. And, although our markets in less-developed areas are limited today, as these countries grow and prosper, their demands for our goods will also grow.

Furthermore, in Europe and other parts of the world, thousands of American products are still virtually unknown. American business is just beginning to probe huge potential markets for them. Success in developing these markets will require bold enterprise and skillful competition.

If American business is to find new customers in Europe, we must deal with the Common Market on the matter of mutual tariff reduction. Congress must grant the President power to negotiate on a broader basis than present legislation allows. If Congress fails to provide this authority, American producers will be seriously handicapped in their efforts to retain and to expand their share of this large and rich trading area.

Now, let me turn to our overall payments deficit, which reflects both our basic deficit and short-term capital flows. Through 1959, short-term flows were small and usually favorable to our balance of payments. This was natural, since the currencies of other industrialized countries were not generally convertible, hence, not too attractive to foreign holders. However, with convertibility, money began to flow from one financial center to another in search of higher interest rates or speculative profits. The result was a substantial outflow of short-term funds from the United States, which in 1960 amounted to $2 billion.

This large short-term outflow obscured the dramatic improvement in our basic balance during 1960 and led to an overall deficit of $3.9 billion. Although altered in nature, substantial short-term outflows continued during 1961.

These short-term flows can be caused by various factors -- a lessening of confidence or disparities in interest rates -- as in the fall of 1960, or credits related to trade -- as was largely the case this past year, when a substantial part of the outflow was in the form of bank loans to Japan to finance her growing imports.

Such short term flows, when carried to excess, can be unhealthy -- even dangerous. We have worked hard to neutralize them. We have held our short-term interest rates at levels that largely negated the attraction of foreign market rates. The Federal Reserve has increased the legal limit on the interest that may be paid on time deposits, thus enabling American banks to compete more effectively with their foreign counterparts. Our most recent step was taken earlier this month when the United States and nine other members of the International Monetary Fund agreed that $6 billion in additional resources should be provided for standby lending commitments to the Fund. These supplementary resources would be used to protect the world payments system, and would be available to the 10 participating countries, including the United States.

One aspect of our balance of payments deficit is worth stressing: The balance of payments is an accounting of transactions that affect the gold and liquid liability of the United States. It does not reflect long-term claims represented by U. S. investment abroad. For the three years 1958 through 1960, for instance, our payments deficits totalled $11 billion, of which about $5 billion represented our gold losses and $6 billion represented liquid dollar gains by foreigners. However, this loss was to a large extent matched by increased U. S. holdings of both short-term and long-term foreign assets.

Total foreign assets and investments of all sorts in the United States rose by about $13 billion from the end of 1957 to the end of 1960. During the same period, total U. S. government and private loans and investments abroad (excluding loans repayable in local currency) increased by about $14.5 billion -- a net gain to the United States of $1-1/2 billion. However, we also lost $5 billion in gold. Thus our overall gold and international investment position showed a loss for the three year period of only about $3.5 billion net, in contrast to the deterioration in our current position of $11 billion as measured by our balance of payments account.

While this demonstrates that our long-term position is considerably stronger than balance of payments figures alone indicate, it in no way reduces the importance of putting an early end to the substantial payments deficits we have had since 1949. We must get our current balance in order so as to end the drain on our gold stocks.

I have outlined the principal elements of our foreign and domestic economic policy. Our prospects, both at home and abroad, are good, but we have much to do to ensure that they remain so.

At home, I think everyone agrees that our first obligation is to reduce the unacceptably high level of unemployment. To be sure, for the last two months unemployment has dropped close to six percent, after hovering near seven percent most of the year. And we expect it to drop below five percent by the end of the year, as long-range expansion takes hold. However, there is a hard core of unemployment which continued expansion may not touch. That is why we urgently need a manpower re-training bill, to ease the lingering human misery and chronic economic waste that such unemployment represents.

In addition, nearly a million young people in our country are neither earning nor learning. This dismal fact illustrates the need for a Youth Employment Opportunities Act, to ensure that such frightening waste of our national potential does not continue.

And finally, although we look forward to prosperity, we cannot guarantee that there will never be another recession. To prepare for that possibility, President Kennedy has asked for three major counter-cyclical measures: broadened unemployment insurance, a standby program of public works, and the authority to promptly initiate limited and temporary tax reductions. These are needed in the earliest stages of recession -- when quick action can accomplish effective results.

The achievement of our economic goals will not be easy. But it is our responsibility to demonstrate to the world the economic vitality of a free nation, and the value of a free enterprise society where labor, business, finance, and government work together within the framework of a competitive price system, responding to the market forces of supply and demand.

The stimulus of competition has brought us the world's highest standard of living. Let us use our economic strength to develop our nation to its true potential, to distribute the benefits of growth among our people, and to share our way of life with all the peoples of the world who choose the path of freedom.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 19, 1962

FOR IMMEDIATE RELEASE

## TREASURY DEPARTMENT RECRUITING PERSONNEL

The Treasury Department today announced a recruitment program to fill a number of positions in the Washington and Baltimore Offices of its various agencies. In most cases the position will be filled by qualified persons recruited from outside the Department.

Salaries for beginning positions range from $4,345 to $6,435 a year; however, there are openings for positions paying up to $12,210 a year. Included among the positions now, or soon to be available, are statisticians and statistical assistants; research analysts; management trainees and specialists; attorneys; physicists; chemists; engineers (civil, electrical, mechanical, and marine); revenue officers and revenue agents; and clerk-stenographers.

The basic eligibility requirement for most of the professional positions in the Treasury Department, as in other government agencies, is qualifying in the Federal Service Entrance Examination, popularly referred to as FSEE. This examination will be given a number of times early this year in most large cities throughout the country.

Forms for the Federal Service Entrance Examination may be obtained from the Civil Service window of most Post Offices. The scheduled dates of the examination are as follows: February 10 (filing deadline, January 25); March 17 (filing deadline, March 1); April 14 (filing deadline, March 29);May 12 (filing deadline, April 26).

Applicants for the position of Revenue Officer must pass the Federal Service Entrance Examination. Internal Revenue Agents must have 3 years of acceptable accounting experience and pass a written test but this is not necessary for those who have 4 years of college, including 24 semester hours of accounting. The beginning salary level for most of these positions is $4,345 or $5,355 per annum.

The Treasury Department is soliciting the cooperation of colleges, universities, and civic organizations to encourage graduating college seniors, and all other qualified, to take the Federal Service Entrance Examination this spring.

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# TREASURY DEPARTMENT

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WASHINGTON, D.C.

January 22, 1962

FOR IMMEDIATE RELEASE

TREASURY DECISION ON PORTLAND CEMENT
UNDER THE ANTIDUMPING ACT

FOR IMMEDIATE RELEASE

TREASURY DECISION ON PORTLAND CEMENT
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that portland cement, other than white, nonstaining portland cement, from the Dominican Republic, is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act.

Accordingly, this case is being referred to the United States Tariff Commission for an injury determination.

Notice of the determination and of the reference of the case to the Tariff Commission will be published in the Federal Register.

The dollar value of imports received during the year 1961 was approximately $384,000.

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January 22, 1962

OR RELEASE A. M. NEWSPAPERS, Tuesday, January 23, 1962.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated October 26, 1961, and the other series to be dated January 25, 1962, which were offered on January 17, were opened at the Federal Reserve Banks on January 22. Tenders were invited for $1,100,000,000, or thereabouts, of 91-day bills and for $600,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

| RANGE OF ACCEPTED COMPETITIVE BIDS: | 91-day Treasury bills maturing April 26, 1962 | | | 182-day Treasury bills maturing July 26, 1962 | |
|---|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | | Price | Approx. Equiv. Annual Rate |
| High | 99.325 | 2.670% | : | 98.558 | 2.852% |
| Low | 99.319 | 2.694% | : | 98.537 | 2.894% |
| Average | 99.321 | 2.688% 1/ | : | 98.546 | 2.875% 1/ |

80 percent of the amount of 91-day bills bid for at the low price was accepted
35 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | | Applied For | Accepted |
|---|---|---|---|---|---|
| Boston | $ 34,826,000 | $ 17,424,000 | : | $ 8,071,000 | $ 8,071,000 |
| New York | 1,752,173,000 | 734,770,000 | : | 886,246,000 | 451,196,000 |
| Philadelphia | 27,715,000 | 11,865,000 | : | 8,238,000 | 3,238,000 |
| Cleveland | 62,498,000 | 40,298,000 | : | 17,289,000 | 12,289,000 |
| Richmond | 10,423,000 | 10,423,000 | : | 5,646,000 | 5,146,000 |
| Atlanta | 26,410,000 | 21,832,000 | : | 8,144,000 | 7,744,000 |
| Chicago | 232,665,000 | 137,826,000 | : | 114,362,000 | 52,362,000 |
| St. Louis | 27,314,000 | 18,899,000 | : | 8,514,000 | 7,514,000 |
| Minneapolis | 22,655,000 | 18,305,000 | : | 4,748,000 | 4,423,000 |
| Kansas City | 41,713,000 | 28,518,000 | : | 12,660,000 | 12,660,000 |
| Dallas | 19,156,000 | 14,556,000 | : | 8,787,000 | 4,787,000 |
| San Francisco | 68,465,000 | 46,875,000 | : | 33,611,000 | 30,611,000 |
| TOTALS | $2,326,015,000 | $1,101,591,000 a/ | | $1,116,316,000 | $600,041,000 b/ |

a/ Includes $213,466,000 noncompetitive tenders accepted at the average price of 99.321
b/ Includes $48,061,000 noncompetitive tenders accepted at the average price of 98.546
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.74% for the 91-day bills, and 2.96%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.
January 22, 1962

R RELEASE A. M. NEWSPAPERS, Tuesday, January 23, 1962.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of reasury bills, one series to be an additional issue of the bills dated October 26, 1961, nd the other series to be dated January 25, 1962, which were offered on January 17, were pened at the Federal Reserve Banks on January 22. Tenders were invited for $1,100,000,000 r thereabouts, of 91-day bills and for $600,000,000, or thereabouts, of 182-day bills. Th etails of the two series are as follows:

| ANGE OF ACCEPTED OMPETITIVE BIDS: | 91-day Treasury bills maturing April 26, 1962 | | : | 182-day Treasury bills maturing July 26, 1962 | |
|---|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | : | Price | Approx. Equiv. Annual Rate |
| High | 99.325 | 2.670% | : | 98.558 | 2.852% |
| Low | 99.319 | 2.694% | : | 98.537 | 2.894% |
| Average | 99.321 | 2.688% 1/ | : | 98.546 | 2.875% 1/ |

80 percent of the amount of 91-day bills bid for at the low price was accepted
35 percent of the amount of 182-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | : | Applied For | Accepted |
|---|---|---|---|---|---|
| Boston | $ 34,828,000 | $ 17,424,000 | : | $ 8,071,000 | $ 8,071,000 |
| New York | 1,752,173,000 | 734,770,000 | : | 886,246,000 | 451,196,000 |
| Philadelphia | 27,715,000 | 11,865,000 | : | 8,238,000 | 3,238,000 |
| Cleveland | 62,498,000 | 40,298,000 | : | 17,289,000 | 12,289,000 |
| Richmond | 10,423,000 | 10,423,000 | : | 5,646,000 | 5,146,000 |
| Atlanta | 26,410,000 | 21,832,000 | : | 8,144,000 | 7,744,000 |
| Chicago | 232,665,000 | 137,826,000 | : | 114,362,000 | 52,362,000 |
| St. Louis | 27,314,000 | 18,899,000 | : | 8,514,000 | 7,514,000 |
| Minneapolis | 22,655,000 | 18,305,000 | : | 4,748,000 | 4,423,000 |
| Kansas City | 41,713,000 | 28,518,000 | : | 12,660,000 | 12,660,000 |
| Dallas | 19,156,000 | 14,556,000 | : | 8,787,000 | 4,787,000 |
| San Francisco | 68,465,000 | 46,875,000 | : | 33,611,000 | 30,611,000 |
| TOTALS | $2,326,015,000 | $1,101,591,000 a/ | | $1,116,316,000 | $600,041,000 b/ |

Includes $213,466,000 noncompetitive tenders accepted at the average price of 99.321
Includes $48,061,000 noncompetitive tenders accepted at the average price of 98.546
On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.74% for the 91-day bills, and 2.96%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 23, 1962

FOR IMMEDIATE RELEASE

COMPTROLLER OF THE CURRENCY TO HOLD PUBLIC HEARING ON PROPOSED NEW NATIONAL BANKING ASSOCIATION IN HOLDENVILLE, OKLAHOMA.

The Comptroller of the Currency announced today that he had, at the request of the organizers of the proposed Citizens National Bank of Holdenville, Holdenville, Oklahoma, ordered a public hearing on the application to form a new national bank in Holdenville, Oklahoma. The hearing is scheduled for 9:30 A.M., Friday, February 16, 1962, in Room 4119, Main Treasury Building, Washington, D. C.

The hearing will be on an informal basis. All persons desiring to testify should notify the Comptroller of the Currency by February 12, 1962.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE                                                    January 23, 1962

SUBSCRIPTION AND ALLOTMENT FIGURES FOR TREASURY'S CURRENT CASH OFFERING

The Treasury Department today announced the subscription and allotment figures with respect to the current offering of the additional amount of $1,000 million, or thereabouts, of 4% Treasury Bonds of 1969, due October 1, 1969.

Public subscriptions were allotted 60 percent with subscriptions for $50,000 or less being allotted in full and those for more than $50,000 being allotted not less than $50,000.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

| Federal Reserve District | Total Subscriptions Received | Total Allotments |
|---|---|---|
| Boston | $ 108,160,500 | $ 66,932,500 |
| New York | 492,034,500 | 298,502,000 |
| Philadelphia | 93,786,500 | 58,896,500 |
| Cleveland | 119,635,500 | 75,112,000 |
| Richmond | 76,400,500 | 48,326,000 |
| Atlanta | 93,577,500 | 59,813,500 |
| Chicago | 256,070,500 | 161,348,000 |
| St. Louis | 65,514,000 | 44,349,000 |
| Minneapolis | 58,693,500 | 39,111,500 |
| Kansas City | 65,940,500 | 45,139,000 |
| Dallas | 68,628,000 | 43,450,500 |
| San Francisco | 119,783,000 | 73,149,000 |
| Treasury | 484,500 | 364,500 |
| Govt. Inv. Accts. | 100,000,000 | 100,000,000 |
| Total | $1,718,709,000 | $1,114,494,000 |

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is a cause to which you can devote yourself wholeheartedly. I congratulate you, Admiral, on your outstanding record in the service and wish you all success in the future. And now I should like to read the official citation accompanying the distinguished service medal with which your country is honoring you today.

of American merchant ships is due in no small measure to your efforts with the Merchant Marine Safety Council.

This same interest in merchant marine safety was further developed when you served as Commander of the Ninth Coast Guard District with headquarters in Cleveland. At that time you became particularly conversant with the problems of shipping on the Great Lakes.

After this assignment you returned to Coast Guard Headquarters, where, for the past eight years, as Chief of Staff and Assistant Commandant of the Coast Guard, you have worked unceasingly to increase the efficiency of the Coast Guard both as a military force and as a merchant marine safety agency.

On February 1 you will end your long and distinguished career in the Coast Guard. But your talents will not be lost to your country. For you will assume the Vice Presidency of the Lake Carriers' Association, an organization dedicated to improving safety standards for shippers in the Great Lakes area. This I am sure

~~is a cause~~

REMARKS BY TREASURY SECRETARY DOUGLAS DILLON
AT PRESENTATION OF THE DISTINGUISHED SERVICE
MEDAL TO VICE ADMIRAL J. A. HIRSCHFIELD, U.S.
COAST GUARD, IN ROOM 4121, TREASURY BUILDING,
WASHINGTON, D. C., TUESDAY, JANUARY 23, 1962,
4:00 P.M.

Much as happened since you were commissioned an ensign in 1924. Your nine years service on line and engineering duty with the Destroyer Force served you very well on convoy duty in the CUTTER CAMPBELL in the submarine-infested North Atlantic. On that memorable day of February 23, 1943, you drove off five enemy submarines and sank a sixth by ramming her. In that action you were wounded and received the Navy Cross as well as the Order of the Purple Heart.

Somehow between assignments you also managed to acquire a Bachelor of Laws degree from George Washington University and were admitted to the District of Columbia Bar. This training and your administrative talents helped you to pioneer a new era for the Coast Guard in maritime safety. This is a subject which has been very close to your heart. I am sure that much of the progress made by the Coast Guard in improving the safety and efficiency

~~of American merchant~~

REMARKS BY TREASURY SECRETARY DOUGLAS DILLON AT PRESENTATION OF THE DISTINGUISHED SERVICE MEDAL TO VICE ADMIRAL J. A. HIRSCHFIELD, U.S. COAST GUARD, IN ROOM 4121, TREASURY BUILDING, WASHINGTON, D. C., TUESDAY, JANUARY 23, 1962, 4:00 P.M.

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sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ 200,000 or less for the additional bills dated November 2, 1961, ( 91 days remaining until maturity date on May 3, 1962 ) and noncompetitive tenders for $ 100,000 or less for the 182 -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 1, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 1, 1962. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE

January 24, 1962

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,800,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 1, 1962, in the amount of $1,700,235,000, as follows:

91 -day bills (to maturity date) to be issued February 1, 1962, in the amount of $1,200,000,000, or thereabouts, representing an additional amount of bills dated November 2, 1961, and to mature May 3, 1962, originally issued in the amount of $600,403,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $600,000,000, or thereabouts, to be dated February 1, 1962, and to mature August 2, 1962.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, January 29, 1962. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

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# TREASURY DEPARTMENT

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WASHINGTON, D.C.

January 24, 1962

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

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Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 25, 1962

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FOR IMMEDIATE RELEASE

COMPTROLLER OF THE CURRENCY TO HOLD PUBLIC HEARING ON APPLICATION OF THE FIRST NATIONAL BANK OF PROVINCETOWN, PROVINCETOWN, MASSACHUSETTS, TO ESTABLISH A BRANCH IN CHATHAM, MASSACHUSETTS.

The Comptroller of the Currency announced today that at the request of The First National Bank of Provincetown, Provincetown, Massachusetts, the Cape Cod Trust Company of Harwich Port, Massachusetts, The Cape Cod Five Cents Savings Bank, Harwich Port, Massachusetts, the Chatham Trust Company, Chatham, Massachusetts, and the Commissioner of Banks of Massachusetts he has ordered a public hearing on the application of The First National Bank of Provincetown, Provincetown, Massachusetts, to establish a branch in Chatham, Massachusetts.

The hearing is scheduled for 9:30 A.M., Monday, February 12, 1962, in Room 4119, Main Treasury Building, Washington, D. C.

The hearing will be on an informal basis and all persons desiring to testify should notify the Comptroller of the Currency by February 7, 1962.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 25, 1962

FOR IMMEDIATE RELEASE

COMPTROLLER OF THE CURRENCY TO HOLD PUBLIC HEARING ON APPLICATION OF THE FIRST NATIONAL BANK OF PROVINCETOWN, PROVINCETOWN, MASSACHUSETTS, TO ESTABLISH A BRANCH IN CHATHAM, MASSACHUSETTS.

The Comptroller of the Currency announced today that at the request of The First National Bank of Provincetown, Provincetown, Massachusetts, the Cape Cod Trust Company of Harwich Port, Massachusetts, The Cape Cod Five Cents Savings Bank, Harwich Port, Massachusetts, the Chatham Trust Company, Chatham, Massachusetts, and the Commissioner of Banks of Massachusetts he has ordered a public hearing on the application of The First National Bank of Provincetown, Provincetown, Massachusetts, to establish a branch in Chatham, Massachusetts.

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TREASURY DEPARTMENT
Washington

For Release on Delivery

An Address by Mr. Herbert K. May, Chief, Latin American Division, Office of International Finance, at the U. S. Coast Guard Academy, New London, Connecticut, Friday, January 26, 1962, 8:00 p.m., EST.

President Kennedy announced on March 13, 1961, that he was calling on all the people of the Western Hemisphere "to join in a new Alliance for Progress -- a vast cooperative effort, unparalleled in magnitude and nobility of purpose, to satisfy the basic needs of the American people for homes, work and land, health and schools." He said that "our unfulfilled task is to demonstrate to the entire world that man's unsatisfied aspiration for economic progress and social justice can best be achieved by free men working within a framework of democratic institutions" and he proposed for that purpose that the American Republics "begin on a vast new Ten Year Plan for the Americas -- a plan to transform the 1960s into an historic decade of democratic progress."

From the perspective of one who has worked on Latin American problems for almost twenty years, I consider it no exaggeration to say that the preservation of Latin America within the community of free and democratic nations depends greatly upon the success of the Alliance.

In my opinion, the Alliance for Progress is a true innovation. It is not simply the normal, and usually reliable, product of adjustment to the lessons derived from previous trials and errors. Of course, the lessons of the past did provide important guidance toward formulation of the Alliance. Our long and close relations with Latin America -- particularly since the inception of President Franklin Roosevelt's Good Neighbor Policy -- provided an invaluable fund of experience, a fund which was heavily drawn upon when the Alliance was formulated. However, the Alliance reflects also a fundamental reorientation of perspective. It reflects a fundamentally new approach to our relations with Latin America. And since it is important that this new approach be understood, I am especially grateful for this opportunity to try to explain it.

First, however, let me describe very briefly some of the principal considerations which form the background for the Alliance for Progress.

It is estimated that the average income per person in Latin America is about $300 per year. Low as that average income is, furthermore, it is important to recognize that while some Latin Americans earn more than $300 per year -- sometimes very much more -- many Latin Americans earn less than $300 per year, sometimes very much less. Poverty is widespread in Latin America, and that poverty is so extreme in some regions as to be almost unimaginable to most Americans. Deplorable housing and sanitation facilities, serious malnutrition and high mortality rates are characteristic of much of Latin America. The very low per capita incomes of some countries are being impaired, moreover, by high rates of population growth and by declining levels of exportation.

No one familiar with these conditions of economic distress can be surprised about the political unrest prevalent in the area. However, it would be a serious mistake to attribute the political unrest exclusively to economic factors. As we look around Latin America -- indeed, as we look around the globe -- we find that political unrest is sometimes greater within the countries of relatively high income than within those of relatively low income. Even within any particular country, we sometimes find that political unrest is most severe in the regions having the highest incomes. If we are to help strengthen the forces for freedom and democracy in Latin America we must unquestionably place special stress on efforts to promote the economic welfare of the area. But efforts to promote economic welfare are not likely to be enough. For nowhere is it more evident than in Latin America that man does not live by bread alone.

A fresh, but sometimes icy, wind has been blowing in Latin America during the past 15 or 20 years. Economic and social conditions which once were tolerated everywhere as temporarily necessary, or which were even accepted as natural and inevitable, are no longer being tolerated or accepted. The word, "reform", is becoming common in political slogans. More and more voices are being heard asking for agrarian reform, tax reform, education reform, banking reform, and foreign exchange reform.

Some observers have described the changing scene in Latin America as a so-called "revolution of rising aspirations." This "revolution" is being manifested in part in the fact that increasing numbers of people are finding it reasonable to aspire for better homes, more and better food, better health, and even for washing machines, television sets, and automobiles. But the "revolution" is being manifested also in the fact that increasing numbers of tenant farmers are finding it reasonable to aspire for their own plots of land and increasing numbers of illiterate parents are finding it reasonable to aspire that their children be taught to read and write.

The demand for social justice is becoming louder and more urgent. The positions of the richer and more influential groups of society are no longer considered to be inevitable, if not sacrosanct. Students, farmers, laborers, even business groups, are challenging the propriety of the influence once exercised as a matter of right by a few large landowners. Changes in the status quo are in the air all over Latin America. Governments have already been elected on platforms promising such changes, and the fact that changes will be made effective everywhere can no longer be doubted.

There can be doubt now only about one question: In what direction or directions will those changes take place? In the desire to stimulate economic development, so as to raise national and per capita incomes, will the policies and practices adopted toward that end be really effective, or will they serve instead only to weaken the present productive base, while failing to replace it by a stronger base? Will present social evils be overcome, or will the methods chosen for that purpose be ineffective and even, perhaps, create new evils to add to, or supplant, the present ones?

In that segment of President Kennedy's speech of March 13, which I quoted earlier, he spoke of his belief that "our unfulfilled task is to demonstrate to the entire world that man's unsatisfied aspiration for economic progress and social justice can best be achieved by free men working within a framework of democratic institutions." When the representatives of the twenty Latin American Republics and the United States met at Punta del Este in Uruguay in August, 1961, they all -- with the single exception of Cuba -- agreed with this article of faith and agreed to bend all of their efforts in support of what came to be known as the Charter of Punta del Este. This basic document set down the broad policies to be followed by those countries, individually and collectively, to promote the Alliance for Progress, with the objective, again as expressed by President Kennedy on March 13, that "the close of this decade will mark the beginning of a new era in the American experience. The living standards of every American family will be on the rise -- basic education will be available to all -- hunger will be a forgotten experience -- the need for massive outside help will have passed -- most nations will have entered a period of self-sustaining growth -- and -- although there will be still much to do -- every American Republic will be the master of its own revolution and its own hope and progress."

The President's reference to the Latin American need, at present, for "massive outside help" requires a special comment. Secretary Dillon, who was Chairman of the U. S. Delegation to the Conference at Punta del Este, told that Conference on August 7, 1961, that, "Looking to the years ahead, and to all sources of external financing -- from inter national institutions, from Europe and Japan as well as from North America, from new private investment as well as from public funds --

Latin America, if it takes the necessary internal measures, can reasonably expect its own efforts to be matched by an inflow of capital during the next decade amounting to at least twenty billion dollars. And most of this will come from public sources. The problems, I am convinced, will no longer lie in shortages of external capital, but in organizing effective development programs so that both domestic and foreign capital can be put to work rapidly, wisely, and well."

It is natural that most observers have focused on Secretary Dillon's reference to "at least twenty billion dollars." This is in fact a massive sum. It can make a very great contribution to the economic and social progress of Latin America. However, careful attention should also be placed upon two other points made in that statement. He said that Latin America can reasonably expect such an inflow of capital "if it takes the necessary internal measures." He said also, that while the expected inflow of capital would overcome the shortage of external capital for Latin America, the problem in that area will be "in organizing effective development programs so that domestic and foreign capital can be put towork rapidly, wisely, and well."

I would like to focus this evening on those two points, inasmuch as they constitute two of the most important aspects in which the Alliance for Progress represents an innovation in inter-American relations.

First, let us look a bit more closely at the need for organizing effective development programs. This need derives in large part from the fact that the economic and social development of Latin America does not depend exclusively, or even primarily, upon the receipt of funds from abroad. All economists who have analyzed the Latin American scene agree that if the economic and social development of Latin America is to proceed as we all want it to proceed, each of the Latin American countries participating in the Alliance for Progress must make a mammoth effort to put its own internal resources to the best possible use. Help from abroad can only help. It cannot do the job alone. It can provide a greatly needed supplement to the internal resources available within Latin America. But no matter how great the foreign assistance, the economic and social development of Latin America would move forward at a very slow pace or would not move forward at all if the various Latin American countries were at the same time to relax their own efforts.

Secretary Dillon pointed out, in a speech before the Inter-American Economic and Social Council on November 30, 1961, that "dollars don't mean development. At the very outset, our opportunity for success can be wiped out, and the hope of the hemisphere can be betrayed, if we assume that the Alliance for Progress is no more than a loan program. It is, and will be, far more. Loans there will certainly be. But we have no intention -- now or later -- of making loans for other than sound reasons of development or need. At Punta del Este we agreed that this was to be a genuine Alliance, with full cooperation and matched effort, and that the other republics would make their own entry into the decade of development. We will be a partner in hemispheric progress, but we do not intend, and in fact we cannot, carry the whole load. Fully 80 percent of the resources needed to move the hemisphere into the twentieth century must come from Latin America itself."

It was for this reason that the Latin American countries participating in the Alliance for Progress agreed at Punta del Este to concentrate upon the formulation, as soon as possible, of long-term national development programs which would contain the following principal elements among others: (1) The establishment of mutually consistent targets in expanding productive capacity in industry, agriculture, mining, etc.,...and in improving conditions of urban and rural life, (2) The assignment of specific priorities, and the description of methods, to achieve those targets, (3) The determination of direct governmental operations and of measures designed to promote private enterprise in support of the development program, and (4) The pursuit of basic fiscal and monetary policies directed toward the maintenance of price stability, so as to encourage maximum savings and the best possible utilization of private investment funds.

The process whereby sound development programs may be formulated is a highly technical one, and I will not bore you with any of its details. I wish to emphasize, however, that development programming, as envisioned in the Alliance for Progress, consists of much more than the construction of mechanical models by economists and engineers operating under the influence of textbooks and slide rules. Secretary Dillon stated that "if" Latin America "takes the necessary internal measures" it may reasonably expect an inflow of at least 20 billion dollars during the next ten years. The formulation of technically sound national development programs is critical for that purpose. However, the Charter of Punta del Este emphasizes that those programs must not only be technically sound, but must also call for implementation of a series of basic economic and social reforms.

The participating countries considered those reforms so important that they gave them special prominence in the "Declaration to the Peoples of America" which served as the introduction to the Charter. I will not quote the full "Declaration" here, but I believe that you will attain a fuller appreciation of the "revolution of rising aspirations" in Latin America if I cite just a few of the reforms highlighted in that Declaration as representing the goals to which the peoples of the Continent are dedicating themselves:

> "To carry out urban and rural housing programs to provide decent homes for all our people.
>
> "To encourage ... programs of comprehensive agrarian reform ... so that ... the land will become for the man who works it the basis of his economic stability, the foundation of his increasing welfare, and the guarantee of his freedom and dignity.

"To assure fair wages and satisfactory working conditions to all our workers.

"To wipe out illiteracy; to extend ... the benefits of primary education to all Latin Americans; and to provide broader facilities, on a vast scale, for secondary and technical training and for higher education.

"To press forward with programs of health and sanitation in order to prevent sickness, combat contagious disease, and strengthen our human potential.

"To reform tax laws, demanding more from those who have most, to punish tax evasion severely, and to redistribute the national income in order to benefit those who are most in need, while, at the same time, promoting savings and investment and reinvestment of capital."

It might be useful at this point to caution against any tendency to put economic development and social development into separate, and even conflicting, compartments. It is true that foolishly devised programs for social development may interfere with sound economic development, just as foolishly devised programs for economic development may interfere with sound social development. Wisdom is necessary for the formulation of each type of development. But -- assuming such wisdom -- economic development and social development will not only move along together, but will be mutually reinforcing.

The establishment of new factories, the improvement of agricultural productivity, the expansion and strengthening of transportation systems -- all of these and many other types of growth usually encompassed within the concept of "economic" development will tend to increase national incomes, thereby making possible an increase of per capita incomes and such social advances as better housing and easier access to basic and higher education. On the other hand, the reforms usually encompassed within the concept of "social" development may greatly facilitate "economic" development. Agrarian reform, for example, may lead to better land use and, therefore, higher agricultural production. Encouragement to low cost housing may help strengthen the construction industry. Improvement in school systems -- certainly one of the most necessary of social reforms in Latin America -- is also one of the more important requirements for economic development, in view of the need in every developed and developing country for a literate people, with various forms of technical and managerial skills.

However, social and economic reforms can not be accomplished easily. It is no easy matter to change ways of life, to uproot traditions, which have prevailed in Latin America for centuries. It is no easy matter to establish these reforms in such a way as to be harmonious with all of the measures necessary for achievement of economic development. But it is only through the firm achievement of these goals that all of the peoples of Latin America will participate fully in the benefits of economic development. It is only in this way that the Alliance for Progress will have proven to be successful. And we of the United States can not bring those reforms to pass. They can only be devised and implemented by the Latin Americans themselves. This is why "self-help" is a major prerequisite for U. S. assistance under the Alliance. And this is why I believe that this greatly increased insistence upon "self-help" is part of a new and major change in the relations between the United States and Latin America.

I want now to refer to one other, and highly important, respect in which the Alliance for Progress reflects a major change in Inter-American relations. I am referring to the steps outlined in the Charter of Punta del Este for implementation of the Alliance. The United States Government as well as American investors have provided a great deal of effective assistance to promote the economic development of Latin America, especially since the end of the Second World War. Just during the decade of the 1950s, U. S. Government assistance to Latin America totalled about $3.5 billion, of which the Export-Import Bank alone provided $2.2 billion in long-term loans. In addition, new U. S. private investment in Latin America during that decade almost doubled, increasing from $3.7 billion to $7.2 billion. Also, the United States Government supported the creation in 1959 of the Inter-American Development Bank and agreed to provide $450 million toward the capital resources of that Bank. Moreover, the United States Government undertook at Bogota, Colombia, in September, 1960, to provide $500 million for a social development program, based on self-help, in Latin America.

Nevertheless, I think it fair to say Latin Americans have never been confident about the circumstances under which they might obtain additional assistance. Lack of confidence in this regard has in turn led to certain consequences harmful not only to the development of those countries, but harmful also to the promotion of better Inter-American relations. Among those harmful consequences may be mentioned the fact that Latin American Governments have frequently failed to concentrate their efforts on the formulation of sound loan applications because of a skepticism or cynicism as to the willingness of the U. S. Government to give those applications favorable consideration. Also, there has been an undue propensity in some countries to emphasize the political urgency, rather than the economic merits, of many of the loan applications which have in fact been submitted. Finally, even where governmental and private borrowers in Latin America have sought to prepare sound applications for U. S. loans, the applications have frequently proven to be unacceptable because of poor technical preparation.

The formulation of sound development programs and implementation of "self-help" measures will contribute greatly toward the preparation of sound loan applications. We believe that the same objectives will be considerably abetted, however, by utilization of the instrumentalities established in the Charter of Punta del Este for implementation of the Alliance. For these instrumentalities provide a unique importance to the word "Alliance" in the Alliance for Progress.

The most important instrumentality established for that purpose is the so-called "Panel of Experts." The specific members of the Panel of Experts were selected at the meeting of the Inter-American Economic and Social Council which closed on December 9, 1961. The Panel consists of nine men highly experienced in problems of economic development. Of the nine men, seven are Latin Americans who have had considerable experience in development planning in their own countries; one is a highly qualified American economist; and one is a highly qualified British economist. The Panel of Experts was formally convened for the purpose of beginning its work early this month.

It is too early to describe in detail the procedures which will be followed by the Panel of Experts in carrying out its assignment. Nevertheless, the importance of the Panel for the implementation of the Alliance for Progress is so great that I feel that I should tell you a little about the role set out for it in the Charter of Punta del Este.

The Charter of Punta del Este provides that each participating Government may, if it so wishes, present its program for economic and social development for consideration by the Panel of Experts. The Panel of Experts will appoint a separate small Subcommittee to consider the program of each such country. That Subcommittee, utilizing such expert assistance from other sources as it may require, "will study the development program, exchange opinions with the interested government as to possible modifications and, with the consent of the government, report its conclusions to the Inter-American Development Bank and to other governments and institutions that may be prepared to extend external financial and technical assistance in connection with the execution of the program." It is further provided in the Charter of Punta del Este that the Inter-American Development Bank "may undertake the negotiation required to obtain such financing, including the organization of a consortium of credit institutions and governments disposed to contribute to the continuing and systematic financing, on appropriate terms, of the development program."

Secretary Dillon stated at Punta del Este that the United States Government would expect the recommendations of the Panel of Experts "to be of great importance in determining the allocation of our own resources to Latin America for development purposes. We would also expect other friendly governments which are potential suppliers of capital, together with the international institutions in which we participate, to accept these expert recommendations as a major factor in their decisions on aid for Latin America."

Considerable importance should also be attached to the fact that the Organization of American States and the Inter-American Economic and Social Council, the Inter-American Development Bank, and the United Nations Economic Commission for Latin America have all dedicated themselves and all of their resources toward provision of such technical assistance and all other assistance as they can provide toward implementation of the

Alliance for Progress. The Alliance for Progress does in fact represent a whole-hearted and vigorous alliance, embracing all organs of Inter-American collaboration, with the objective of promoting the economic and social welfare of all of the peoples of the Americas.

I wish now to make special reference to the man who has been designated by President Kennedy as the U. S. Coordinator of the Alliance for Progress. He is Mr. Teodoro Moscoso. Mr. Moscoso was born of American parents in Spain in nineteen hundred and ten. After graduating from the University of Michigan in 1932 he became active in the business and civic life of Puerto Rico and in 1950 he became Administrator of the Economic Development Administration of Puerto Rico. He remained in that capacity until March 1961 when he was appointed U. S. Ambassador to Venezuela. In his capacity now as the U. S. Coordinator of the Alliance for Progress and as Regional Administrator for Latin America in our Agency for International Development, Mr. Moscoso's responsibilities for pulling together all of the many and diverse aspects of the U. S. policy as they affect Latin America are very great. I want to take this opportunity to express my own enthusiasm for the appointment of Mr. Moscoso. His experience, intelligence, and energy are all of a very high order and his willingness to undertake this task has reconfirmed the likelihood that the Alliance for Progress will, in fact, prove to be a success.

In closing, I wish to revert to President Kennedy's statement that "our unfulfilled task" -- the task which he placed on the shoulders of the Alliance for Progress -- "is to demonstrate to the entire free world that man's unsatisfied aspiration for economic progress and social justice can best be achieved by free men working within a framework of democratic institutions." The peoples of Latin America are demanding increasingly, and ever more urgently, that changes be made in their mode of life, to the end that they live more comfortably and with greater personal dignity. The United States Government believes that their objectives are worthy objectives, closely similar in almost every respect to those which have motivated the people of the United States throughout our own history. We believe that, if the people of Latin America do what they can to help themselves, it is in the interest of the United States to do what we reasonably can do to help them reach those objectives.

The Alliance for Progress is designed to offer the peoples of Latin America the realistic expectation of better days to come. It is designed to demonstrate that the people of the United States stand ready to help them attain those better days. It is designed to demonstrate that free men, working together in a true spirit of brotherhood, can reach goals undreamed of, and certainly unattained, by men living in chains. We have offered Latin America the hope and expectation. We must now see that hope and expectation are translated into reality.

Statement of Douglas Dillon
Secretary of the Treasury
before the Committee on Appropriations
United States Senate
January 29, 1962

Mr. Chairman and members of the Committee:

I am pleased to participate with the Director of the Budget Bureau in discussing the 1963 budget with you. I will direct my remarks to the revenue estimates and the economic outlook.

Budget receipts for the fiscal year 1961 totaled $77.7 billion. They are estimated to rise by $4.4 billion to $82.1 billion in the current fiscal year and further by $10.9 billion to $93.0 billion in the fiscal year 1963.

Over four-fifths of all Federal revenues come from taxes on incomes earned by individuals and corporations, but in the case of corporations and non-withheld personal incomes only with a considerable lag. For the fiscal year ending June 30, 1962, the bulk of our tax receipts are based on incomes earned during calendar year 1961. And again, for the fiscal year ending June 30, 1963, the bulk of our collections are based on economic activity in calendar 1962. That is why the table I am submitting shows receipts for fiscal years and economic activity for calendar years.

All major tax sources, as indicated in the attached table, show increases for both fiscal years 1962 and 1963. The individual income tax will continue as the single most important source of revenue and provides more than 50 percent of budget receipts in the two fiscal years. Receipts from that source are estimated to show substantial gains in both fiscal years.

Receipts from the corporation income tax, the second most important source of revenue, are expected to rise only slightly in the fiscal year 1962 because corporate profits in 1961 were only very little better than in 1960. In fiscal 1963, corporation income tax receipts, reflecting a sharp improvement in profits during calendar 1962, should increase by $5.3 billion, accounting for almost 50 percent of the rise in total revenues.

Relatively substantial gains are also estimated for the other major sources of tax revenue, the excise taxes, estate and gift taxes and customs. Revenues from miscellaneous receipts, primarily from non-tax sources, are expected to drop sizably in 1962 but to rise in 1963 to a level somewhat higher than that of 1961.

Estimated receipts of $93.0 billion in the fiscal year 1963 represent an increase of 13.3 percent over the estimates of $82.1 billion for 1962. This increase, larger than the average annual increase to be expected, is not inconsistent with gains in revenues during recovery periods. Receipts in the fiscal year 1960, reflecting the economic recovery from the 1957-1958 recession, rose 14.5 percent over fiscal year 1959. Receipts increased almost 16 percent in the fiscal year 1956 as compared to 1955 after adjusting that year for the effect of the acceleration of corporation income tax collections under the Mills plan.

These revenue estimates reflect our belief that the economy which has already achieved substantial recovery from the 1960-1961 recession will continue to move forward and that substantial further gains in employment and incomes will be realized. The economic projections underlying our revenue estimates may be expressed in terms of three important economic measures: gross national product, personal income and corporate profits.

Gross national product, the total value of goods and services produced, rose from a seasonally adjusted annual rate of $501 billion in the first quarter of 1961 to $542 billion in the fourth quarter. This is a rise of $41 billion or 8.2 percent, an average quarterly rise in excess of 2½ percent. For 1961 as a whole, gross national product was $521 billion. The projected continuation of this expansion, but at a somewhat slower average rate of 2 percent, would result in a gross national product in the calendar year 1962 of $570 billion. This is an increase of $49 billion over the calendar year 1961.

A further expansion through and beyond the end of 1962 would be entirely consistent with past experience. Even the shortest postwar recovery, that of 1958-1960, lasted 25 months.

Personal income, which did not decline significantly during the 1960-1961 recession, partly because of anti-recession measures, rose from a seasonally adjusted annual rate of $405 billion in the first quarter of calendar year 1961 to $429 billion in the fourth quarter. By December, the rate had reached $431.3 billion, bringing the total for the year as a whole to $417 billion. For the calendar year 1962, personal income is expected to rise to $448 billion, a figure consistent with the increase in the value of goods and services anticipated for that year.

Corporate profits normally fluctuate sharply over the business cycle. In the first quarter of calendar year 1961, the annual rate had dropped to $39.6 billion, $8.5 billion below the $48.1 billion rate for the same quarter of the preceding year. Since then, profits have risen sharply, and current indications are that they exceeded a $50 billion rate in the fourth quarter. However, because they began the year at such a low level, corporate profits for calendar year 1961 as a whole are now estimated at $46 billion, not much higher than the total of $45 billion in 1960. This relatively small difference in annual corporate profits for the two years is responsible for the limited rise in corporate income tax receipts in the fiscal year 1962.

A continued rise from the fourth quarter 1961 level of over $50 billion is expected to carry corporate profits for the calendar year 1962 to $56½ billion, an increase of approximately $10½ billion above 1961. This is in line with past experience during similar recovery periods. The increase in percentage terms comes to less than 23 percent, compared to the increase of 25 percent in 1959 and nearly 32 percent in 1955.

Estimated profits for 1962 would be approximately 9.9 percent of gross national product, significantly less than the ratio of 10.7 percent in 1956, the last fully comparable year as far as general business activity is concerned. In 1959, when the long steel strike cut sharply into profits and curtailed revenues, the ratio was only slightly lower than projected for 1962.

In summary, we anticipate that the recovery movement will remain strong, but that the recent very rapid rate of expansion, typical of the early months of recovery, will slow somewhat during the latter part of the period underlying fiscal year 1963 receipts. Our projections appear reasonable and realistically attainable on the basis of past experience during comparable recovery years.

Our revenue estimates for 1963 have been prepared on the assumption that the present tax rates on corporation income and certain excises are extended for another year beyond their scheduled expiration date of June 30, 1962. Postponement of these changes for another year will prevent a revenue loss of $2.8 billion in 1963. The estimates further assume that the recommendations of the President with respect to transportation taxes will be enacted.

With regard to tax legislation, extensive and careful consideration has already been given to the proposals ennumerated in the President's special tax message to the Congress last April. The House Committee on Ways and Means has made action on these recommendations its first order of business this year. We particularly urge enactment of the tax credit for investment in depreciable equipment, with any net reduction in fiscal 1963 revenues resulting from its adoption to be offset by additional revenues from the enactment of other measures to remove defects and inequities in the tax structure. Only in that way can the overall balance be maintained, so that the budget may play its proper role in encouraging growth without inflation in the economic setting likely to prevail in the months ahead.

In closing may I express my appreciation for this opportunity of explaining to the Senate Appropriations Committee the basis of our revenue projections and estimates. I look forward to working with the Committee in the best interests of the Nation.

## Net budget receipts

Budget receipts, actual fiscal year 1961 and estimated fiscal years 1962 and 1963; and underlying income assumptions

(In billions of dollars)

| | Fiscal year 1961 (actual) | Estimated Fiscal year 1962 | Estimated Fiscal year 1963 |
|---|---|---|---|
| Receipts | | | |
| Individual income tax: | | | |
| Withheld | 28.3 | 31.5 | 35.2 |
| Not withheld | 13.0 | 13.5 | 14.1 |
| Total | 41.3 | 45.0 | 49.3 |
| Corporation income tax | 21.0 | 21.3 | 26.6 |
| Excise taxes | 9.1 | 9.6 | 10.0 |
| Estate and gift taxes | 1.9 | 2.1 | 2.3 |
| Customs | 1.0 | 1.2 | 1.3 |
| Miscellaneous receipts | 3.4 | 2.9 | 3.5 |
| Net budget receipts | 77.7 | 82.1 | 93.0 |

| | Calendar years 1960 | Calendar years 1961 | Calendar years 1962 |
|---|---|---|---|
| Income levels | | | |
| Gross national product | 504.4 | 521.2 | 570.0 |
| Personal income | 402.2 | 416.7 | 447.6 |
| Corporate profits | 45.0 | 46.1 | 56.5 |

FOR RELEASE A. M. NEWSPAPERS, Tuesday, January 30, 1962.

January 29, 1962

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 2, 1961, and the other series to be dated February 1, 1962, which were offered on January 24, were opened at the Federal Reserve Banks on January 29. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $600,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

| RANGE OF ACCEPTED COMPETITIVE BIDS: | 91-day Treasury bills maturing May 3, 1962 | | 182-day Treasury bills maturing August 2, 1962 | |
|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | Price | Approx. Equiv. Annual Rate |
| High | 99.322 a/ | 2.682% | 98.520 b/ | 2.927% |
| Low | 99.313 | 2.718% | 98.511 | 2.945% |
| Average | 99.316 | 2.705% 1/ | 98.514 | 2.939% 1/ |

a/ Excepting one tender of $150,000; b/ Excepting one tender of $10,000
37 percent of the amount of 91-day bills bid for at the low price was accepted
48 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | Applied For | Accepted |
|---|---|---|---|---|
| Boston | $ 30,473,000 | $ 14,473,000 | $ 5,665,000 | $ 5,465,000 |
| New York | 1,628,238,000 | 775,483,000 | 1,077,105,000 | 471,770,000 |
| Philadelphia | 32,849,000 | 11,849,000 | 6,657,000 | 1,622,000 |
| Cleveland | 46,908,000 | 28,758,000 | 17,118,000 | 8,956,000 |
| Richmond | 9,542,000 | 9,542,000 | 1,454,000 | 1,204,000 |
| Atlanta | 17,470,000 | 15,100,000 | 3,921,000 | 2,721,000 |
| Chicago | 219,274,000 | 175,454,000 | 99,570,000 | 35,570,000 |
| St. Louis | 28,112,000 | 22,112,000 | 5,775,000 | 3,775,000 |
| Minneapolis | 22,756,000 | 17,811,000 | 8,080,000 | 2,370,000 |
| Kansas City | 35,905,000 | 24,905,000 | 7,332,000 | 6,087,000 |
| Dallas | 29,326,000 | 24,326,000 | 10,718,000 | 5,223,000 |
| San Francisco | 112,591,000 | 81,291,000 | 90,757,000 | 55,547,000 |
| TOTALS | $2,213,444,000 | $1,201,104,000 c/ | $1,334,152,000 | $600,310,000 |

c/ Includes $198,680,000 noncompetitive tenders accepted at the average price of 99.316
d/ Includes $43,276,000 noncompetitive tenders accepted at the average price of 98.514
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.76%, for the 91-day bills, and 3.02%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, January 30, 1962.

January 29, 1962

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## The Continuing Challenge

The continuing economic challenge before us is clear: we must fashion the most effective arrangements possible to assure that our free economy will reach its unrivalled potential and enable us to fulfill our responsibilities for leadership in the free world. In meeting that challenge, we are acting in those areas where Government can appropriately and helpfully initiate new programs and policies. Equally important, we have tried to be conscious of those things Government cannot do, or that the private sector of our economy can do better.

The essential and unique characteristic of the American economy is the strength it derives from individual freedom for all of us -- as workers, employers, owners, and consumers.
In shaping our program for the years ahead, we are working toward the sort of environment that will strengthen and preserve that precious heritage.

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will powerfully reinforce the effectiveness of the Fund, and could be of great assistance to the United States. Enabling legislation will be submitted to the Congress shortly.

Economic Security and Stabilization

The President has proposed a series of measures to promote greater economic security for all our people, to permit more of our citizens to share fairly in the growth of the economy, and to reduce the hardships and waste of recurrent recessions. Aid to depressed areas and worker retraining can help speed growth and eliminate pockets of hardship. Broadened unemployment insurance can both reduce personal misfortune and strengthen the "automatic stabilizers" that have helped prevent our postwar recessions from turning into full scale depressions. And, a reserve shelf of public works will strengthen our defenses against a possible future recession.

The President has also set before you a carefully devised plan for introducing an element of flexibility into our tax structure. The measure would facilitate a timely, but temporary, reduction in personal income tax rates, at his initiative, in the event of a serious business downturn. Its significance lies in the fact that a reduction in personal tax rates could speedily give a powerful boost to consumer spending power at critical junctures, when delay might permit cumulative downward forces to take hold. Adequate safeguards are provided, including strict limits on the amount and duration of any such tax reduction. This carefully circumscribed delegation of authority to the President, always subject to Congressional veto, would be a significant addition to our arsenal of anti-recessionary weapons.

financial powers on a periodic basis. These discussions have laid the foundation of common understanding and cooperation that is a prerequisite for effective international action to prevent, limit, or offset currency movements that could undermine a stable monetary system. They have been supplemented by Federal Reserve participation in the regular meetings of European central bankers at Basle, and by bilateral consultations with our principal financial partners.

The Treasury also has undertaken the purchase and sale of foreign currencies for the first time in a generation. These operations helped at certain critical periods to reduce incentives to shift funds abroad on a speculative basis or to take advantage of temporary differentials in the exchange markets. The Federal Reserve has also recently decided to undertake operations in foreign currencies, a development which we in Treasury regard as highly promising. Chairman Martin will be elaborating further on this approach during his testimony this afternoon. I look forward to our continued cooperation with the Federal Reserve in the international field, just as in the domestic area.

Finally, and most significant for the strengthening of the international monetary system, is the agreement reached among ten of the major industrialized countries to buttress the resources and capabilities of the International Monetary Fund by lending it specified amounts of their own currencies when necessary to cope with temporary stresses. This $6 billion of standby facilities, including almost $2-1/2 billion of European Common Market currencies, will both reduce the likelihood of a "run" on any member currency and provide the means to withstand the impact of a speculative attack should one develop. The new arrangements year. Some shifts recorded as an outflow were apparently promptly reinvested in the New York market by agencies of foreign banks. This again seems to be the case particularly with Canadian banks and their agencies. We cannot as yet pinpoint the relative weight of all these factors. There are serious questions whether our conventional classifications of short-term capital flows accurately reflect their true significance for the balance of payments. This difficult subject is presently a matter of intensive study.

Certainly, the fact that the exchange markets have been calm for months belies any implication that these recent outflows are a symptom of concern about the dollar. So does the fact that a much smaller proportion of the dollars flowing abroad was converted into gold during 1961. In addition early and necessarily fragmentary data for January indicate that these unusual outflows have ceased.

Strengthening the International Monetary System

Whatever their cause, the large flows of short-term capital since the institution of currency convertibility by major foreign countries provide evidence of the need to bulwark the dollar and the whole international payments mechanism against their potentially disturbing impact. In a world of convertible currencies and free markets, sizable flows of liquid funds between markets can be expected as a natural response to myriad changes in both our own and foreign economies. The danger is that, under certain circumstances, they may set off self-propelling speculative movements.

During the past year, we have used three approaches in dealing with this problem:

For many months, the Treasury, operating within the framework of the newly created Organization of Economic Cooperation and Development, has been conducting fruitful consultations with other to an overall deficit -- including short-term capital outflows -- approximating \$2.5 billion, down from \$3.9 billion in 1960 and from an average of \$3.7 billion over the three years 1958-1960.

Much remains to be done before equilibrium is restored. Some year-end figures now becoming available and tentative data for the fourth quarter emphasize the need for caution. The over-all deficit appears to have risen to well over \$1 billion in the final quarter, considerably above the average for the first three quarters of the year.

The increase in the deficit from the third to fourth quarters appears to have been entirely a matter of short-term capital outflows -- one of the most elusive items to pin down statistically. Estimates now at hand suggest that these flows, for the year as a whole,were almost as large as in 1960.

There were, however, clear and significant differences in the character of these outflows. In 1960, reflecting some uncertainty over the stability of the dollar, the outflow had been in considerable part of a speculative character, and the flows were quickly translated into a drain of gold. This disruptive speculation ceased early in 1961. There was, however, a continuing outflow of short-term funds over the first three quarters of 1961, related largely to an increase in the financing of foreign trade by American banks.

In the fourth quarter, a further outflow from this source was coupled with large shifts of liquid funds to foreign markets -- partly in response to interest rate differentials, and partly related to certain quirks in the impact of domestic and foreign tax treatment of earnings of American companies with operations in Canada resulting from changes made in Canadian tax laws during the expanding our export potential and forging a strong Atlantic trading partnership. To seize this opportunity, President Kennedy has sent to Congress a new Trade Expansion Act.

Increased exports are, over the long run, the most effective means of eliminating our basic balance of payments deficit in a manner consistent with our other objectives and responsibilities. But because of our current position, other efforts to reduce the drains directly related to our overseas commitments must be continued and reinforced.

One of the most important is the negotiation of arrangements with certain of our allies to offset the dollar outflow arising from maintaining our military forces overseas. In addition, a large portion of our economic assistance is being tied to purchases in this country. And, the proposed legislation to equalize the impact of the corporate income tax on business operations at home and in developed countries abroad would eliminate a special stimulus to investment in industrialized nations.

## The Balance of Payments in 1961

Although some of these measures have been in effect for only a limited period of time and others are yet to be undertaken, our balance of payments showed substantial improvement for 1961 as a whole. While firm data are still not available, current indications are that the basic deficit -- the net of all our recorded transactions except volatile short-term capital flows -- declined to roughly $600 million, as compared to almost $2 billion during 1960. A part of this improvement -- almost $700 million -- can be credited to advance repayments by foreigners of long-term Government loans. Nevertheless, the improvement in the remainder of the basic account was substantial. Preliminary figures point the nature of these proposals would be premature, but a thoroughgoing reform of this type will almost certainly entail some adjustments in the basic individual tax rates.

Toward Payments Equilibrium

Tax reform to stimulate modernization of our industrial equipment provides a foundation for other efforts to improve our balance of payments position, including measures aimed directly at increasing exports to the large and rapidly growing markets of Europe and other developed countries. The Administration is pursuing with vigor its program to make more American businesses aware of the opportunities in foreign markets, to familiarize those markets with American products, and to enlarge and speed the flow of information between American producers and their potential markets. A new and comprehensive program of export credit insurance undertaken by the Export-Import Bank in cooperation with private insurance companies and banks, is now ready and will provide simplified procedures and comprehensive risk guarantees fully equivalent to those long available to most of our competitors abroad.

In today's world, export markets are highly competitive. The rapid growth and consolidation of the European Common Market, creating a free internal market but protected from outsiders by a wall of uniform tariffs, poses a serious problem -- but it also presents a great opportunity. The problem is that we must assure ourselves of access to the richest of our foreign markets -- a market to which we export almost $3-1/2 billion per year, a far larger amount than we import from the same area. The opportunity lies in the mutual negotiation of lower tariffs on a reciprocal basis for broad groups of products, at one and the same time

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Based on exhaustive statistical and engineering studies, these administrative actions, consistent with the present law, recognize past experience and practices as well as the impact of technological advances and other factors on the economic life of plant and equipment. They will provide a much more realistic basis for taxation, and will stimulate business modernization and expansion. They can not alone, however, assure the necessary flow of funds into new productive facilities, nor will they place American firms on an equal footing with their competitors abroad, where special incentive allowances are commonplace. To achieve this, revision of depreciation guidelines must be accompanied by the proposed investment credit. These coordinated reforms go together and should not be separated.

In enacting the investment credit, we must also recognize the need to avoid a loss of revenue that could jeopardize the prospects for a vigorous recovery with stable prices. It is for this reason that the President is urging the simultaneous enactment of tax reforms that will balance the cost of the investment credit and at the same time eliminate certain defects and inequities in our tax structure.

Meanwhile the Treasury is continuing its intensive review of the broad issues of tax reform, including the structure of the personal income tax. Fundamental changes of this sort inevitably require careful preparation, and close analysis of a welter of detail. In the end, Congressional hearings will provide the best assurance of a full and fair appraisal of the implications of any basic change in the tax laws. The President plans to submit to the Congress later in this session a broad program of tax reform so that this process of public scrutiny can get underway promptly, looking to enactment of the reform in 1963. Any comment now on growing by roughly 5 percent per year, while generally maintaining a strong external payments position. Nor is it mere happenstance that some other countries, where productive investment has been a relatively small proportion of G.N.P., have had to cope with relatively slow growth and recurrent payments difficulties.

Certainly growth alone, or larger investment by itself, is no guarantee of external balance. But foreign experience strongly suggests that our twin objectives can be not only compatible, but mutually reinforcing.

In our economy, investment in plant and equipment is properly the province of private businesses, individually responding to the profit motive and competitive pressures by increasing production efficiencies and seeking out new markets. The Government nevertheless has an essential role to play in maintaining an economic climate that will encourage and facilitate the investment process.

I have mentioned the role of budgetary policy in this regard. But a balanced budget alone cannot meet our urgent need to increase our rate of investment in productive capital equipment. It is also vitally important that our tax system should recognize the need to accelerate the modernization of our physical plant and equipment.

This is why the Administration has attached first priority, among tax reform measures, to the investment credit and the related revision in depreciation schedules. The first steps toward depreciation reform have already been taken with the new depreciation allowance guidelines for most of the textile industry. Revisions in guidelines for other industries will be announced this spring.

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A balanced budget in times of relative prosperity means that the Federal government on an overall basis does not draw on the national flow of savings available for investment. Thus a balanced budget in these circumstances promotes the flow of private investment.

Why is an increase in such investment so important to us today?

At the heart of the matter is the fact that it makes possible greater productive efficiency. Gains in efficiency are necessary for growth at home, for price stability, and for aggressive penetration of foreign markets. Thus, increased investment is the key to achieving our major objectives -- growth and external balance -- simultaneously in the years ahead. And, this is where the American economy has fallen furthest behind in recent years.

Since the mid '50's investment in capital equipment in the United States has averaged less than 6 percent of the Gross National Product as compared to about 7 percent during the earlier postwar years. By contrast, German investment has been averaging about 12 percent of G.N.P. during recent years, French between 8 and 9 percent, and the Common Market countries as a group about 10 percent. It is not a coincidence that these countries have been projections of a further rise in the Gross National Product to $570 billion in 1962 that underlie the revenue estimates are entirely reasonable. Without raising tax rates an advance of this sort will generate revenues slightly larger than expenditures. Under the economic conditions we foresee, the achievement of such a balance is highly important in avoiding inflationary pressures as the economy moves closer to its full potential.

One result of this budget will be to reduce the possibility severe strains on the monetary system as the economy expands -- strains that could bring sharp and sudden increases in interest rates and unsettling market reactions that impede the flow of savings into productive investment. In 1956 and 1957, and particularly in 1959, strains of this sort appeared to be developing at a time when too much of the burden of maintaining balanced growth and curbing excesses was thrust upon the monetary authorities. Monetary policy is an essential and powerful tool for facilitating appropriate adjustments in the economy. But unless it is supported by appropriate budgetary policy, the results can be capricious and unpredictable, contributing too little to either stability or growth.

The Debt Ceiling

The President's recent request to raise the temporary debt limit to $308 billion is the result of an unavoidable concentration of revenues in the final half of fiscal 1963 -- a concentration that stems largely from the normal recurring seasonal pattern of tax receipts. Borrowing of about $9 billion will be necessary between the end of this fiscal year and the principal tax payment dates in fiscal 1963 -- even though the budget for the fiscal year as a whole is balanced. Moreover,

## Our Basic Goals

This does not mean, of course, that all the policies appropriate to the past twelve months are suitable for meeting the challenges of 1962. With recovery largely completed, the domestic focus must now be on maintaining forward momentum while guarding against inflationary pressures as our resources are more fully utilized. Confidence in the dollar has been maintained. To sustain that confidence, further progress toward a long-run equilibrium in our basic international accounts is a necessity.

Our fundamental objectives -- domestic growth and a payments balance -- must be pursued together, within the framework of free markets. All Administration policy is pointed toward that end.

We reject policies that presume irreconcilable conflict between our objectives; policies that attach sole priority to growth, or sacrifice growth to external equilibrium. These purported solutions are both unacceptable and unworkable in a world in which our capacity to grow is being challenged and our allies in freedom need the strength and stability assured by a solid dollar.

Success in reaching our twin objectives will require hard decisions, not only by those who shape the financial policies of Government, but also by those who set price and wage policies for management and labor.

## A Balanced Budget

The President's Budget Message is a financial reflection of our national needs and priorities. Expenditures will rise moderately in fiscal 1963, almost entirely because of defense needs and despite painstaking elimination of non-essential spending, both military and civilian. These expenditures can and should be supported by a growing economy. In the light of past experience and current trends, the rates, while less important in influencing investment activity at home, can play a critical role in directing the flow of liquid capital between the financial centers of the world. Here, Treasury debt management policy, as well as greater flexibility in the day-to-day conduct of open market operations, was an important factor.

Working in close cooperation with the Federal Reserve, the Treasury, in financing the deficit, increased the outstanding total of securities maturing within a year by more than $10 billion. At the same time, there was no shortening of the average maturity of the marketable public debt, largely as a result of the continued use of the "advance refunding" technique. This type of financing involves the exchange of outstanding issues for longer maturities, with a minimum impact on market conditions and flows of funds into productive investment.

This combination of a budgetary deficit with flexible monetary and debt management policies, carefully attuned to the realities of the balance of payments as well as domestic needs, was appropriate both in terms of magnitude and timing. The extremes of the 1958 recession -- when the deficit reached nearly $12-1/2 billion and interest rates dropped sharply, only to surge abruptly higher as recovery started -- were successfully avoided. Financial policies were stimulating without being inflationary; the threat of disturbing short-term capital outflows was ameliorated. Moreover, business expansion has proceeded in orderly fashion. Today, signs of the sort of excesses that breed instability and require sudden changes in policy are notable for their absence.

This positive approach entailed, under the particular circumstances then prevailing, acceptance of a sizable budgetary deficit -- which was further enlarged by the higher levels of defense spending called for by the Berlin crisis. At a time when human and industrial resources were readily available to expand output, the rising trend of Government outlays and the consequent deficit were important factors in speeding the recovery without creating pressures on the price structure.

The stimulating effects of the budget were reinforced by monetary and credit policies. Throughout the past year, the credit markets have had ample funds to meet the combined demands of businesses, individuals, and the various levels of government -- thus facilitating a revival in capital outlays, higher levels of home building, and steady progress toward meeting the accumulated needs of local governments. In sharp contrast to other recovery periods since World War II, lending rates have held almost steady, particularly in the long-term area. Both corporations and state and local governments can still raise funds at virtually the same cost as a year ago. Mortgage rates, after declining in the early part of 1961, have been substantially unchanged since last spring. This stability was particularly striking in a year when the total funds raised in the capital markets by corporations, home-buyers, and state and local governments, reached a new all-time peak.

All this was accomplished without permitting rates for short-term money market instruments to drop to the extremely low levels characteristic of earlier periods of easy money and recession. That was a significant achievement, for short-term

However, the economy is still operating well below its full potential. Our growth rate over recent years has hardly been satisfactory. Unemployment is still at an unacceptably high level. The deficit in our international accounts, while smaller, remains troublesome. And, the very progress of the past year, not only in this country but in other parts of the free world, has brought with it new problems to which we must find solutions.

Financial Policies in 1961

There is no single, easy explanation for our progress during 1961. A large part of the answer lies in the natural vitality of our type of market economy operating under conditions of over-all price stability -- the fundamental prerequisite for all our attempts to achieve faster growth at home while simultaneously working toward a sustainable balance in our international accounts. That price stability, in turn, can be traced primarily to sharp gains in industrial efficiency and worker productivity as output expanded from its recession level -- gains that enabled industry to pay higher wages and to increase profits without raising prices.

Government policy supplied another large part of the answer. First, there was the psychological, but nonetheless real, reaction that flowed from President Kennedy's earliest statements and programs. At home, the President's clear intent to deal with the recession promptly and effectively helped restore confidence in the economic outlook, encouraging expanded investment and spending. Similarly, the President's expressed determination to maintain the strength of the dollar internationally without resort to protection, controls, and restraints met with a prompt response. The speculative capital outflow subsided and the gold drain was sharply reduced.

TREASURY DEPARTMENT
Washington



FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
TUESDAY, JANUARY 30, 1962, 10:00 A.M.,EST.

Mister Chairman and Committee Members:

The past twelve months have been an active, and I think fruitful, period in terms of our economic policy. In many ways, remarkable progress has been evident. Nevertheless, urgent problems remain. I am grateful for this opportunity to review with you today both our recent experience and our plans for meeting the needs of the future.

## Progress and Problems

Last year began in recession, but closed with output and income at new record highs. The personal hardship and economic waste of unemployment were reduced. Nearly a million workers were added to non-farm payrolls. Industry, while working longer hours at higher pay, is also earning greater profits. And, while providing a higher standard of living for our citizens, we have strengthened our military defenses and contributed further to the economic progress of other, less fortunate nations.

This progress was achieved within a context of general price stability. On that solid base, exports reached a record volume, contributing to a significant reduction in our basic balance of payments deficit. At the same time, defenses against potentially disturbing short-term capital movements are being greatly reinforced. As a result, confidence in the dollar has been strengthened.

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Much remains to be done before equilibrium is restored. Some year-end figures now becoming available and tentative data for the fourth quarter emphasize the need for caution. The over-all deficit appears to have risen to well over $1 billion in the final quarter, considerably above the average for the first three quarters of the year.

The increase in the deficit from the third to fourth quarters appears to have been entirely a matter of short-term capital outflows -- one of the most elusive items to pin down statistically. Estimates now at hand suggest that these flows, for the year as a whole,were almost as large as in 1960.

There were, however, clear and significant differences in the character of these outflows. In 1960, reflecting some uncertainty over the stability of the dollar, the outflow had been in considerable part of a speculative character, and the flows were quickly translated into a drain of gold. This disruptive speculation ceased early in 1961. There was, however, a continuing outflow of short-term funds over the first three quarters of 1961, related largely to an increase in the financing of foreign trade by American banks.

In the fourth quarter, a further outflow from this source was coupled with large shifts of liquid funds to foreign markets -- partly in response to interest rate differentials, and partly related to certain quirks in the impact of domestic and foreign tax treatment of earnings of American companies with operations in Canada resulting from changes made in Canadian tax laws during the year. Some shifts recorded as an outflow were apparently promptly reinvested in the New York market by agencies of foreign banks. This again seems to be the case particularly with Canadian banks and their agencies. We cannot as yet pinpoint the relative weight of all these factors. There are serious questions whether our conventional classifications of short-term capital flows accurately reflect their true significance for the balance of payments. This difficult subject is presently a matter of intensive study.

Certainly, the fact that the exchange markets have been calm for months belies any implication that these recent outflows are a symptom of concern about the dollar. So does the fact that a much smaller proportion of the dollars flowing abroad was converted into gold during 1961. In addition early and necessarily fragmentary data for January indicate that these unusual outflows have ceased.

Strengthening the International Monetary System

Whatever their cause, the large flows of short-term capital since the institution of currency convertibility by major foreign countries provide evidence of the need to bulwark the dollar and the whole international payments mechanism against their potentially disturbing impact. In a world of convertible currencies and free markets, sizable flows of liquid funds between markets can be expected as a natural response to myriad changes in both our own and foreign economies. The danger is that, under certain circumstances, they may set off self-propelling speculative movements.

During the past year, we have used three approaches in dealing with this problem:

For many months, the Treasury, operating within the framework of the newly created Organization of Economic Cooperation and Development, has been conducting fruitful consultations with other financial powers on a periodic basis. These discussions have laid the foundation of common understanding and cooperation that is a prerequisite for effective international action to prevent, limit, or offset currency movements that could undermine a stable monetary system. They have been supplemented by Federal Reserve participation in the regular meetings of European central bankers at Basle, and by bilateral consultations with our principal financial partners.

The Treasury also has undertaken the purchase and sale of foreign currencies for the first time in a generation. These operations helped at certain critical periods to reduce incentives to shift funds abroad on a speculative basis or to take advantage of temporary differentials in the exchange markets. The Federal Reserve has also recently decided to undertake operations in foreign currencies, a development which we in Treasury regard as highly promising. Chairman Martin will be elaborating further on this approach during his testimony this afternoon. I look forward to our continued cooperation with the Federal Reserve in the international field, just as in the domestic area.

Finally, and most significant for the strengthening of the international monetary system, is the agreement reached among ten of the major industrialized countries to buttress the resources and capabilities of the International Monetary Fund by lending it specified amounts of their own currencies when necessary to cope with temporary stresses. This $6 billion of standby facilities, including almost $2-1/2 billion of European Common Market currencies, will both reduce the likelihood of a "run" on any member currency and provide the means to withstand the impact of a speculative attack should one develop. The new arrangements will powerfully reinforce the effectiveness of the Fund, and could be of great assistance to the United States. Enabling legislation will be submitted to the Congress shortly.

Economic Security and Stabilization

The President has proposed a series of measures to promote greater economic security for all our people, to permit more of our citizens to share fairly in the growth of the economy, and to reduce the hardships and waste of recurrent recessions. Aid to depressed areas and worker retraining can help speed growth and eliminate pockets of hardship. Broadened unemployment insurance can both reduce personal misfortune and strengthen the "automatic stabilizers that have helped prevent our postwar recessions from turning into full scale depressions. And, a reserve shelf of public works will strengthen our defenses against a possible future recession.

The President has also set before you a carefully devised plan for introducing an element of flexibility into our tax structure. The measure would facilitate a timely, but temporary, reduction in personal income tax rates, at his initiative, in the event of a serious business downturn. Its significance lies in the fact that a reduction in personal tax rates could speedily give a powerful boost to consumer spending power at critical junctures, when delay might permit cumulative downward forces to take hold. Adequate safeguards are provided, including strict limits on the amount and duration of any such tax reduction. This carefully circumscribed delegation of authority to the President, always subject to Congressional veto, would be a significant addition to our arsenal of anti-recessionary weapons.

The Continuing Challenge

The continuing economic challenge before us is clear: we must fashion the most effective arrangements possible to assure that our free economy will reach its unrivalled potential and enable us to fulfill our responsibilities for leadership in the free world. In meeting that challenge, we are acting in those areas where Government can appropriately and helpfully initiate new programs and policies. Equally important, we have tried to be conscious of those things Government cannot do, or that the private sector of our economy can do better.

The essential and unique characteristic of the American economy is the strength it derives from individual freedom for all of us -- as workers, employers, owners, and consumers. In shaping our program for the years ahead, we are working toward the sort of environment that will strengthen and preserve that precious heritage.

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January 31, 1962

FOR IMMEDIATE RELEASE

TREASURY DECISION ON REFINED CAMPHOR
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that refined camphor from Taiwan is not being, nor likely to be, sold in the United States at less than fair value within the meaning of the Antidumping Act. Notice of the determination will be published in the Federal Register.

Appraising officers are being instructed to proceed with the appraisement of this merchandise from Taiwan without regard to any question of dumping.

The dollar value of imports of the involved merchandise received during 1961 was approximately $33,000.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 31, 1962

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4. The insurance or reinsurance of U.S. risks (or risks in connection with tax haven transactions) where a related U. S. business entity is the beneficiary or is instrumental in placing the insurance or reinsurance.

Certain exemptions from these general definitions of "tax haven transactions" are included in the proposal, however.

Among the exceptions are:

1. The resale by a foreign-based corporation, outside the country in which it is established, of agricultural or mineral products purchased in its country of location. The previous Treasury draft contained this exemption for agricultural but not for mineral products.

2. The use of a local sales company to sell products to be used within the country of its incorporation.

3. The receipt of dividends and interest by a holding company incorporated in the same country as the payor corporation.

4. The use of a sales subsidiary, incorporated in the same country, by a U.S.-controlled manufacturing subsidiary which actually does a substantial portion of its manufacturing in that country. This exception will be allowed only in cases where the local tax imposed on the separate companies is substantially the same as it would have been with a one-company operation.

The new draft also contains a provision permitting an offset of losses in previous years against tax liabilities. A three-year loss carryback and five-year loss carryforward would be permitted.

Other changes from the earlier draft permit earnings from existing "tax haven corporations" to be taxed in the same manner as those of ordinary domestic corporations, if desired by the companies.

The draft also provides that a specific company which can establish that it is not avoiding taxes by reason of its place of incorporation and which should not, therefore, be subject to the provisions of the legislation, will not be covered. There was no such provision in the earlier draft.

The draft also makes certain technical changes concerning allocations of dividend distributions, definitions and other matters

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which frequently do not add so much as 20 per cent to the value of the purchased raw materials but do involve a "substantial transformation" of the product, would continue to be eligible for tax deferral.

Earnings from construction and shipping operations would also, in general, remain unaffected by the new Treasury "tax haven" proposal.

The draft bill describes a "tax haven" operation as one conducted by a company (1) in which more than 50 per cent of the voting stock is held by American citizens or corporations; (2) which receives income from sales or other activities conducted outside the country in which it is organized; and (3) which deals with legally related business entities. Generally, all three tests must be met.

Under the present proposal, as with the previous one, U. S. shareholders in "tax haven" companies would be taxed on earnings arising from specific types of "tax haven transactions."

Earnings of a U.S.-controlled foreign subsidiary engaging in some operations defined as "tax haven transactions" and in other operations which do not fall within this definition, would generally be subject to taxation on that portion of the earnings derived from "tax haven transactions."

When only 20 per cent or less of the subsidiary's earnings are attributable to "tax haven transactions," however, none of the income would be taxed unless and until returned to the United States. Conversely, in cases where 80 per cent or more of the income is derived from "tax haven transactions" the entire income of the subsidiary would be taxable.

Both the 80 per cent and 20 per cent rules are new provisions not contained in the previous draft of the legislation.

"Tax haven transactions" as defined in the proposal include:

1. The purchase by a U.S.-controlled foreign corporation of property from a related business entity and its resale for consumption or use outside of the country in which the subsidiary is incorporated.

2. The receipt of dividends, interest and royalty income from related business entities.

3. The performance of services by a U.S.-controlled foreign corporation outside of its country of incorporation.

# TREASURY DEPARTMENT

WASHINGTON, D.C.

January 31, 1962

FOR RELEASE: UPON DELIVERY
(Expected about 12:00 Noon
Wednesday, January 31, 1962)

## TREASURY SUBMITS REVISED "TAX HAVEN" PROPOSALS TO THE HOUSE WAYS & MEANS COMMITTEE

The Treasury today submitted to the House Ways and Means Committee a revised draft of proposed legislation to tax earnings derived from so-called "tax haven" operations of American businesses overseas.

The new draft replaces a proposal submitted last July and has been prepared in the light of the comments obtained on the earlier version.

The "tax haven" proposal is aimed at ending opportunities for American companies to avoid taxation by establishing subsidiaries in countries with low or no taxes and conducting activities through and from these U.S.-controlled foreign companies. Treasury's new draft proposal, like the previous one, would require U. S. shareholders to pay taxes on earnings from such "tax haven" operations regardless of whether they were carried out in industrialized or newly developing countries. Such shareholders are typically corporations rather than individuals.

(A separate Administration proposal, not involved in this draft and not currently under consideration by the Ways and Means Committee, would reach any sort of American business operation through subsidiaries in industrialized nations.)

The "tax haven" proposal would not affect earnings resulting from manufacturing and substantial processing operations conducted by U.S.-controlled foreign subsidiaries -- even if the subsidiary meets the other tests of a "tax haven" operation. The previous draft permitted deferral of U.S. taxes on earnings from manufacturing and processing operations only if those operations added at least 20 per cent to the value of the finished product. The new liberalized test would permit deferral if "substantial transformation" takes place in the products purchased and subsequently re-sold by the subsidiary.

The change from the previous draft means, for example, that earnings from oil refinery and chemical processing operations,

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Certain exemptions from these general definitions of "tax haven transactions" are included in the proposal, however.

Among the exceptions are:

1. The resale by a foreign-based corporation, outside the country in which it is established, of agricultural or mineral products purchased in its country of location. The previous Treasury draft contained this exemption for agricultural but not for mineral products.

2. The use of a local sales company to sell products to be used within the country of its incorporation.

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The draft also makes certain technical changes concerning allocations of dividend distributions, definitions and other matters.

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January 31, 1962

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EXPLANATION OF REVISED DRAFT
OF PROPOSED TAX HAVEN LEGISLATION

Background. The President's 1961 tax message recommended that the present deferral of U. S. income taxation accorded to foreign subsidiaries controlled by U. S. shareholders be eliminated. An exception was to be provided for those subsidiaries incorporated in less developed countries and deriving substantially all of their income from sources within such countries. The Ways and Means Committee, after consideration of the Administration's proposal indicated that it would be willing to consider more limited legislation designed to reach "tax havens". Accordingly, the Treasury Department prepared a tentative draft of tax haven legislation which was released to the public on July 28, 1961. A revised draft has now been prepared in the light of comments of taxpayers and further study by the Treasury.

General Description. The revised draft would end tax deferral for those operations of foreign corporations controlled by U. S. interests which cause the most serious distortions in the taxation of foreign income. The draft relies on the pattern of operation of typical tax haven companies, i.e., entities formed in countries such as Switzerland and Panama which impose little or no tax on foreign income allocated to or routed through entities incorporated under their laws. These companies, which U. S. interests often employ in organizing their operations abroad, are designed to minimize the impact of U. S. and foreign taxes on their foreign activities. Since the deferral of taxation for such entities constitutes the most serious departure from tax neutrality in the foreign tax area, the elimination of such tax deferral could contribute substantially toward the goal of the President's earlier proposal as well as curbing considerable tax abuse.

The key element in the draft is the description of tax haven transactions. This description, as indicated above, is based upon the pattern of typical tax haven operations. While there are various types of transactions, as a general matter a tax haven company normally deals with related entities and receives income which is generated or derived from sources outside of the country in which it is incorporated. The element of dealing with related entities means that there are no arms-length standards necessarily involved in its transactions, and income may be allocated within a wide range in accordance with considerations of tax advantage. The element of receiving income which is generated or derived from sources outside the country of incorporation means that the income has no necessary connection with the country of incorporation, and transactions giving rise to the income may be arranged in many instances with regard for considerations of tax advantage.

More specifically, based on these factors, the draft classifies the following, for example, as tax haven transactions:

(a) The purchase by a controlled foreign corporation of property from a related party and its resale for use or consumption outside of the country in which it is incorporated.

(b) The receipt of dividends, interest, and royalty income from related entities.

(c) The performance of services by a controlled foreign corporation outside of (or for businesses located outside of) its country of incorporation.

(d) The insurance or reinsurance of U. S. risks (or risks in connection with tax haven transactions) where a related U. S. party stands to benefit as a beneficiary or is instrumental in placing such insurance or reinsurance.

On the other hand, tax haven companies do not typically carry on substantial activities such as manufacturing, or processing, assembling, or other production that is substantial in nature. Such activities are not considered to give rise to tax haven profits and are generally unaffected by the draft. Still other important exceptions are provided for transactions which do not typically reflect tax haven company operations:

(a) The resale of agricultural or mineral products purchased by a controlled foreign corporation in its country of incorporation;

(b) the resale of purchased products for use in a country of incorporation; or

(c) the receipt of dividends and interest by a holding company incorporated in the same country as the payor corporation.

Also, transactions which are covered by the draft, but which give rise to profits that do not escape normal tax burdens by reason of the country of incorporation, would not be included. Construction would not in general be directly affected by the draft. Shipping activities are also not covered.

Under the revised draft, any profits arising out of "tax haven transactions" are classified as "tax haven profits" and a pro rata portion of such profits is deemed to have been distributed as a dividend and is taxed directly to the U. S. persons who are considered owners of the corporation. A credit for foreign taxes that may have been paid on such profits is provided so that, as is generally the case under the Code, there can be no "double" taxation by two jurisdictions. There are also provisions for allowing a deduction (or a refund of tax previously collected) in the event of losses from tax haven transactions. Further, once profits have been taxed they may in general be distributed without further U. S. tax being imposed. For example, a corporation could distribute tax free an amount sufficient to pay the U. S. tax (after the credit for foreign taxes) on the tax haven profits. These provisions are consistent with the objective of the draft to end deferral of taxation for tax haven operations, but to impose no harsh tax consequences.

In the interests of administrative simplicity, if the gross income from tax haven transactions is less than 20 percent of total gross income, none of the corporation's profits would be taxed to its U. S. owners. For similar reasons, if such income exceeds 80 percent of the total gross income, a pro rata portion of all of the corporation's profits is taxed to such U. S. persons. Also, provision is made so that a foreign corporation may elect to be taxed on income from all sources in the same manner as a domestic corporation, thereby relieving its U. S. shareholders of the tax on tax haven profits. The availability of this election ensures that a tax haven subsidiary will generally not be placed in a less advantageous tax position than if it had initially been incorporated as a domestic corporation.

The draft would tax a U. S. person only where (1) U. S. persons as a group may be considered to have control over the financial policies of the foreign corporation, and (2) such person has a substantial ownership interest in the foreign corporation. Two tests are applied in determining whether such conditions exist. First, a group of five or less U. S. persons must have a stock interest of more than 50 percent in the foreign corporation. Second, any single U. S. shareholder is not taxed on a pro rata share of the tax haven profits unless such shareholder owns a stock interest of at least 10 percent in the foreign corporation. In both instances, special rules for determining ownership are provided.

Various technical rules contained in the draft, for example those relating to the foreign tax credit, are in accord with those normally prevailing under the Code. Also, in many areas, the draft builds on presently existing rules and provides no special rules. For example, the normal rules relating to non-recognition of income in blocked currency situations would be relied upon where applicable. In brief, the technical aspects of the draft are designed to end deferral for tax haven operations in as simple and orderly a manner as is possible.

Changes from July 28 draft

The revised draft differs from the draft released on July 28, 1961, in minor technical respects and in the following important respects, which generally constitute liberalizations:

(a) Discretionary exception

Corporations that are able to satisfy the Secretary or his delegate that their place of incorporation does not result in a reduction of taxes with respect to any transaction will be relieved from the application of the draft as to such transaction.

(b) Election to be taxed as U. S. corporation

Already existing tax haven corporations (other than life insurance companies) can generally elect to be taxed on income from all sources in the same manner as a domestic corporation.

(c) Actual distributions allocated to tax haven profits

All distributions from a controlled foreign corporation are designated as being out of current and previous tax haven profits, to the extent there are any, so that all tax haven profits, once taxed, may be distributed without further U. S. tax, regardless of whether or not the corporation has other earnings and profits, either current or accumulated.

(d) Right to receive tax-free distribution of tax haven profits

If a U. S. person is once taxed on a deemed distribution of tax haven profits, such person or any successor in interest will be entitled to receive such profits tax free.

(e) Losses and allowance of carrybacks and carryforwards

Tax haven profits will not be deemed distributed in any year in which losses from non-tax haven transactions exceed tax haven profits. In addition, if losses from non-tax haven transactions exceed the non-tax haven income for any year, such excess may be carried back three years and carried forward five years against tax haven profits for such years. U. S. shareholders previously taxed would be granted a refund.

(f) De minimus (20%) rule

Where tax haven income is less than 20 percent of total gross income, U. S. shareholders will not be taxed.

(g) All income treated as tax haven income (80%) rule

Where more than 80 percent of the income of a controlled foreign corporation is derived from tax haven transactions, all of its income is treated as tax haven income. This may not be considered a liberalizing change except insofar as it eliminates complexities of separate accounting for tax haven and non-tax haven profits.

(h) Generalized standard for manufacturing activities

Instead of a mathematical formula, the revised draft relies upon a general standard to determine when activities constitute manufacturing. The standard is "substantial transformation", which is defined as "manufacturing, construction, or production, processing, or assembling activities", which are, under regulations, considered to be "substantial" in nature.

(i) Definition of control

The definition of control of a foreign corporation has been changed so as to require that U. S. persons own more than 50 percent of the combined voting power. Under the July 28 draft, 50 percent of the voting power or 50 percent of the total value would have satisfied the definition.

(j) Dividend and interest exception where both corporations in same country

The receipt of dividends or interest from a related corporation will not be treated as tax haven income if both corporations are incorporated in the same country and the payor corporation has a substantial part of its operations in such country.

(k) Sales subsidiary for foreign manufacturing corporation

A controlled foreign corporation engaged in manufacturing may sell its product through a sales subsidiary incorporated in the same country provided that the manufacturing company has a substantial part of its operations in such country and provided no substantial reduction in tax results from the use of such subsidiary.

(l) Exception for purchase of locally-extracted minerals

In addition to the exception relating to the purchase of locally-grown agricultural products, the revised draft has a similar exception for the purchase by a controlled foreign corporation of locally-produced minerals and other extractive products.

(m) Elimination of attribution from nonresident alien individuals

For purposes of determining whether U. S. persons own more than 50 percent of the stock of a foreign corporation or whether any single U. S. person owns more than 10 percent, stock owned by a nonresident alien individual will not be attributed so as to make a U. S. citizen or resident the owner thereof.

Detailed description

(1) Definition of tax haven transactions (Section 955)

(a) Purchase of personal property and its sale

The purchase of personal property by a controlled foreign corporation and its sale constitutes a tax haven transaction if the purchase is from a related person or if the sale is to a related person. Exceptions to this rule are made if--

(i) the property purchased is resold for use in the country in which the controlled foreign corporation is created, or

(ii) the property purchased is an agricultural product or mineral of the country in which the controlled foreign corporation is created, or

(iii) the property purchased is manufactured by a related person created in the same country as the controlled foreign corporation and the two corporations together pay the same taxes which would have been payable if their operations were carried on by a single corporation created in such country.

Typical situations to which the draft will apply are as follows:

(i) A controlled Panamanian corporation purchases property from its U.S. parent corporation and sells such property for use in Brazil to related or unrelated persons. The profits of the Panamanian company would be tax haven profits.

(ii) A controlled Swiss company purchases materials in Japan from related or unrelated persons and sells them to a related controlled German company for use in its manufacturing processes. The profits of the Swiss company would be tax haven profits.

Since the draft covers only transactions involving both a purchase and a sale, it does not apply to a controlled foreign corporation which manufactures or produces the product which it sells. A problem arises if the controlled foreign corporation purchases parts or materials from a related corporation which it then transforms into a final product. In this case, the draft would not apply if the purchased goods were subjected to "substantial transformation." For this purpose, processing, assembling, or other production which is substantial in nature as well as manufacturing is considered "substantial transformation."

It follows from the preceding discussion that there would remain under the rules of the draft a wide range of transactions between related persons that would not result in any tax haven profits. These transactions may be illustrated as follows:

(i) A controlled German corporation can purchase personal property manufactured by a related person in Germany and sell such property to an unrelated person for use in Germany or outside Germany. Thus, a manufacturing corporation may generally have a sales subsidiary if incorporated in the same country provided no substantial tax avoidance is involved.

(ii) A controlled German corporation could purchase from related persons in the United States and France materials (of any kind or origin), from which the controlled German corporation manufactures a product, and sell such manufactured product to a related or unrelated person for use in Germany or outside Germany.

(iii) A controlled Brazilian corporation could purchase from an unrelated person agricultural products or minerals of Brazil and sell them to a related person for use in Brazil or outside Brazil.

(iv) A controlled German corporation can purchase personal property of any kind from a related or unrelated person created anywhere in the world and sell it to a related or unrelated person for use in Germany.

There is no restriction under the draft on sales transactions which do not involve related persons. Thus, a controlled foreign corporation can purchase from an unrelated person personal property of any kind or origin and sell such property to an unrelated person for use anywhere in the world whether or not the controlled foreign corporation subjects it to manufacture.

(b) <u>Test of manufacturing ("Substantial transformation</u>")

Two types of tests were considered for purposes of determining whether a controlled foreign corporation has engaged in manufacturing (or processing, assembling, or other production which is substantial in nature), one, a general standard and the other, a mathematical formula. As indicated above, this test is relevant in only two situations:

(i) Where property is purchased from a related person and transformed into a final product which is then resold outside the country of incorporation. If the production activities are considered "manufacturing", the profits of the production company are not tax haven profits.

(ii) Where property is purchased from a related person created in the same country as the purchaser and resold outside of the country of incorporation. If the related person is engaged in "manufacturing", the sales subsidiary's profits are not tax haven profits.

The test adopted is a general standard which looks to whether "substantial transformation" has occurred. "Substantial transformation" is defined as "manufacturing, construction, or production, processing, or assembling activities", which are, under regulations, considered to be "substantial" in nature. In usual cases, application of this standard will not be a difficult matter. Thus, refining activities would ordinarily qualify, while labeling activities would ordinarily not. In difficult cases, flexibility will be present to make sure, consistent with the draft, that only corporations whose activities are substantially in the nature of trading are treated as having tax haven profits.

(c) Commission services

Sales or service commissions received for furnishing of services in connection with sales transactions which are the same in substance as those classified as tax haven transactions also give rise to tax haven profits. Such transactions are different only in form from transactions in which the controlled corporation acts on its own account.

(d) Rents and royalties

Rents or royalties received by a controlled foreign corporation for use of property or rights outside the country in which the controlled foreign corporation is created would be tax haven profits if --

(i) the property or rights were obtained from a related person, or

(ii) the rents or royalties were received from a related person.

Thus, if a U.S. person transferred an intangible right such as a patent to a controlled Swiss corporation which licensed users in Germany, the royalties received would be tax haven profits, whether or not the users were related persons. However, if the patent rights had been obtained from an unrelated person, the royalties would be tax haven profits only if the German licensees were related persons. In either case, rents or royalties from Swiss users would not be tax haven profits.

The rule would cover not only rents or royalties for the use of intangible rights such as patents but also for the use of tangible property, for example, rents received by a Swiss corporation from a related person in Brazil for the use of industrial or commercial equipment in Brazil.

(e) Interest and dividends

Dividends and interest received by a controlled foreign corporation from a related person would be tax haven profits except to the entent that--

(i) the dividends were received from a related corporation created and having a substantial part of the assets used in its trade or business in the same country as the recipient controlled foreign corporation, or

(ii) the dividends were paid out of tax haven profits previously taxed to U.S. persons.

A controlled foreign corporation created in a country which imposes no tax on holding companies often holds stock in operating companies. Dividends or interest paid to the holding company can thus be transferred from one operating company to another without the imposition of the U.S. tax. The decision whether to invest such profits in the United States or other foreign countries may be distorted by the factor that a U.S. tax would be imposed if the dividends are repatriated to the United States while no U.S. tax would be payable if the earnings are invested or held abroad. To remove the resulting incentive to foreign investment, income freed as dividends or interest from the investment in a particular country would be subjected to U.S. tax (after credit for foreign taxes) so that the decision as between investment in the United States or abroad would be neutral as to taxes.

The exception for dividends received from a corporation created and having a substantial part of the assets used in its trade or business in the same country as the holding company will exempt cases where local law imposes a tax on the accumulated earnings of an operating corporation but allows a deduction for distributions of such earnings to a holding corporation created in the same country. Often the holding company recontributes its earnings to the capital of the operating corporation. Also, dividends paid by a sales, service or finance subsidiary of a manufacturing company might be exempt under this provision where the provision's requirements are met.

(f) Services

Compensation received by a controlled foreign corporation for furnishing technical, managerial, engineering, architectural, scientific, skilled, or like services will be treated as tax haven income if such controlled foreign corporation (a) either--

(i) performs such services outside of the country in which it is incorporated; or

(ii) performs such services for or on behalf of a trade or business carried on outside of the country in which the service company is incorporated, and (b) either--

(i) the services are furnished for or on behalf of a related person; or

(ii) the services are furnished for or on behalf of an unrelated person but are in substantial part performed, managed or directed by officers or employees transferred from a related person within the taxable year or the two preceding years.

The application of the draft may be illustrated by the following examples:

(i) A controlled Swiss corporation receives fees for managing a manufacturing operation in Germany. The services are performed in Germany. If the manufacturing operation in Germany is owned by a related person, the fees would be tax haven profits.

(ii) The facts are the same as in the preceding example except that the services are performed partly in Germany and partly in Switzerland. Nevertheless, all of the profits from such services will be treated as tax haven profits.

(iii) The facts are the same as in the first example except that the manufacturing entity is located in Switzerland and the services are performed in Switzerland. No part of the profits would be treated as tax haven profits.

(iv) A controlled Swiss corporation renders technical services to a manufacturing operation in Germany not owned by a related person. The services are performed in Germany. Under such circumstances the profits of the Swiss corporation would be treated as tax haven profits only if the services were in substantial part performed, managed or directed by officers or employees transferred from a related person, such as, for example, its U.S. parent, and if such transfer had occurred within the taxable year or the two prior years.

(v) The facts are the same as in the preceding example except that the services are performed in Switzerland. Nevertheless, the profits will, because of the location of the German entity, be treated as tax haven profits.

(vi) If the facts were the same as in the preceding example except that the German entity were now located in Switzerland, the profits would not be tax haven profits.

(g) <u>Insurance</u>

Income received for insuring or reinsuring U.S. risks, or foreign risks incurred in connection with tax haven transactions, would be treated as tax haven profits in two situations:

(i) if there would be an indemnity or other payment directly or indirectly to a related person in the event the risks materialized; or

(ii) if a related person was instrumental in securing such insurance or reinsurance for the controlled foreign corporation.

The application of the draft may be illustrated as follows:

(i) A United States corporation engaged in the insurance business creates a controlled foreign corporation and reinsures U.S. risks with such foreign corporation. The profits of the foreign subsidiary would be tax haven profits.

(ii) A domestic finance company requires its debtor to insure with an unrelated insurance company which in turn reinsures with a foreign corporation controlled by the finance company. The profits of such a controlled foreign corporation would be tax haven profits since the finance company was instrumental in the placing of such reinsurance with its controlled foreign corporation.

(iii) A U.S. corporation has a controlled Panamanian corporation which purchases goods from the U.S. corporation for sale for use in Venezuela. The U.S. corporation has a controlled Bahamian corporation which insures the goods while in transit. The profits of the Bahamian corporation are treated as tax haven profits regardless of whether the insurance is placed by the U.S. corporation or the Panamanian corporation or the purchaser.

(iv) A domestic corporation in the business of selling automobiles also acts as an insurance agent of its controlled foreign corporation subsidiary so that the insurance contract is directly between the purchaser of the automobile and the agent's foreign subsidiary. Since the domestic corporation was instrumental in securing the business for the foreign subsidiary, the profits of the foreign subsidiary are tax haven profits. The same result would be reached even if the domestic corporation merely encouraged the purchaser to place the insurance with the foreign subsidiary and did not formally act as agent.

(2) Related person

The July 28 draft would define related persons as--

(a) a corporation and an individual, partnership, estate, or trust where such individual, partnership, estate or trust controls the corporation directly or indirectly; or

(b) two corporations where one is in control of the other; or

(c) two corporations controlled by the same persons.

For this purpose, control of a corporation means ownership, directly or indirectly, of more than 50 percent of voting power of all the stock entitled to vote.

(3) Exception for non-tax avoidance situations

Because the draft relies on the concept of activities outside of a country of incorporation, some situations which would not normally be considered tax haven situations might be reached. The draft therefore provides an exception for tax haven profits of a foreign corporation that can satisfy the Secretary or his delegate that their place of incorporation does not result in a reduction of taxes on such profits. Thus, for example, a corporation conducting its activities in a country or countries other than the country of its incorporation may be able to demonstrate that its tax liabilities on some or all of its transactions would have been no greater had it been incorporated in the country or countries in which it operates and, accordingly, be relieved of the application of the draft as to such transactions.

(4) Exception for income from U. S. sources

A complete exception from the draft's application is made for any earnings and profits derived from U. S. sources. The exception applies only if such profits are subject to United States tax.

(5) Taxation of U. S. shareholders

The draft would tax U. S. persons owning, directly, or indirectly,stock in a controlled foreign corporation, on their pro rata share of the tax haven profits of the controlled foreign corporation as if such pro rata portion had been distributed to them.

(6) Definition of control by U. S. persons and persons taxed

The proposal would apply with respect to the undistributed tax haven profits of "controlled foreign corporations," defined as those in which 5 or less U. S. persons own more than 50 percent of the stock entitled to vote. However, only those U. S. persons owning at least 10 percent of the voting stock or of the value of all the stock would be taxed. Constructive ownership rules described below are applied in this connection to determine the existence of the 50 percent or 10 percent requirements. Such constructive rules would not apply for purposes of imposing tax on U. S. persons, such persons being taxed only on a pro rata share determined with respect to their direct or indirect (as differentiated from contstuctive) ownership.

The above rules are believed to result in taxing U. S. persons only where such persons as a group may be considered to have power over the financial policies of the foreign corporation and where each such person has a substantial ownership interest in the foreign corporation. While the 10 percent rule may permit some shareholders to go untaxed in situations where it would be fair to impose tax and is partially responsible for some technical complexities in the draft, such rule was considered to be desirable in order to insure that only a shareholder would be taxed who has a substantial ownership interest and is likely to have a voice in the corporation's affairs.

(7) Amount of deemed distribution of tax haven income

Because the July 28 draft embodies a transactional approach, only profits from tax haven transactions will, in general, be treated as a constructive distribution to U. S. owners.

While, in general, employing the transactional approach, the draft does achieve simplicity in some cases by providing that a corporation over 80 percent of whose gross income is from tax haven transactions will be considered as having all tax haven income and a corporation with less than 20 percent tax haven income will be considered as having no tax haven income. In other words, the transactional approach will require separation of accounts only in cases where tax haven income is between 20 and 80 percent of total gross income. Furthermore, since these limitations on the use of the transactional approach are in terms of gross income, they do not require the complex accounting that would be called for if the test were in terms of earnings and profits

The 20 percent rule would avoid the burden of accounting for the income from tax haven transactions where the amount of such income does not seem to be substantial in the light of a company's entire activities. This test permits, for example, a controlled foreign corporation engaged in manufacturing and selling to round out its product line by the purchase from a related person of a product for which the foreign market is too small to justify production abroad. The 80 percent test avoids the burden of accounting where the amount of non-tax haven income does not seem significant in the light of a company's entire activities. Both tests remedy the complexity of the transactional approach in those cases in which its sensitivity does not seem warranted.

(8) Deemed distributions direct to U. S. persons

The proposal treats the tax haven profits of a controlled foreign corporation as a direct distribution from such corporation to the U. S. persons who are the first U. S. persons in the chain of ownership running from the corporation to such U. S. persons. In addition to direct ownership, a limited rule of indirect ownership is applicable here for the purpose of determining such a U. S. person's pro rata share; stock in a corporation owned by a foreign corporation, foreign partnership, foreign estate or trust (taxed like a nonresident alien), is treated as owned proportionately by the shareholders, partners, or beneficiaries.

(9) "Earnings and profits" as measure of deemed dividend

Under the draft, tax haven profits would be treated as having been constructively distributed as a dividend to U. S. shareholders. The "earnings and profits" from tax haven transactions seemed, conceptually, to be the most appropriate standard by which to determine constructive distributions of tax haven profits, since the normal Code standard for determining the taxability to a shareholder of a corporate distribution is the "earnings and profits" of a corporation.

Furthermore, the "earnings and profits" concept seemed more desirable than other possible tests (such as, for example, "taxable income") because it had the practical merit in a large range of cases of not imposing any accounting obligations not already present under existing law. For example, the earnings and profits of a foreign corporation must already be computed under the Code in order to determine the taxability as dividends of distributions made by foreign corporations to U. S. shareholders. Similarly, as a condition for claiming a credit under section 902 for foreign taxed paid by a foreign subsidiary, a domestic corporation is already required to compute the earnings and profits of the foreign subsidiary.

(10) Treatment of losses

Under the July 28 draft as revised, no tax is imposed on U. S. persons with respect to the tax haven profits of a controlled foreign corporation for a taxable year unless the corporation has over-all profits for such year. Thus, if net losses from non-tax haven transactions for a taxable year exceed the net profits from tax haven transactions for such a year, the U. S. owners would not be taxed for such year. Further, the draft would allow a five-year carryover and a three-year carryback against tax haven profits of the excess of losses from tax haven transactions over net profits from non-tax haven profits in any given year. In connection with the carryback of tax haven losses, a refund of tax would be permitted to U. S. shareholders who had paid taxes on deemed distributions in prior years

These rules give recognition to losses in a way which is consistent with the basic purposes of the draft. If use of such losses against U. S. profits is desired, the corporation may elect to be taxed as a domestic corporation provided that it does so before the beginning of the taxable year.

(11) Exclusion for actual distributions of income once taxed as constructive distributions

To prevent taxing income once as a constructive distribution and a second time as an actual distribution, an exclusion from gross income would be provided for a dividend from profits which already had been taxed to a United States shareholder as tax haven profits of a controlled foreign corporation. The exclusion would apply even though the actual distribution of such income were made through a chain of entities by which the United States person

(12) Allocation of current tax haven profits and other earnings and profits to actual dividend distributions

Since the purpose of the draft, in deeming constructive distributions of tax haven profits, is merely to end deferral of taxation for such income, the rules governing actual distributions are designed to permit earnings and profits from tax haven transactions to be distributed without penalty. Thus, actual distributions would be applied first against current earnings and profits from tax haven transactions, then against its most recently accumulated tax haven profits. For example, assume that X, a domestic corporation , wholly owns Y, a foreign corporation, which has current earnings and profits of $100 of which $40 is from tax haven transactions and $60 from non-tax haven activities, that it has $10 of accumulated tax haven earnings and profits, and that $50 is currently paid out as a dividend. Under the draft, $40 would be included in X's gross income as a deemed distribution of tax haven profits. Out of the $50 actual distribution, $40 would be considered as having been paid out of current tax haven earnings and profits and the additional $10 dividend would be designated as being out of the accumulated tax haven profits so that the shareholder would have no additional taxes to pay by reason of the actual distribution. Thus, it would be permitted without any additional tax to the shareholders, to distribute the amount needed to pay the shareholders' taxes on the deemed distribution and to allow the balance of the tax haven income to remain with the company.

(13) Adjustments to basis of stock

To prevent doubling up of tax burdens where stock in a controlled foreign corporation is sold at a gain which reflects the retained tax haven profits already taxed to the shareholder, the basis of the stock would be increased by an amount equal to the deemed distribution. A corresponding reduction in the basis would be made when such profits were actually distributed.

(14) Foreign tax credit

The July 28 draft would allow with respect to a deemed distribution of tax haven profits, the foreign tax credit allowed under existing law for ordinary dividend distributions. The credit would be for taxes imposed on the tax haven earnings during the taxable year of the controlled corporation in which such earnings are deemed distributed. Since existing law allows no indirect credit to individuals with respect to actual dividends, the July 28 draft would, similarly, not allow an indirect credit to individuals with respect to deemed distributions from a controlled foreign corporation.

An additional credit would be allowed for foreign taxes such as withholding taxes which had not been imposed at the time the deemed distributions was taxed. Where a United States person receives an actual distribution which is excluded from income because it was once taxed as income deemed distributed, the section 904 foreign tax credit limitation would be increased so that in the year of an actual distribution a credit would be allowed for foreign taxes imposed on such income subsequent to the year of the deemed distribution. In case the U. S. person did not have sufficient tax liability in the year of the actual distribution to make use of theincrease in the section 904 limitation, the excess would be treated as an overpayment of taxes so that a refund of U. S. tax would be allowed.

(15) Constructive ownership of stock

For the purpose of determining whether 5 or fewer U. S. persons control a foreign corporation or whether any United States person owns less than 10 percent of the stock of a foreign corporation, the constructive rules of ownership of section 318 would apply with various modifications such as the following:

(a) There would be no attribution from a nonresident alien individual to a citizen or resident;

(b) A foreign entity which owns more than 50 percent of the stock in a foreign corporation would be considered as owning all the stock of such corporation for the purposes of attributing such stock to the owners of such foreign entity;

(c) The requirement that a shareholder own more than 50 percent of the stock of a corporation before stock owned by such corporation could be attributed to the shareholder, would be eliminated;

(d) Stock of one corporation owned by a 50 percent shareholder in a second corporation which is attributed to the second corporation would not then be reattributed from such second corporation so as to make any other shareholder the owner of the stock of the first corporation;

(e) Similarly, stock owned by a partner or a beneficiary of an estate or trust which was attributed to the partnership, estate or trust would not then be reattributed so as to make another partner or beneficiary the owner of such stock.

(16) The election to be taxed on income from all sources

A foreign corporation (other than life insurance companies) which desired to relieve shareholders of being taxed on undistributed income could do so by electing to be taxed on income from sources both within and without the United States in the same manner as a domestic corporation. In general, such a corporation would be taxed on each year's taxable income as if it were a domestic corporation and would be entitled to the various elections available to a domestic corporation, such as to join in a consolidated return under sections 1501 et seq. However, section 367 of the Code (relating to tax-free reorganizations, liquidations, etc., of foreign corporations) would remain applicable to such a corporation.

(17) Exceptions to section 367

The July 28 draft would contain no exception to section 367 of the Code (relating to tax-free reorganizations, liquidations, etc., of foreign corporations). It is thought that existing administrative practice is broad enough to grant clearance for simplification of structure in appropriate cases.

(18) Information

Based on the precedent of section 6035 (relating to returns of officers and shareholders of foreign personal holding companies), a U. S. citizen or resident who is an officer or a director of a controlled foreign corporation would be required to return information. To the extent required by regulations, such information would include the names and addresses of all persons owning stock and the class and number of shares owned by each person; the amount, and date of each distribution during the taxable year; the gains, profits and income with the adjustments made to determine earnings and profits for the period during which the corporation is a controlled foreign corporation.

In addition, each United States person who owns 10 percent or more of the total combined voting power or value of all classes of stock of a controlled foreign corporation would be required to return such information as is required by regulations on its earnings and profits.

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sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ 200,000 x(16)x or less for the additional bills dated November 9, 1961 x(17)x, ( 91 x(18)x days remaining until maturity date on May 10, 1962 x(19)x) and noncompetitive tenders for $ 100,000 x(20)x or less for the 182 x(21)x -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 8, 1962 x(22)x, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 8, 1962 x(23)x. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the

~~Exhibit 2-A. Form BETA-MODIFIED for public notice offering a new series of Treasury bills and an additional issue of an outstanding series with 23 blank numbered spaces.~~



TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE ~~x~~ January 31, 1962

~~XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX~~
~~(1)~~

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,800,000,000 ~~(2)~~, or thereabouts, for cash and in exchange for Treasury bills maturing February 8, 1962 ~~(3)~~, in the amount of $1,805,088,000 ~~(4)~~, as follows:

91 ~~(5)~~ -day bills (to maturity date) to be issued February 8, 1962 ~~(6)~~, in the amount of $1,200,000,000 ~~(7)~~, or thereabouts, representing an additional amount of bills dated November 9, 1961 ~~(8)~~, and to mature May 10, 1962 ~~(9)~~, originally issued in the amount of $500,252,000 ~~(10)~~, the additional and original bills to be freely interchangeable.

182 ~~(11)~~ -day bills, for $ 600,000,000 ~~(12)~~, or thereabouts, to be dated February 8, 1962 ~~(13)~~, and to mature August 9, 1962 ~~(14)~~.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 5, 1962 ~~(15)~~. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

# TREASURY DEPARTMENT

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WASHINGTON, D.C.

January 31, 1962

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

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91-day bills (to maturity date) to be issued February 8, 1962, in the amount of $1,200,000,000, or thereabouts, representing an additional amount of bills dated November 9,1961, and to mature May 10, 1962, originally issued in the amount of $500,252,000, the additional and original bills to be freely interchangeable.

182-day bills, for $600,000,000, or thereabouts, to be dated February 8, 1962, and to mature August 9, 1962.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

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Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated November 9, 1961, (91-days remaining until maturity date on May 10, 1962) and noncompetitive tenders for $100,000 or less for the 182-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 8, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 8, 1962. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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United States Savings Bonds Issued and Redeemed Through January 31, 1962

(Dollar amounts in millions - rounded and will not necessarily add to totals)

| | Amount Issued 1/ | Amount Redeemed 1/ | Amount Outstanding 2/ | % Outstanding of Amt. Issued |
|---|---|---|---|---|
| MATURED | | | | |
| Series A-1935 - D-1941 .......... | $ 5,003 | $ 4,986 | $ 17 | .34 % |
| Series F & G-1941 - 1949 ........ | 26,082 | 25,816 | 266 | 1.02 |
| UNMATURED 3/ | | | | |
| Series E: | | | | |
| 1941 .................... | 1,810 | 1,485 | 325 | 17.96 |
| 1942 .................... | 7,990 | 6,558 | 1,431 | 17.91 |
| 1943 .................... | 12,861 | 10,645 | 2,216 | 17.23 |
| 1944 .................... | 14,981 | 12,291 | 2,690 | 17.96 |
| 1945 .................... | 11,722 | 9,395 | 2,327 | 19.85 |
| 1946 .................... | 5,254 | 3,972 | 1,282 | 24.40 |
| 1947 .................... | 4,939 | 3,538 | 1,402 | 28.39 |
| 1948 .................... | 5,086 | 3,520 | 1,566 | 30.79 |
| 1949 .................... | 4,994 | 3,357 | 1,637 | 32.78 |
| 1950 .................... | 4,345 | 2,813 | 1,532 | 35.26 |
| 1951 .................... | 3,762 | 2,375 | 1,387 | 36.87 |
| 1952 .................... | 3,914 | 2,343 | 1,571 | 40.14 |
| 1953 .................... | 4,429 | 2,582 | 1,847 | 41.70 |
| 1954 .................... | 4,482 | 2,545 | 1,937 | 43.22 |
| 1955 .................... | 4,650 | 2,590 | 2,060 | 44.30 |
| 1956 .................... | 4,469 | 2,479 | 1,990 | 44.53 |
| 1957 .................... | 4,186 | 2,200 | 1,985 | 47.42 |
| 1958 .................... | 4,035 | 1,949 | 2,086 | 51.70 |
| 1959 .................... | 3,765 | 1,713 | 2,052 | 54.50 |
| 1960 .................... | 3,734 | 1,460 | 2,274 | 60.90 |
| 1961 .................... | 3,420 | 777 | 2,643 | 77.28 |
| 1962 (included in unclass.) | - | - | - | - |
| Unclassified ................. | 345 | 425 | -80 | - |
| Total Series E ............... | 119,174 | 81,014 | 38,160 | 32.02 |
| Series H-1952 - 1962 ........... | 7,989 | 1,539 | 6,451 | 80.75 |
| Total Series E and H .......... | 127,163 | 82,553 | 44,610 | 35.08 |
| Series F and G: | | | | |
| 1950 .................... | 2,426 | 1,778 | 4/ 648 | 26.71 |
| 1951 .................... | 791 | 407 | 385 | 48.67 |
| 1952 .................... | 211 | 100 | 111 | 52.61 |
| Unclassified ................. | - | 102 | -102 | - |
| Total Series F and G .......... | 3,428 | 2,386 | 1,042 | 30.40 |
| Series J and K-1952 - 1957 ...... | 3,674 | 1,827 | 1,848 | 50.30 |
| Total Series F, G, J and K .... | 7,103 | 4,213 | 2,889 | 40.67 |
| All Series: Total matured ...... | 31,085 | 30,802 | 283 | .91 |
| All Series: Total unmatured .... | 134,266 | 86,766 | 47,500 | 35.38 |
| All Series: Grand Total ........ | 165,351 | 117,568 | 47,783 | 28.90 |

1/ Includes accrued discount.
2/ Current redemption value.
3/ At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.
4/ Includes matured bonds which have not been presented for redemption.

OFFICE OF FISCAL ASSISTANT SECRETARY

Other matters covered in the report are the strengthening of management improvement facilities and techniques, cooperative use of resources between the Department's various bureaus and with other agencies of government, improved work methods and simplified procedures, and organizational changes made to improve and strengthen the alignment coordination of Treasury functions activities, including the establishment of an Executive Secretariat in the Office of the Secretary.

oOo

The Treasury's entire disbursing process, from initial check-writing to final reconciliation of check payments, is being adapted to streamlined automatic data processing methods. Savings bonds are now also processed electronically. The Internal Revenue Service is using automatic data processing equipment to process tax returns and is establishing a central facility where information on taxpayers and tax sources will be available quickly by electronic means.

Improvements in the manufacture of coins and currency also produced savings. A new printing process which produces $1 silver certificates on dry paper on high speed rotary intaglio presses, has extended the life of currency by 30 percent, with annual savings of over $1 million.

Special emphasis on recruiting of high caliber personnel and a sizable increase in training activity are noted in the report. This is part of a long-range plan to staff the Department with personnel of top competence and the potential ability to fill positions of major responsibility.

administrative operations. The improvements ... are important, not only because they increase the efficiency of our internal functions, but because they increase the Department's effectiveness in its cooperative efforts with other agencies." The Secretary said he had a strong personal interest in further improving management operations and called upon Treasury officials for continued leadership in carrying the program forward successfully.

Every bureau and office of the Department had a part in the improvement program and about 2,500 employee suggestions were adopted under the incentive award program. Awards to employees ranged from $10.00 to $300.00.

The principal savings for the Treasury came from a stepped-up program to mechanize manual operations and to modernize equipment. This program requires that automation be planned far enough in advance to permit employee reductions to be handled by attrition, retraining for other positions, or transfer.

Immediate
~~FOR~~ RELEASE Friday

TREASURY REPORT SHOWS $10 MILLION
SAVED BY BETTER MANAGEMENT

The Treasury saved more than $10 million in operating costs during 1961 fiscal year by improvements in the management of manpower, space, and equipment, according to a progress report issued today.

Of the total, $8 million represented annual recurring savings to the government, and the balance a one-time benefit. About $3 million of the savings resulted from employee suggestions.

Secretary Douglas Dillon, shortly after assuming office last January, asked the heads of Treasury bureaus and offices to make special efforts to find "faster and more expert ways" to handle the Department's increasing ~~existing~~ work load so ~~that its~~ a~~ctivities~~ could be ~~expanded~~.

The Secretary termed the report "an impressive account of progress made over the past fiscal year in improving Treasury's

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TREASURY DEPARTMENT 239

WASHINGTON, D.C.

February 2, 1962

FOR IMMEDIATE RELEASE

TREASURY REPORT SHOWS $10 MILLION
SAVED BY BETTER MANAGEMENT

The Treasury saved more than $10 million in operating costs during 1961 fiscal year by improvements in the management of manpower, space, and equipment, according to a progress report issued today.

Of the total, $8 million represented annual recurring savings to the government, and the balance a one-time benefit. About $3 million of the savings resulted from employee suggestions.

Secretary Douglas Dillon, shortly after assuming office last January, asked the heads of Treasury bureaus and offices to make special efforts to find "faster and more expert ways" to handle the Department's increasing work load.

The Secretary termed the report "an impressive account of progress made over the past fiscal year in improving Treasury's administrative operations. The improvements ... are important not only because they increase the efficiency of our internal functions, but because they increase the Department's effectiveness in its cooperative efforts with other agencies." The Secretary said he had a strong personal interest in further improving management operations and called upon Treasury officials for continued leadership in carrying the program forward successfully.

Every bureau and office of the Department had a part in the improvement program and about 2,500 employee suggestions were adopted under the incentive award program. Awards to employees ranged from $10.00 to $300.00.

The principal savings for the Treasury came from a stepped-up program to mechanize manual operations and to modernize equipment. This program requires that automation be planned far enough in advance to permit employee reductions to be handled by attrition, retraining for other positions, or transfer.

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The Treasury's entire disbursing process, from initial check-writing to final reconciliation of check payments, is being adapted to streamlined automatic data processing methods. Savings bonds are now also processed electronically. The Internal Revenue Service is using automatic data processing equipment to process tax returns and is establishing a central facility where information on taxpayers and tax sources will be available quickly by electronic means.

Improvements in the manufacture of coins and currency also produced savings. A new printing process which produces $1 silver certificates on dry paper on high speed rotary intaglio presses, has extended the life of currency by 30 percent, with annual savings of over $1 million.

Special emphasis on recruiting of high caliber personnel and a sizable increase in training activity are noted in the report. This is part of a long-range plan to staff the Department with personnel of top competence and the potential ability to fill positions of major responsibility.

Other matters covered in the report are the strengthening of management improvement facilities and techniques, cooperative use of resources between the Department's various bureaus and with other agencies of government, improved work methods and simplified procedures, and organizational changes made to improve and strengthen the coordination of Treasury activities, including the establishment of an Executive Secretariat in the Office of the Secretary.

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Interest on the new 3-1/2% 12-month Treasury certificates of indebtedness will be paid on August 15, 1962 and February 15, 1963. Interest on the 4% Treasury note is payable semiannually on August 15 and February 15.

Exchanges of the 3-5/8%, 4%, and 3-1/4% Treasury notes maturing February 15, 1962, may be made for a like face amount of either the 3-1/2% Treasury certificates maturing February 15, 1963, or the 4% Treasury notes maturing August 15, 1966. Coupons dated February 15, 1962 on these maturing notes should be detached by holders and cashed when due. Holders of the 1-1/2% Treasury notes Series EA-1962, maturing April 1, 1962, may exchange them for a like face amount of the new 3-1/2% Treasury certificates or the 4% Treasury notes. Exchanges of the 1-1/2% Treasury notes, Series EA-1962, will be made with interest adjustments as of March 1, 1962.

Coupons dated April 1, 1962 must be <u>attached</u> to the 1-1/2% Treasury notes when surrendered. Adjustments with the holders who exchange their 1-1/2% notes will be made as follows:

| | Credits per $1,000 | Charges per $1,000 | |
|---|---|---|---|
| 1-1/2% Treasury notes exchanged for | Accrued interest on 1-1/2% note to 3/1/62 | Accrued interest to 3/1/62 | Difference to be paid to subscriber |
| 3-1/2% certificate 2/15/~~62~~63 | $6.22253 | $1.35359 | $4.86894 |
| 4% note, 8/15/66 | $6.22253 | $1.54696 | $4.67557 |

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IMMEDIATE RELEASE February 1, 1962

TREASURY TO REFUND $11.7 BILLION OF TREASURY NOTES
MATURING FEBRUARY 15, AND APRIL 1, 1962

The Treasury is offering holders of $11,731 million of four issues of Treasury notes maturing February 15, 1962, and April 1, 1962, the right to exchange them for any of the following securities:

3-1/2% Treasury certificates of indebtedness dated February 15, 1962, due February 15, 1963, at par; or

4% Treasury notes dated February 15, 1962, due August 15, 1966, at par.

Cash subscriptions for the securities listed above will not be received.

The maturing Treasury notes which may be exchanged for the new securities are as follows:

(In Millions)

$647.1 - 3-5/8% Treasury notes of Series A-1962, dated May 1, 1957, due February 15, 1962;

$1,435.0 - 4% Treasury notes of Series D-1962, dated February 15, 1959, due February 15, 1962;

$9,098.0 - 3-1/4% Treasury notes of Series F-1962, dated November 15, 1960, due February 15, 1962;

$551.2 - 1-1/2% Treasury notes of Series EA-1962, dated April 1, 1957, due April 1, 1962.

The subscription books will be open only on February 5 through February 7 for the receipt of subscriptions. Subscriptions for any issue addressed to a Federal Reserve Bank or branch, or to the Office of the Treasurer of the United States, and placed in the mail before midnight February 7 will be considered as timely. The new securities will be delivered February 15, 1962. The certificates of indebtedness will be available only in bearer form but the Treasury notes will be made available in registered form, as well as bearer form.

# TREASURY DEPARTMENT

WASHINGTON, D.C.

IMMEDIATE RELEASE

February 1, 1962

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D-380

Interest on the new 3-1/2% 12-month Treasury certificates of indebtedness will be paid on August 15, 1962 and February 15, 1963. Interest on the 4% Treasury note is payable semiannually on August 15 and February 15.

Exchanges of the 3-5/8%, 4%, and 3-1/4% Treasury notes maturing February 15, 1962, may be made for a like face amount of either the 3-1/2% Treasury certificates maturing February 15, 1963, or the 4% Treasury notes maturing August 15, 1966. Coupons dated February 15, 1962 on these maturing notes should be detached by holders and cashed when due. Holders of the 1-1/2% Treasury notes Series EA-1962, maturing April 1, 1962, may exchange them for a like face amount of the new 3-1/2% Treasury certificates or the 4% Treasury notes. Exchanges of the 1-1/2% Treasury notes, Series EA-1962, will be made with interest adjustments as of March 1, 1962.

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most heinous crimes against humanity and ~~the case~~ This case illustrates the kind of international cooperation which benefits the peoples of all countries. ~~The help of the Spanish and Italian police officials is greatly appreciated and has contributed materially to U.S. law enforcement,~~" Assistant Secretary Reed said. Mr. Reed expressed his appreciation to the Justice and State Departments for the assistance rendered by them.

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implicated Rubino and Luciano in their narcotics conspiracy. Rubino was arrested at Naples on January 25, 1962. Luciano was questioned the morning of January 26, ~~1962~~ and was instructed to return the following day for more detailed interrogation, but on the afternoon of that day Luciano died at the Naples airport.

James A. Reed, Assistant Secretary of the Treasury, under whose supervision the Bureau of Narcotics operates, said he was impressed with the cooperation and coordination of the ~~international~~ police forces involved.

EXPRESSED THANKS TO

He particular~~ly praised the work of~~ the Spanish police and the Spanish authorities AND ~~who expelled the three fugitives arriving in New York Saturday. He also extolled~~ the Italian police for their work with U.S. Treasury agents against persons suspected of smuggling narcotics into the United States.

"Illicit trafficking in narcotic drugs is one of the

~~heroin smuggling into the United States.~~ All of the American and Canadian conspirators in the New York narcotics case ~~were named by Italian authorities~~ as being implicated. from leads furnished them by U.S narcotics agents

Mr. Giordano said that Italian authorities ~~have~~ HAD long had Luciano under surveillance ~~and that he was indicted in a heroin case in Milan. He was not convicted of this charge, but the Italian Treasury Police continued their interest in his activities.~~

A few months ago, while keeping him under surveillance ~~while keeping [illegible] under surveillance,~~ Italian police were led to an American, Henry Rubino, who held joint business interests with Vincent Mauro ~~in Miami and New York City.~~ It was discovered that Rubino was in contact with fugitives Mauro, Caruso and Maneri. This led to the discovery of the fugitives in Barcelona and Majorca, where they were arrested on January 22-23 of this year.

Following the arrests in Spain, the Italian Treasury Police, Treasury Narcotics agents

~~Man hunt~~

~~Brown~~

1st

Narcotics case fugitive

Returns to US after

2 months

Chase

The United States Commissioner at New York City set bonds of $250,000 on Mauro and Caruso at the time of their arrest. The bonds were later reduced to $50,000 each. This was furnished and the two were set at liberty. Maneri, who was at liberty on a $5,000 immigration bond was released on an additional $10,000 bail bond.

On September 19, 1961, the date set for their appearance in Federal Court at New York City to plead to the indictment, all three defendants failed to appear. Their bonds were forfeited and warrants were issued for their arrest. Two other defendants in this case disappeared and were later found murdered.

The remaining 11 defendants in the conspiracy were tried and found guilty on all charges on December 27, 1961. They are scheduled for sentencing later this month.

During this same period, Italian Treasury police who were investigating narcotics trafficking in ~~that~~ their country were able to implicate ~~which involved large-scale~~

Riviera, to London, and finally to Spain.

Mr. Giordano said that when the fugitives were in Spain, their activities were connected with Charles "Lucky" Luciano who was then living in Naples. Italian Treasury police, he said, had been questioning Luciano as to his role in assisting the three fugitives, and Luciano's arrest was imminent when he died on January 26.

On October 21, 1960, U.S. Treasury narcotics agents, working with the police of Westchester County, New York, arrested four men for possession of 23 1/2 pounds of pure heroin -- worth an estimated $3 million on the illegal market. Subsequent investigation resulted in a narcotics conspiracy case involving 16 American and Canadian defendants.

Vincent Mauro, Frank Caruso and Salvatore Maneri were considered by the Narcotics Bureau to be principal members of this conspiracy.

A three-month international man-hunt led by U. S. Treasury narcotics agents for three fugitives from a New York conspiracy trial is scheduled to end with the return of the trio to the United States Saturday night, Henry L. Giordano, Acting Commissioner of Narcotics, announced today.

Scheduled to arrive at New York International Airport from Madrid, Spain, at 7:15 p.m. tomorrow, are Vincent Mauro, Frank Caruso, and Salvatore Maneri, escorted by four Spanish police officers and a U.S. Treasury narcotics agent. The fugitives will be arrested on the basis of outstanding fugitive warrants previously issued by the U.S. District Court at New York City.

Their arrest will climax a chase by Treasury narcotics agents who traced the movements of the trio from Nassau, Bahamas, to Kingston, Jamaica, to Caracas, Venezuela; to Nice on the French

# TREASURY DEPARTMENT



WASHINGTON, D.C.

February 2, 1962

IMMEDIATE RELEASE

TREASURY NARCOTICS AGENTS TO RETURN
FUGITIVES TO U. S. SATURDAY

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D-381

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Mr. Giordano said that Italian authorities had long had Luciano under surveillance. A few months ago, while keeping him under surveillance, Italian police were led to an American, Henry Rubino, who held joint business interests with Vincent Mauro. It was discovered that Rubino was in contact with fugitives Mauro, Caruso and Maneri. This led to the discovery of the fugitives in Barcelona and Majorca, where they were arrested on January 22-23 of this year.

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James A. Reed, Assistant Secretary of the Treasury, under whose supervision the Bureau of Narcotics operates, said he was impressed with the cooperation and coordination of the police forces involved.

He expressed thanks particularly to the Spanish police and the Spanish authorities, and the Italian police for their work with U. S. Treasury agents against persons suspected of smuggling narcotics into the United States.

"Illicit trafficking in narcotic drugs is one of the most heinous crimes against humanity and this case illustrates the kind of international cooperation which benefits the peoples of all countries. The help of the Spanish and Italian police officials is greatly appreciated and has contributed materially to U.S. law enforcement," Assistant Secretary Reed said. Mr. Reed expressed his appreciation to the Justice and State Departments for the assistance rendered by them.

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sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ 200,000 x(16)x or less for the additional bills dated November 16, (17) 1961, ( 91 x(18)x days remaining until maturity date on May 17, 1962 (19) ) and noncompetitive tenders for $ 100,000 x(20)x or less for the 182 x(21)x -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 15, 1962 x(22)x, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 15, 1962 x(23)x. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE February 5, 1962

## TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 1,800,000,000 , or thereabouts, for cash and in exchange for Treasury bills maturing February 15, 1962 , in the amount of $ 1,700,230,000 , as follows:

91 -day bills (to maturity date) to be issued February 15, 1962 , in the amount of $ 1,200,000,000 , or thereabouts, representing an additional amount of bills dated November 16, 1961 , and to mature May 17, 1962 , originally issued in the amount of $ 600,105,000 , the additional and original bills to be freely interchangeable.

182 -day bills, for $ 600,000,000 , or thereabouts, to be dated February 15, 1962 , and to mature August 16, 1962 .

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Friday, February 9, 1962 . Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 5, 1962

FOR IMMEDIATE RELEASE

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Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

# TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, February 6, 1962.

February 5, 1962

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 9, 196 and the other series to be dated February 8, 1962, which were offered on January 31, were opened at the Federal Reserve Banks on February 5. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $600,000,000, or thereabouts, o 182-day bills. The details of the two series are as follows:

| RANGE OF ACCEPTED COMPETITIVE BIDS: | 91-day Treasury bills maturing May 10, 1962 | | 182-day Treasury bills maturing August 9, 1962 | |
|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | Price | Approx. Equiv. Annual Rate |
| High | 99.324 | 2.674% | 98.544 | 2.880% |
| Low | 99.314 | 2.714% | 98.529 | 2.910% |
| Average | 99.319 | 2.695% 1/ | 98.535 | 2.898% 1/ |

42 percent of the amount of 91-day bills bid for at the low price was accepted
82 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | Applied For | Accepted |
|---|---|---|---|---|
| Boston | $ 21,628,000 | $ 11,628,000 | $ 2,797,000 | $ 2,297,000 |
| New York | 1,518,814,000 | 798,414,000 | 982,330,000 | 509,730,000 |
| Philadelphia | 26,446,000 | 11,446,000 | 11,396,000 | 6,396,000 |
| Cleveland | 22,956,000 | 22,956,000 | 18,823,000 | 8,723,000 |
| Richmond | 10,696,000 | 10,696,000 | 2,166,000 | 1,976,000 |
| Atlanta | 22,996,000 | 21,796,000 | 5,278,000 | 4,978,000 |
| Chicago | 253,007,000 | 190,207,000 | 104,760,000 | 36,860,000 |
| St. Louis | 28,308,000 | 20,148,000 | 6,572,000 | 5,072,000 |
| Minneapolis | 26,097,000 | 20,307,000 | 6,020,000 | 4,430,000 |
| Kansas City | 35,990,000 | 25,990,000 | 8,427,000 | 7,741,000 |
| Dallas | 23,116,000 | 18,116,000 | 9,730,000 | 4,707,000 |
| San Francisco | 57,669,000 | 48,379,000 | 20,060,000 | 7,170,000 |
| TOTALS | $2,047,723,000 | $1,200,083,000 a/ | $1,178,359,000 | $600,080,000 b/ |

a/ Includes $220,825,000 noncompetitive tenders accepted at the average price of 99.31
b/ Includes $46,409,000 noncompetitive tenders accepted at the average price of 98.535
1/ On a coupon issue of the same length and for the same amount invested, the return o these bills would provide yields of 2.75%, for the 91-day bills, and 2.98%, for th 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannua compounding if more than one coupon period is involved.

D-383

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
ON THE PUBLIC DEBT LIMIT
MONDAY, FEBRUARY 5, 1962
* (EXECUTIVE SESSION)

Mr. Chairman and Members of the Committee: I am here today to request a temporary increase of $2 billion in the public debt limit to a total of $300 billion for the remainder of this fiscal year. As you know, the President has requested an increase to $308 billion for fiscal year 1963. We will wish to return before June 30 in support of the request for the additional $8 billion.

The Treasury is faced with a critical situation. Under existing legislation we are operating under a debt ceiling of $298 billion. This consists of the permanent limit of $285 billion plus a temporary increase of $13 billion enacted last June and expiring on June 30, 1962. In placing the present ceiling at $298 billion the Congress gave consideration to the Treasury's projection of a high point in this fiscal year of $295 billion in the amount of debt outstanding subject to the limitation, plus a margin of $3 billion to provide for flexibility. Subsequent to the enactment of the $298 billion debt ceiling, tension grew over Berlin and substantial additions were made to our defense program.

These expenditures have, in effect, used up our margin of flexibility so that we are currently operating right against the $298 billion ceiling. This situation imposes serious operating

* Released by permission of the Ways and Means Committee of the House, at the conclusion of the Executive Session.

difficulties on the Treasury for the remainder of the fiscal year 1962. There is no elbow room as far as market financing operations are concerned and there is no margin to handle the fluctuations in trust fund investments which are carried on mainly through the use of special issues of public debt obligations.

The table I am submitting herewith shows our debt projections at semimonthly intervals for the remainder of the fiscal year 1962. The requested $2 billion increase in the temporary limitation is the smallest increase which would meet our essential requirements for the remainder of this fiscal year. You will note for example from this table that a $300 billion limitation will afford us a margin of only $800 million in June and only $2.1 billion in March both of which margins are considerably below the $3 billion figure which is desirable and in accord with past practice.

Moreover, for the purpose of these projections we have assumed that the Treasury's operating cash balance at the Federal Reserve Banks and in Treasury tax and loan accounts in commercial banks would hold steady throughout the periods covered at $3.5 billion. This cash balance represents less than half of an average month's budget expenditures. It is equal to only a little more than one-third of one month's total cash payments to the public, not counting cash paid out to redeem public debt obligations. During the past twelve months the operating balance has generally been larger than $3.5 billion. It has averaged about $4.5 billion in that period, which has given us a highly desirable and important degree of flexibility in the efficient conduct of day-to-day Treasury operations.

A debt limit that becomes too restrictive forces the Treasury to gain relief through unusual and expensive measures such as utilizing the borrowing power of certain Government agencies, as was done several times during the period from 1953 to 1958. The Government was forced to take such steps several years ago when the debt limit leeway became practically exhausted. Also, there have been times, including a quite recent occasion, when the Treasury in its own financing operations, because of insufficient margin under the debt ceiling, has had to defer some borrowing when it would have been most advantageous.

In conclusion, I believe that a temporary increase in the debt limit to $300 billion is essential to the efficient and economical management of the Government's finances for the balance of the current fiscal year. I earnestly recommend favorable consideration and prompt approval by this Committee.

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Actual and estimated public debt outstanding
fiscal year 1962, with estimates based on constant
operating cash balance of $3,500,000,000
(excluding free gold)

Estimates based on 1963 Budget Document

(in billions)

| Actual | Operating balance Federal Reserve Banks and depositaries (excluding free gold) | Public debt subject to limitation | Allowance to provide flexibility in financing and for contingencies | Total public debt limitation required |
|---|---|---|---|---|
| July 15, 1961 | $3.3 | $289.1 | | |
| July 31 | 5.8 | 292.2 | | |
| Aug. 15 | 4.2 | 292.1 | | |
| Aug. 31 | 5.3 | 293.5 | | |
| Sept. 15 | 3.1 | 293.2 | | |
| Sept. 30 | 8.1 | 293.6 | | |
| Oct. 15 | 7.0 | 296.0 | | |
| Oct. 31 | 5.4 | 295.5 | | |
| Nov. 15 | 4.7 | 296.7 | | |
| Nov. 30 | 5.4 | 296.9 | | |
| Dec. 15 | 2.8 | 297.0 | | |
| Dec. 31 | 5.7 | 296.1 | | |
| Jan. 15, 1962 | 3.1 | 296.3 | | |
| Jan. 31 | 3.9 | 296.4 | | |
| Estimated | | | | |
| February 15, 1962 | 3.5 | 297.2 | *$2.8 | $300.0 |
| Feb. 28 | 3.5 | 295.3 | 3.0 | 298.3 |
| Mar. 15 | 3.5 | 297.9 | * 2.1 | 300.0 |
| Mar. 31 | 3.5 | 293.3 | 3.0 | 296.3 |
| Apr. 15 | 3.5 | 296.8 | 3.0 | 299.8 |
| Apr. 30 | 3.5 | 296.1 | 3.0 | 299.1 |
| May 15 | 3.5 | 296.3 | 3.0 | 299.3 |
| May 31 | 3.5 | 296.6 | 3.0 | 299.6 |
| June 15 | 3.5 | 299.2 | * .8 | 300.0 |
| June 30 | 3.5 | 294.0 | 3.0 | 297.0 |

*Temporarily the full $3 billion flexibility will not be available on these dates.

TREASURY DEPARTMENT
Washington

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FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE ROBERT V. ROOSA,
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS,
AT THE AMERICAN BANKERS ASSOCIATION MID-WINTER TRUST
CONFERENCE LUNCHEON, WALDORF-ASTORIA, NEW YORK, N. Y.,
WEDNESDAY, FEBRUARY 7, 1962, 12:30 PM, EST

# THE BALANCE OF PAYMENTS AND INTERNATIONAL FINANCIAL COOPERATION

You were very courageous to invite a Government securities salesman to address such an impressive group of customers, particularly while our books are still open for such an attractive offering. But in spite of all temptation, I will stay with my subject for today -- the balance of payments and its implications for international financial cooperation.

## I.

We are now thankfully, and at last, living in a highly competitive world. Together with the other free, democratic, capitalistic countries, the United States has begun over the past few years to experience some of the shocks of actually living in economic conditions which resemble, rather closely, many of the ideals which we have for generations been endorsing. Europe has for several years had greater mobility of labor than the nationalism of earlier times could ever have permitted, and at the same time a rate of economic growth that no one would have dreamed possible a decade ago. The constructive force of active competition in manufacturing and trade, both for us and for others, has been greatly strengthened by the striking adaptations to rapid technological advance that have occurred in Western Europe, Japan, and elsewhere. In the United States we seem to have come much closer to our aim for reasonable price stability. And for more than three years now there has been a free inter-convertibility among the currencies of nearly all of the major industrial countries.

These are the kinds of conditions we want to live with; they are part of the framework for a vigorous, expanding, prosperous community of free nations. But they did not just happen; and we will not keep them if we ever relax into just taking them for granted. The base on which all our performance rests, of course, is the effort of the individual as laborer, farmer, employer, investor, and indeed, as public servant. What I want to center on today, though, is the part of government policy and action in helping to construct some of the new international financial arrangements, public and private, we will need to sustain the remarkable advances of these past few years in Western capitalism as an economic system. Even for much of the sphere of government, our own and others, I can scarcely begin a catalogue. But I can start at the center, the balance of payments, and work out from there into several areas of real significance for international financial cooperation:

First, a cursory restatement of the links that remain between the old gold standard and the balance of payments disciplines, within a system of fixed exchange rates, which govern the world economy of the 1960's.

Then, a look at the present United States deficit and its counterpart, the surpluses of some of the European countries.

From this, a review of what has been done or can be done to improve the payments arrangements amomg all countries, the developed and the developing, in the non-Communist world.

And finally, a sweeping glance forward toward the outlines of the kind of international monetary system for which we may be heading.

II.

The gold standard, as a concept and as a symbol, has always been a convenient abbreviation for the need that every country faces to keep its balance of payments in equilibrium within the context of fixed exchange rates. That is, whether a country formally adheres to the gold standard or not, it must have a reserve of some kind of internationally acceptable purchasing power -- either gold, or dollars, or possibly pounds sterling, or an equally useable quick line of credit. Whenever its current receipts from sales or the inflow of capital do not equal its current outpayments, it has to draw on this reserve. Consequently, the size and ready useability of the reserve -- together with the quick claims against it -- must be watched continually as an indication of changes in each country's external economic strength or weakness.

No country can pursue policies indefinitely which consume its external reserves, and draw down its potential credit abroad. Though the United States has for a long time been shielded from this hard fact, all of you know well that any country must, in time, if it is to retain contact with the world outside its borders, balance its international accounts and maintain some foreign exchange reserves. On the other hand, no country -- and for that matter no bank, nor even any trust department -- can afford to build liquidity indefinitely. Sooner or later the strong countries acquire all the liquidity they want, or at the least they slow down their accumulations, so that they can increasingly acquire other kinds of profitable assets. Once it has acquired substantial liquid reserves, the creditor country rightly encounters pressures to change its ways that are, in the end, just as strong and just as clear, as those impelling the deficit countries to change. But for about a quarter of a century, until these past three or four years, it was only the United States among the leading countries which had been faced with the need to behave as a creditor country.

Under the theoretical conditions of the full gold standard, these offsetting adjustments by debtor and creditor countries in order to restore equilibrium could be direct and automatic. When gold left the debtor country, its internal monetary system contracted, prices fell, and eventually sales abroad rose while imports declined until balance was restored. The creditor country, receiving the gold, had a corresponding rise in its internal money supply; its prices rose; its exports fell off; its imports went up; and eventually balance returned. This was, in its simplest terms, the old gold standard version of the balance of payments disciplines. Of course, things never did really work out in just that way. But what matters most for us now is that the world has for some time rejected the harshness of a system of correctives which presumed that creditor countries must undergo inflation, and debtor countries must create unemployment, to reach a suitable equilibrium. The solutions now must take a different form, but the balance of payments disciplines which must be served are still the same, and are still inescapable.

The difference now is that the world is finding new ways to serve these disciplines -- ways that reflect the new conditions in which sustained economic growth, and the minimizing of cyclical fluctuations in business activity, are also important goals. And they must also reflect the other conditions which I mentioned a few minutes ago -- those of price stability, of labor mobility, of aggressive and open competition in production and trade, and of currency convertibility. In a complex of such varied and such important conditions as these, there can be no single golden formula. There must be some reliance upon the judgment of men, expressed through governmental action, to help achieve a continuing reconciliation between the imperatives of the balance of payments, the competitive forces of the market place, and the other broad, vital objectives of modern economic society.

My own view is that there are two strong surviving attributes of the gold standards of earlier eras that must be continued, if the balance of payments disciplines are to be effectively fulfilled within the array of differing monetary and fiscal policies now pursued by the various countries. One is that a fixed link must be preserved between gold -- the universal monetary metal of timeless acceptability -- and at least one national currency. Since the mid-thirties, the dollar alone has served that function. It is essential that the United States continue freely buying gold, and selling it to the monetary authorities of the world, at the price of $35 per fine ounce. The second requirement, in my judgment, is that all leading countries maintain fixed (rather than variable) rates of exchange in relation to the dollar, with narrow permissible spreads around the declared par value -- such as the 1 percent, each way, established by the International Monetary Fund. There must be room for market forces to demonstrate, through small changes within such a band, whether a given currency is presently strengthening or weakening. But there must not be an escape hatch through which one country or another can seek temporary refuge from balance of payments disciplines by juggling its own exchange rate -- beggaring its neighbors and disrupting the orderly processes of cost and price adjustment among the various products and services that are required for eventual balance of payments equilibrium.

A fixed price for monetary gold, and fixed exchange rates, are essential. But in place of the other automatic features of the old gold standard, there are now new arrangements for common appraisal and concerted action, centering in the International Monetary Fund. Other important supplements, arising from consultation among the leading industrial countries themselves, as well as from a variety of reinforcing bilateral arrangements, also offer new potentialities. But before turning to these, I think we can usefully look briefly at our own current balance of payments deficit and its counterpart, the European surpluses.

III.

On present estimates, the combined balance of payments deficits of the United States, the United Kingdom, and Canada, were only slightly larger in 1961 than the combined surpluses of France, Germany, and Italy. Of course, all six countries, for reasons arising partly from their own domestic institutions, prepare their balance of payments records in different ways, so that little arithmetic exercises of this kind can be quite misleading. The United States' method of balance of payments accounting -- for a variety of reasons -- takes no credit for any of the short-term claims of its nationals on foreigners in calculating its overall balance of payments deficit. Unlike some other countries, we treat short-term foreign private capital inflows as part of our deficit rather than as an offset to the outflow of U. S. private capital. The rather paradoxical result is that the whole of our reported deficit is currently much larger than the sum of its parts (as reported in the surpluses of other countries).

Statistics aside, however, we have been undergoing far too long a balance of payments deficit that is far too large. It is of little avail either to the British or ourselves to find temporary respite through passing our deficits back and forth between each other. It is useful, though, in appraising our own prospects, to pay some attention to the sources and the durability of the European surpluses. This is particularly relevant since the United States is itself, and has been almost uninterruptedly, a large creditor country too, so far as the trade and services accounts are concerned. We are in trouble partly because we continue to perform, on a substantial scale, the role of a good creditor country, while the newer creditor countries have until quite recently either been too awed by their new strength, or too uncertain of its continuation, to follow our earlier example.

As they do, through extending more foreign aid, through prepaying debts owed to us, through offsetting more of our military outlays by compensating arrangements, through opening up their markets, and through removing the restrictions that many of them still retain on the outward flow of their own capital, they will be giving further evidence of the two theses that have run through my remarks thus far:

(1) that the adjustment process toward balance of payments equilibrium, though no longer of the old gold standard form, still does require change and adaptation by both the deficit and the surplus countries; and

(2) that the process requires, increasingly, the exercise of positive judgment and action by governments, and perhaps more particularly by their financial officials, on the basis of extensive cooperation and joint analysis of many inter-related problems.

Yet the underpinning for all successful cooperation must still be aggressive and effective corrective action on the part of the deficit countries themselves. That ranks first among the various implications of international financial cooperation that I am discussing here. That is why, regardless of all the essential action which the surplus countries can undertake (and such action is essential), the United States Government has given the highest priority to reducing the net outflow of dollars for our military effort, for our aid, and for our other governmental operations, while expanding in every practicable way the program for stimulating the export performance of American business. We must sell abroad, on commercial terms, enough to pay for all of our imports, for all of the governmental programs which prudence commands, and at the same time support the unrestricted flows of capital that our national interest requires. That is the only fundamental solution to the balance of payments problem which is also consistent with all of our other goals -- market freedom, growth, stability, steady prices, currency convertibility, and expanding commerce among all of the free nations.

It is the urgent need to strengthen our balance of payments that underlies, of course, the President's effort to modernize our tariff procedures through the proposed Trade Expansion Act of 1962. That same need also explains the determined effort to promote productive investment in the United States through depreciation reform. It motivates the formulation of a balanced Federal budget for the fiscal year 1963, in order to create an atmosphere of business confidence conducive to even greater competitive effort in the years ahead, and to avoid the drain which Federal budget deficits might otherwise place upon the supply of capital and savings available for new investment. It underscores the need to continue our present efforts to maximize the use of our foreign aid money in the United States, and to minimize the dollar outflow for maintaining our military forces overseas. It explains the intensified promotion of export markets through all available means.

Most notably and recently, the export drive has been sparked by the opening, just two days ago, of the Foreign Credit Insurance Association, which supplements the export credit insurance already available through commercial banks, in conjunction with the Government's Export-Import Bank. By utilizing the facilities of 57 associated private insurance companies, also in cooperation with the Export-Import Bank, the new Association will guarantee (for a fee) the political and commercial risks of extending short-term credits to buyers in other countries.

Even more important for the longer run, both in terms of domestic growth and of balance of payments equilibrium, will be the recognition by labor and by management of the guidelines presented two weeks ago in the Annual Report of the Council of Economic Advisers, for relating changes in wages and prices to productivity over the years ahead. These clearly stated principles (pages 185 to 190, in case you have not seen them), and the Council's straightforward handling of their possible statistical ambiguities, represent in my judgment the most promising advance yet made in this country toward assisting (without controlling or regulating) the processes of collective bargaining. They should help all responsible citizens to proceed, not only in wage bargaining but also in price determination, along lines that can and will serve best the general interest of the public as a whole. As acceptance of these principles spreads, and if their significance can actually be amplified through a succession of specific settlements, the United States will not only gain greatly in its internal affairs but will also have passed a most crucial milestone on the road toward lasting equilibrium in its balance of payments.

Meanwhile, the Government's present attack on the balance of payments deficit is proceeding aggressively on all other fronts. The net dollar drain for military purposes -- which was reduced substantially last year -- will be cut by at least a third this year. With only one-third of our economic aid now flowing out on an untied basis, we are determinedly at work to reduce that fraction to one-fifth (leaving the remainder to go largely to countries and purposes that are likely to result in spending here, in any case.) And we are negotiating actively with various creditor countries for the further prepayment of the large debts still owed to us.

These measures and policies are all aimed at restoring balance in our basic accounts -- that is, covering all of our imports, everything the Government has to spend abroad, and our net outflow of long-term investment. It was this basic deficit that reached $4.3 billion in 1959, dropped to $1.9 billion in 1960 as exports rose dramatically while imports declined and the economy went into recession, and has apparently dropped further on the strength of trade factors to about $1-1/4 billion in 1961 (before allowing for debt prepayment, which reduced the figure to about half of that amount, or $600 to $700 million). To continue progress in 1962, as our surging economy draws in more and more imports, will be difficult; it will require all of the vigor that the exporters of America can exert, alongside the determined governmental efforts which I have just reviewed. But the place to look for evidence that the underlying correctives are still at work will be mainly in the record of our commercial exports, that is, after deducting all exports dependent upon our own aid program. For if these exports can continue to expand, there will be a continued and strengthened basis for that confidence of others in our capabilities which has so much to do with the movements of short-term capital in and out of the United States.

It is these short-term capital movements to which we should now turn, both in rounding out a quick view of our present balance of payments position and in preparing the way for some discussion of those aspects of international financial cooperation which I personally find most interesting -- the various forms of payments arrangements, and the consultative facilities, which we have introduced or expanded during the past year.

The outflow of short-term capital in 1961 (including that elusive statistical aberration, the "errors and omissions") will probably prove to have been almost as large as in 1960. It looks as though it will have accounted for roughly three-quarters of the total deficit in the United States balance of payments. What does this mean? Is it evidence of declining confidence in the dollar? Or, if not, does it imply possible trouble ahead? What can we learn at this stage, before the detailed data have been completed and disclosed, from an analysis of that experience?

Four characteristics of the outflow of short-term funds this past year stand out. First, they did not reflect a flight from the dollar; there was a gain, not a loss, of confidence in our determination and ability to hold the value of the dollar. That is confirmed by the shrinkage of our gold loss to one-half that of 1960, as central banks added to their holdings of dollars by amounts nearly equal to their purchases of gold from us. It is further confirmed by the fact that foreign private holdings of dollars rose, perhaps by as much as three-quarters of a billion dollars, whereas in 1960 they had actually fallen. What this meant was that in 1960 the entire outward flow of dollars had been unloaded upon the central banks which were engaged in supporting their own exchange parities with the dollar.

A second factor, which partly accounted for the willingness of private recipients to retain the dollars they received, was the removal of much of the interest rate advantage in moving short-term funds abroad. Short rates here were held much higher than in any previous recession-recovery period since the war. Some key rates abroad were lowered. And after giving effect to the costs of forward cover, there was from April onward no obvious advantage in shifting, so far as the customary money market instruments were concerned. But investors will be investors, and some Americans, at any rate, sought out the more unusual, perhaps I should say exotic, forms of short-term paper abroad in order to better their yields -- thereby adding to our over-all balance of payments deficit.

Although neither confidence factors nor the more simple forms of interest rate arbitrage had much to do with our short-term outflows this year, various aspects of commercial banking operations did -- these are third in my list of four characteristics. Loans for the financing of foreign trade -- the most normal and healthy component of short-term capital outflows -- rose sharply. The increases to Japan alone accounted for more than two-fifths of the entire recorded short-term capital outflow during 1961. If the new facilities for export credit insurance serve their purpose, this kind of short-term capital outflow will probably continue, though no doubt the special needs of Japan have been nearly satiated for the present.

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But there is another commercial banking component of the outflow, which also loomed large during 1961, and which seems quite different in nature. Foreign commercial banks, some of them functioning in New York through their agencies, have taken advantage of a favorable competitive position costwise to attract American deposits and in turn lend these proceeds in the call market in New York and in other ways. This shift, involving in many cases no net movement of funds out of the United States, gives rise to added short-term claims on the United States. These added claims are part of our recorded balance of payments deficit. But there is no offsetting credit for the claims by the original depositor on the foreign banks. Whether or not all of this is good banking, or good for banking, it has the statistical result of increasing our recorded balance of payments deficit.

The fourth factor to be mentioned here has worked both ways on our short-term capital movements over this past year -- perhaps not accounting for any great part of the final total for the year as a whole, but going far toward explaining some of the variations we have had from quarter to quarter in our over-all short-term flows. This is the reverse influence upon us of disturbing economic or political developments abroad. In March, when the German mark and the Dutch guilder were appreciated, a wave of rumors began to spread concerning other possible currency moves. The position of the United States had just been so resolutely restated by the new Administration that this wave passed us by, and tended to center, so far as drains were concerned, upon the pound sterling. But after the British government initiated a vigorous new program in July, and borrowed $1-1/2 billion (plus a $500 million standby) from the International Monetary Fund, the flows turned sharply around. Much of our rather large outflow that will soon be published for the fourth quarter of 1961, including (as already announced) a sizeable part of our gold sales, is attributable directly or indirectly to the gratifying improvement shown by the British pound -- the only other currency now used extensively as part of the monetary reserves of other countries.

There was, of course, another wave of unsettlement through the foreign exchange markets, that associated with the events in Berlin, triggered particularly on August 13. For a brief time this, too, sent some funds moving. But perhaps because the British position with respect to governmental action affecting the balance of payments was then somewhat comparable to ours of the Spring, the greater part of any initial flows benefitted the British reserves rather than our own. Fortunately, Berlin soon subsided as a factor in the exchanges, but it did play a large part in holding our net outflow of short-term capital in the third quarter to an unusually small figure.

IV.

Both of these dramatic events -- the sterling strain early in the year and the Berlin crisis of the Summer -- taking place within a structure of convertible currencies, gave rise to immense shifts of short-term capital. The fact that these movements were contained within orderly patterns, and their potentially disruptive influences were avoided, can and should be attributed in considerable part to the implementation during the year of several new approaches to international financial cooperation. All of these steps had been in the making since the return of convertibility at the beginning of 1959. It was no doubt the pressure for action, first stimulated by the events of last March, which brought the new arrangements more quickly and effectively into functioning form. But they had their origin in a new spirit of international cooperation, a spirit fostered by the existence of convertibility and the widening recognition of the responsibilities which its preservation imposes upon all of the leading industrial countries. There were four important kinds of innovations during 1961 -- innovations which helped greatly to check any cumulative speculative distortions in the structure of the world payments system.

The first of these came to be called the "Basle Agreements." The governors of the various leading European central banks attend each month in Basle the meetings of the Bank for International Settlements (meetings to which senior representatives of our own Federal Reserve System have always been invited and which, for nearly two years now, they have attended regularly). It was at such a meeting last March, when massive money flows around Europe had been set off by the German and Dutch currency revaluations, that the governors of the central banks receiving large inflows undertook to lend them back to the Bank of England, from which most of the drains were flowing. Thus the potentiality of a currency crisis was avoided and time gained for the orderly development of measures to strengthen the British balance of payments and attract a return flow of funds to the United Kingdom.

Although the United States was an active participant in many of the deliberations, it was not in a position to lend substantial amounts back to the United Kingdom because no substantial inflows here had occurred. We did have another direct and important interest, however. Virtually all of the funds withdrawn from London took the form either of gold or of dollars, apparently somewhat more of the latter. If these dollars were to remain long in the hands of central banks which normally maintained high gold ratios, or if any of the central bank holders had entertained any serious concern over the position of the dollar, the next round of consequences following the initial strain upon the British would have been a resumption of our heavy gold outflow.

In fact, the United States received a small gold inflow during the second quarter. To be sure, that mainly represented a redistribution of some of the gold which the British had already paid out. But it was also symbolic evidence that the new spirit of mutual understanding and responsibility, developed not only in the meetings at Basle but in others that I will describe in a moment, had begun to affect the actions of central banks and governments. It had become apparent to them that they, too, had an important share in maintaining the conditions of stability in the international monetary system.

It was in these circumstances that the United States Treasury began, for the first time in more than a generation, to conduct operations in foreign currencies through the good offices of its fiscal agent, the Federal Reserve Bank of New York. We began with the German mark and then the Swiss franc, the two currencies toward which the great bulk of the short-term movements of dollars had gone from the United Kingdom. As the events slip further into the background and the possibilities for speculative inference recede, we are taking steps to describe fully these and other later operations in our various official publications. For now, it is sufficient to stress that the second powerful innovation of 1961, in helping to calm potential unsettlement in the sensitive markets of a convertible world, was the active entrance of the United States into the markets for several of the other leading currencies of the Western world. It is with great anticipation that we in the Treasury now look forward to the early entry of the Federal Reserve System itself, operating for its own account, into the area of foreign exchange operations. Certainly we have already found our own operations helpful in 1961, even when operating on the very slender resources available to the United States Treasury for these purposes.

The third innovation is still not formally completed, but it was the subject of continuing negotiations from the early Spring until the end of December in 1961. I am referring, of course, to the decision taken by the Executive Board of the International Monetary Fund on January 5 of this year to provide for supplemental standby resources of $6 billion to be loaned by ten industrial countries. This was another of the needs which became so clearly evident at the frequent discussions among the financial officials of various affected countries that began to take place in the early months of 1961. For in the new world of convertibility, uses abound for other convertible currencies; not all drawings on the International Monetary Fund, by the larger or the smaller countries, need be made in dollars. The practices of the IMF had already begun to recognize this, and its supplies of some of the other strong currencies were rapidly dwindling. Thus, where there might indeed be a general need for an overall increase in the Fund's resources, to keep pace with the continual expansion of its useful activities, the clearest need was to replenish its supply of the newly convertible currencies of the other leading industrial countries.

As you know, proposals respecting the United States' participation in these new arrangements were sent to the Congress by the President only last Thursday, on February 1. We are hopeful that action can be completed by the necessary number of participating countries before the middle of this year. The standby resources are designed, particularly, for use in the event of massive movements of funds, such as those which affected the pound sterling last Spring. It is significant that when the British drawing actually was made in August, in order to restore British reserves and permit them very largely to repay the central bank credits of the Basle Agreements, roughly two-thirds of the initial drawings were made in currencies other than the United States dollar. The same proportion is being preserved under the standby arrangements.

But I said there were four main avenues of innovation and development -- the first was that among the central banks; the second, our own entry into the foreign exchange markets of the world; and the third, expanded use of the International Monetary Fund. The fourth is the growing reliance which all of the leading industrial countries in Western Europe can now place upon the Organization for Economic Cooperation and Development -- the OECD. At the suggestion of the United States, at the first meeting of the Economic Policy Committee of OECD held last April, two special working parties were established, one to deal with the problems of growth, the other with the monetary, financial, and balance of payments problems of common interest. My own involvement has been heaviest with this second group. And I can indeed affirm, despite the stresses of incessant trans-Atlantic journeys to attend meetings held at intervals of four to six weeks in Paris, that the progress achieved has already amply repaid all of our efforts.

For, at these meetings, active financial officials from the capitals of each of ten participating countries are present, full of the current problems confronting them and eager to analyze together the financial forces at work which affect the balance of payments of any or all of the participating countries. Not much can or should be said, on a current basis, concerning the work of a committee of this kind. It is a pioneering experiment; it is being conducted with the flexibility and the uninhibited freedom of inquiry that is appropriate to such an experiment. The aim is understanding, not negotiation from prepared positions, and least of all the semantic exercise of preparing communiques. But the results of 1961 -- not only in terms of what has occurred at the meetings, or in the parallel discussions which the meetings make possible, but also in broadening our immediate awareness of what is going on abroad as we work out our own domestic financial programs -- assure great potentialities for the future of this regular, frequent, face-to-face contact for international financial consultations. They enlarge, they supplement, but they do not in any way replace or supplant, all of the other existing forms of contact and exchange through the staffs permanently assigned to the various international institutions in the economic and financial fields.

V.

These remarks have ranged widely over our balance of payments and the growing and related role, not only for last year and for this year but more importantly for the future, of international financial cooperation. Step by step, the fresh approaches which began at Bretton Woods in 1944, and carried us through nearly fifteen years of postwar inconvertibility, are now being reshaped for a world in which the currencies of the principal industrial countries have assured convertibility, at fixed rates of exchange.

The emerging pattern has at its center, of course, the International Monetary Fund with a membership now of 75 countries and resources, on hand or on call, soon hopefully to exceed the equivalent of $21 billion -- distributed among all manner of currencies, both the weak and the strong. Operating within the framework of Fund practices are the central banks or treasuries of the various member countries -- all of them also engaging, for their day-by-day affairs, in a network of contacts with each other, and concentrating in a thick web of inter-relations among the financial institutions, both public and private, of the leading industrial countries. Somewhere in the middle stands the United States, with the largest holdings in the IMF, with some two-fifths of the world's known monetary gold reserves, with $50 billion of other financial assets or resources in other countries, and with short-term liabilities of some $18 billion to foreigners (about equally divided between official and private foreign accounts), and buying and selling gold at the fixed price of $35 per ounce.

Clearly the strong performance of this country is crucial, for us and for the international monetary system. That is why the first order of priority in the Government's financial program (and in the President's own thinking and concern) has been, and continues to be, the restoration of equilibrium in our balance of payments. That is why, too, we have turned our attention so concertedly to the strengthening of the payments arrangements that can best surround the dollar, and strengthen or complement the underlying supporting role of the IMF itself, through the years ahead. For convertibility brings problems with its opportunities, and it will not be protection enough for the system as a whole to have a strong dollar and a sturdy Fund. There must be a growing set of relationships and understandings among the other leading countries which are strong enough to assume some responsibility for the defense of the system as a whole against the capricious raids of speculators or the pressures set off by threats to political or economic stability in various parts of the world.

It is with a view to these longer run requirements that the United States has moved energetically toward developing, in the living context of today's problems, an experimental approach toward various ways to spread among other currencies some portion of the burden that has for so long been borne by the dollar alone. That is the most obvious, and compelling, requirement. But beyond that, in a variety of ways, we have learned much, and have hopes that the machinery of payments arrangements will profit much, from the close working relations developed during the past year with Germany, Switzerland, Italy, Holland, France, Sweden, and several of the other countries represented at Basle and in the OECD.

The outlines of what may emerge can barely be sketched now. But the promise lies in the high degree of understanding, and the close integration of common action, that has emerged in the face of the various tests presented by the events of 1961. The answer will not be found, I feel sure, in any drastic rewriting of the codes or procedures of international monetary behavior. It will, instead, emerge, step by step, from the kind of experimentation that has marked the evolution of joint operations in various currencies, the imaginative lending of funds among central banks and between governments, the extensive use of the resources of the International Monetary Fund, notably in support of sterling and the introduction of facilities for new forms of frequent and intimate consultation on emerging problems and appropriate action. This is the pragmatic course from which all of our lasting banking institutions have evolved. We have much to do now in developing international arrangements to match the effectiveness, and the flexible adaptation to local conditions, that has been achieved in the domestic monetary systems of most of the leading industrial countries of the world.

The essence of all these new developments is understanding, but there must all along be an intermixture of hard negotiations and determined actions. For both, the United States is not yet adequately prepared. It is not enough for a few representatives of government to eat, sleep, and dream the balance of payments and its implications for the American economy; there must be a spreading, permeating consciousness of the balance of payments and its significance throughout the business and labor communities.

The buffeting which the United States has undergone over the last few years has led to many good results. Everyone who travels from Washington out through the country returns with a sense that the country as a whole is indeed aware of our balance of payments position and senses its significance. That is the essential beginning. But we will not have reached the stage in which we can, in the best, responsible democratic manner, adequately discharge our responsibilities as first among the leading countries until the typical labor leader, or the typical business executive in this country can analyze the main lines of economic development in balance of payments terms in the same taken-for-granted manner that characterizes his counterpart in the other industrial countries with whom our contacts must now be so much closer, in our convertible currency world.

My observation is not meant as a complaint. For so many generations the United States has been able to live without direct concern for its external economic affairs that we have not been forced by the events of daily experience to develop the same consciousness of export markets, or of foreign trade finance, or of the effects of capital flows, that have been, equally for generations, the every-day concern of people in the European countries, whether they are in business, in finance, in trade unions, or in government.

That is why I have had the temerity today to speak so long and to try to touch upon so many aspects of our balance of payments position when I was given the opportunity of appearing before this captive audience of bankers. For it is among bankers as in no other single group in the country that a genuine understanding of the elements in our balance of payments has been, for a much longer period, an essential part of the stock in trade. And I think it will fall upon bankers to carry a major part of the effort toward broadening and deepening the general public knowledge of all the questions that we have been reviewing here today.

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TREASURY DEPARTMENT
Washington

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FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE HENRY H. FOWLER, UNDER SECRETARY OF THE TREASURY, AT THE STANFORD RESEARCH INSTITUTE'S LONG RANGE PLANNING SERVICE, SHERATON-PALACE HOTEL, SAN FRANCISCO, CALIFORNIA, FRIDAY, FEBRUARY 9, 1962, 12:30 P.M., PST.

# "SOME CHALLENGES AND PROSPECTS FOR ECONOMIC GROWTH"

## I. Introduction

Today's challenges and prospects for economic growth in the United States call for some long range policy decisions. Any substantial increase in the rate of economic growth will represent a concurrence of planning and operational decisions by organizations of government, business and labor, and individuals as investors and consumers. You, who have an interest in and responsibility for long-term corporate planning in your respective companies, can make a meaningful contribution to the realization of this national economic objective.

Indeed, one of the important institutional assets in achieving long range economic growth, which the United States possesses to a degree unexcelled in any part of the world, is the development of the art of business management. The capacity of an economy to discover and develop investment opportunities depends to a considerable degree upon the art of management. Among important changes in the American economy that have accelerated that art are the development of a group of professional managers, the growth or organizations devoted to understanding of the art of management, and the growth of research in the art of management.

All about us there is ample evidence of the need and timeliness of long range policy decisions for economic growth. First, there is a national consensus that the Nation requires an increased rate of economic growth. It is shared by both great political parties, expressed in President Eisenhower's last Economic Report, developed in depth in President Kennedy's most recent Economic Report, and shared by leading organizations representing both management and labor. This consensus has received full expression in the reports of such public and private bodies as the Joint Economic Committee of the Congress, and President's Commission on National Goals in late 1960, and the Commission on Money and Credit.

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Much of the demand for a higher rate of economic growth springs from a developing anxiety over the security of the United States and the Free World -- whether that security can be protected over the long pull if the degree of disparity between the rate of economic growth in the United States and the Soviet Union, which characterized much of the last decade, is allowed to persist.

Added to this challenge are the unsatisfied needs clearly recognizable in the American economy, despite the fact that it has provided the highest standard of living by far of any national economy and has been providing a substantially increasing level of per capita disposable personal income since World War II.

In addition to these two specific challenges -- threats abroad to our freedom and security and unsatisfied needs at home -- certain conditions, often taking the guise of problems, are in reality opportunities for increased economic growth -- a rapidly expanding labor force, a dynamic technology, increased productivity potentials as yet unrealized, and rapidly expanding markets.

Moreover, there are no philosophical or psychological blocks to realization of these opportunities. The theories of Marx that capitalism contains the seeds of its own internal political destruction stand disproved as false in the light of a free democratic society. Even the popular view in the Thirties that the very success of an economy in raising productivity and per capita income tends to reduce its capacity to raise the demand for goods -- termed by some "The Stagnation Thesis" -- seems no longer to fit the economies of advanced industrial countries, particularly the United States. This theory need no longer be accepted "Where," as Professor Slichter put it, "consumption is highly competitive, where consumers possess abundant credit and other resources, and where industry possesses huge technical resources that give it a large and growing ability to create investment opportunities."

Given a national consensus on the need for an increased rate of economic growth; the sharpness of the challenges, external and internal, to achieve it; the richness of available opportunities; the absence of psychological barriers; it would appear that realization depends primarily upon the exertion of national will implemented by wisely chosen policy measures in both the public and private sectors of the economy.

Both timing and setting are propitious for progress in this task.

In his first Economic Message to the Congress after his inauguration, outlining "A program to restore momentum to the American economy" in 1961, President Kennedy stated "For 1962 and 1963 our programs must aim at expanding American productive capacity at a rate that shows the world the vigor and vitality of a free economy. These are not merely fond hopes, they are realistic goals. We pledge and ask maximum effort for their attainment."

Reversing a downtrend, the year 1961, which began in the valley of recession, was completed on the high road of recovery and growth, with the economy moving forward to new records in consumer spending, labor income, and industrial production.

On November 17, 1961 the United States joined with the other 19-member nations of the Organization for Economic Cooperation and Development in setting as a target the attainment of a 50 percent (4.1 percent a year) increase in their combined national product during the decade from 1960 to 1970, an increase roughly equivalent to the size of the U. S. economy at the outset of the Sixties. The ability of the United States in the remaining years of the decade to better substantially its record of growth in the period since World War II will determine the success or failure of the West to achieve this target.

It will not be easy to achieve and sustain a substantially higher rate of economic growth; it is a major undertaking involving much wise decision making, a good deal of national dedication, and some short-term sacrifice of consumption to investment. It will require increased individual effort because a higher rate of economic growth represents the collective total of more individuals working harder with greater intelligence and with more and better equipment, purchased from savings. It calls for new initiatives, sharper incentives, and increased vigor. It cannot be achieved by either radical changes or stand pat policies, by indulging sloth or featherbedding in management or labor, by placing a high premium on leisure in high places or low, for old or for young. It is not something that government can do by itself or for others. Cooperation and effort will be needed from all sectors of society.

For these reasons, achieving a higher growth rate must become a matter not only of public concern but public understanding. We must learn that economic growth and economic stability are not rivals but partners; that real economic growth means not only more people working with the same amount of equipment but more efficiently with more and better equipment and, hence, increased productivity per capita; that economic growth and technology are mutually stimulating; that both are particularly interrelated to free competition in the times ahead; that increasing levels of personal industry and financial investment in more and better equipment today are necessary to achieve economic growth in tomorrow's competition.

A substantial increase of economic growth for the 1960's can be achieved if this knowledge and will are reflected in national policies directed toward the achievement of three programs:

(1) A high rate of utilization of our existing supply of labor and productive capacity and the provision of new tools of fiscal policy for an effective attack on any new or threatened recession.

(2) A collective attempt to encourage and make possible increased and more effective individual effort in plant, office or school.

(3) An increasing share of our national wealth and effort invested in an expanding technology and enlarged rates of capital formation.

Should the measures for a stronger economy recommended by the President in his Economic Report transmitted in January 1962 receive the approval of the Congress in 1962, the first program will have been substantially achieved, and there will be a substantial beginning on the second and third programs. Indeed, the groundwork will have been laid for their full realization in the context of a free market and competitive system, voluntary action by management and labor, and the major program of tax reform that is scheduled for submission by the President later this year for legislative action in 1963.

The President's Economic Report and his Budget are based squarely on the premise that the stimulus for growth in the 1960's must come primarily from private market forces bolstered by investment in increased capacity, productivity, and efficiency. These are preferred to the artificial responses to war-induced shortages, inflation, or a steady diet of unbalanced budgets or excessive wage and price increases exacted from the economy without regard to our position in world markets.

The President's program seeks to rediscover the normal, vigorous, but not easily attainable incentives for productivity and growth that are in keeping with our free enterprise system. Its goal is to have the Nation accept the competitive challenges with which we are confronted overseas in a manner that will repulse our enemies and conjoin us more firmly to our friends. The program would provide financial conditions and tax incentives that would encourage private industry to seize the investment opportunities opened by an expanding technology, but it does not fail to insist upon public investment in those programs such as education and health that spur our growth and fortify our strength.

In addition to seeking ways and means for accelerating economic growth wholly compatible with our basic economic and political system, the Economic Reports and the Budget submitted last month show the President to be deeply concerned with the achievement of a higher rate of economic growth in a manner consonant with other national economic objectives -- particularly that of achieving a balance of our international payments and avoiding inflation.

Much emphasis is given to the persistent payments deficits and gold losses which have made it necessary for the U. S. Government to develop a whole network of policies and programs designed to eliminate the deficit in our balance of payments and to stem the loss of our gold reserves. It is emphasized that the solution to that problem depends to a major extent on our ability to avoid inflation. We must give full attention to the pressing and immediate need to strengthen the competitiveness of the U. S. products in Free World markets in terms of quality, variety, service, credit facilities and promptness in delivery and -- most important of all -- price, which "remains at the heart of the matter."

The Report of the Council of Economic Advisers spells out clearly the broad national interest in price and wage behavior in a free and growing economy, providing guidelines for relating changes in wages and prices to productivity. In addition it gives full emphasis to the damaging effect of inflation on the distribution of income and the desirability of achieving internal economic efficiency and growth as well as a balance of our international payments. Subsequently the President stated that: "Labor-management contracts should be settled within the realm of productivity increases so that there would be a beneficial effect on price stability."

It is this personal perspective of the challenges and prospects for economic growth that I should like to fill out for you who are concerned with long range corporate planning.

## II. Challenges to Increased Economic Growth -- Their Nature, Scale and Character

The present structure of the economy has provided the American people with an unparalleled aggregate of goods and services. Our rate of growth since the turn of the century has been 2.5 percent annually, and we have exceeded that rate on the average since the Second World War. But, despite these facts, a strong case can be developed, on purely domestic economic and social grounds, for national effort to increase the rate of growth.

Just as there are vast satisfactions, there are vast unsatisfied needs at home. Thirty percent of all families and unrelated persons have less than $1,000 of money income per person. Large increases in population and workforce are ahead. These factors suggest an attack on existing poverty and a defense against advancing poverty. Those groups that are relatively disadvantaged would improve their status actually, if not relatively, in a rapidly growing economy. An advancing growth rate would create the environment for dealing with the problem of hard core unemployment and enable our society to provide the education and health for the young that might break them out of their disadvantaged status. Many other unfilled needs exist in the field of public or mixed public and private expenditures.

Beyond all this, there is the fact of an American philosophy of consumption created in this atmosphere of opportunity and freedom. The closing of the geographical frontier came after technological progress had opened the way toward the idea that standards of consumption should be constantly rising and, most often, competitive.

Indeed, it is not difficult to imagine a strong popular movement for increasing our national rate of growth even if it were only our friendly allies in Western Europe who were marking up the higher percentage totals.

But the clinching fact of challenge is not based on materialism, social welfare, or "keeping up with Western Europe."

The primary drive is the Soviet challenge and its threat to our national security and freedom. This threat is not veiled or obscure. It is epitomized in the brutal frankness of Chairman Khrushchev's speech to the 21st Congress of the Communist Party in February 1959 in which he summarized his assessment in these words:

> "The economic might of the Soviet Union is based on the priority growth of heavy industry; this should insure Soviet victory in peaceful economic competition with the capitalistic countries; development of the Soviet economic might will give communism a decisive edge in the international balance of power."

The hostility of communist leaders to our way of life, and the increasing capability with which rates of growth substantially higher than those recently prevailing in the U. S. may enable the Communist Bloc to carry out their hostile intentions, now sharply focus the connection between American economic growth and American security.

Our Central Intelligence Agency has estimated that during the 1950's the real gross national product increased at an average of 3-1/4 percent in the U. S. and at an average of 7 percent in the U.S.S.R.; that in the same period industrial production was estimated to have expanded at an average of 4 percent in the U. S. and 10 percent in the Soviet Union. A continuation of existing patterns would bring the two close together in absolute terms by 1980, with the U.S.S.R. surpassing the U. S. in many lines of heavy industry well in advance of that date.

A second factor is that the Soviet Union devotes to foreign policy and military purposes an appreciably larger proportion of its resources than does the U. S. A study by the Operations Research Office of Johns Hopkins University in November 1960 estimated that, though the U.S.S.R. currently generates a national product somewhat less than one-half that of the U.S., its military output is calculated, in American prices, to be approximately that of the U.S. According to that study "If the U. S. and the U.S.S.R. continue to budget for defense in accordance with recent allocation patterns, by 1970 the respective budgets would be $46 billion for the U. S. and $72 billion for the U.S.S.R. (in 1959 dollar equivalents)."

But this raw economic data, however threatening, is only part of the picture. Conjoined to this economic base in the U.S.S.R. by a political creed hostile to the United States are the rulers of one-third of mankind. This complex of force possesses weapons and delivery systems of cataclysmic power as well as large conventional armies and widespread guerrilla forces. It has a considerable capability for economic penetration, political organization and propaganda, which is using the desire of the underdeveloped nations to escape from poverty as a means to spread the communist doctrine.

In this broader context the U. S. economic growth necessary to meet this challenge takes on new dimensions in both scale and character. A larger scale of economic growth is conducive to a continuing political acceptance of, and economic adjustment to, the larger military outlays that our national security could require. The faster the real gross national product expands, the more resources from tax revenues are available for the national security sector even with tax rates unchanged. Tax revenues will almost certainly increase at a higher rate than GNP as more taxpayers with rising incomes move into higher tax brackets. In the context of a higher rate of economic growth, the provision of larger military outlays can be made wholly consistent with the allocation of resources for these purposes at the recent rate of about 10 percent of GNP.

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There are at least three other ways in which the scale or character of economic growth affects our long-term national security apart from its relationship to direct military outlays.

In addition to the normal foreign expenditures for private investment, travel, or imports, the United States must make large and continuous expenditures to maintain our forces in many parts of the world. It also supplies foreign aid to help create an economic and political future in an atmosphere of freedom for the uncounted billions of human beings who will be born in the decades ahead in Asia, Africa and Latin America. Our defense lines do not stop at our shores; they run far beyond the seas. We need only recall names like Berlin, Korea, Viet Nam in order to understand why these expenditures are being made and must be made.

To meet these requirements of national security and foreign policy, we must have industries capable of meeting export and import competition and capable of maintaining a substantial export surplus sufficient to match these necessary external outlays without further substantial imbalances of payments. Hence, our economic growth must feature an expansion of our exports and trade surplus rather than become a built-in force for increasing our payments imbalance.

Our national interest calls for a highly competitive economic growth for a related reason -- namely, the need to move forward in closer economic alliance with other industrialized free nations. The combined output of the purchasing power of the United States in Western Europe is more than twice as great as that of the entire Sino-Soviet Bloc. Though we have only half as much population, far less than half as much territory, our coordinated economic strength will represent a powerful force for the maintenance and growth of freedom. Access to an expanded Common Market would give an opportunity for internal economic growth and expanding our export surplus. But there is an additional political and security rationale. As President Kennedy put it to the NAM:

> "If the nations of the West can weld together on these problems a common program of action as extraordinary in economic history as NATO was unprecedented in military history, the long range Communistic aim of dividing and encircling us all is doomed to fail."

That is another reason why a higher rate of economic growth must be premised on more effective competition.

Another consideration important to our position in world affairs in the long-term future is the need for a "system reputation", growth performance, and pattern of trade that will tend to attract the less developed countries into association with the Free World rather than the Sino-Soviet Bloc.

## III. Some New Elements in Program -- Part One -- Assuring Adequate Utilization of Existing Capacity and Available Manpower

The maintenance of reasonably full utilization of existing supplies of labor and productive capacity is fundamental to any long-term program to increase our rate of economic growth. When output stands far below capacity, with large overhangs of unemployment and underemployment and idle facilities, the atmosphere is not conducive to growth. Investment in new plant and equipment is largely limited to modernization. Various spread-the-work movements replace the drives to maximize human effort.

Even the rate of investment for modernization or cost reduction is affected because expected profit from investment is strongly influenced by the expected demand for the output that the new capital will help produce. During periods of economic slack or fall off estimates of future demand naturally become pessimistic. Many projects are passed up which, under conditions of increasing or high demand, might appear profitable and inviting for investment. Many measures that would look to more effective individual effort by the existing workforce seem futile and impracticable or, at least, unacceptable in periods of a slack economy and high unemployment.

Fortunately, the near-term outlook for the year 1962 is for the expansion of demand on a scale that will bring levels of capacity utilization and employment to points favorable for renewed economic growth in potential output. In the Budget Message gross national product for 1962 is projected at $570 billion (in current prices) -- a rise of nearly $50 billion, or almost 9-1/2 percent over 1961. This will carry the economy to new records in production, income and employment during 1962.

The momentum is based primarily on estimated increases in private demand which is rising briskly. Gains in consumer incomes, profits, business inventory requirements, and orders for durable goods are expected to generate further increases in business activity. These broad advances in the private economy will be reinforced by a continued upward trend in Federal, State and local government outlays, although on a national income and product account basis in the latter part of the year the Federal outlays will be exceeded by the inflows of revenue.

Although expansion in 1962 is expected to be somewhat more moderate than the annual rate of 11 percent in current prices attained over the past three quarters, it is anticipated that output will move steadily toward potential, reducing slack and unemployment.

Yet, four recessions have arrested growth in the American economy since World War II in a period when the economies of other major industrial countries have moved steadily ahead -- with only an occasional pause. Since World War II approximately 14 quarterly periods, or 23 percent of the total, have been periods of recession. The occurrence of a recession, as in the past, would create an increasing gap between capacity and output and destroy the atmosphere conducive to continued economic growth.

Against this background President Kennedy, in his recent State of the Union Message, recommended legislative action to strengthen our defenses against future recessions.

The basic elements of this program for waging an effective attack on any new or threatened recession are:

1. Presidential stand-by authority for prompt temporary income tax reductions to combat a recession, subject to a legislative veto should Congress not concur in the temporary act by the President;

2. Stand-by authority to the President to accelerate and initiate up to $2 billion of appropriately timed capital improvements when unemployment is rising at a rate to be stipulated by Congress; and

3. A permanent strengthening of our Federal and State system of unemployment insurance to include an extension of unemployment benefit periods, give wider coverage, and provide increased benefit amounts.

The enactment of these three measures would enable Federal fiscal policy to respond firmly, flexibly and swiftly to oncoming recessions.

These three measures parallel recommendations of the Commission on Money and Credit, a private group of leading citizens representing diverse economic interests and viewpoints. These measures constitute a far-reaching innovation in discretionary fiscal policy, but they are moderate proposals carefully defining and limiting increases in authority.

With three recessions in the past seven years, we cannot assume that there is some magic in the current expansion movement that assures its permanence. There will always be economic fluctuations and changes in rhythm and pace of advance. Already built into the Federal fiscal system are several automatic defenses against recession and inflation. The tax revenues change proportionately more than gross national product on both the up and down side. Certain Federal expenditures such as unemployment compensation payments serve as automatic or built-in stabilizers. These existing tools have moderated the severity of cyclical swings in the economy since World War II, giving a better opportunity to the basic recuperative powers in the private economy to produce a recovery. But, recent experience proves beyond a doubt that they need to be reinforced. The President's proposals will be prudent additions in the tools of fiscal policy. If provided and carefully used along with the existing stabilizers, the Nation can create a more solid foundation for a long-term increase in our rate of economic growth.

Of course, these tools of fiscal policy do not stand alone. Monetary and credit policy play an important role in assuring that degree of utilization of existing supplies of manpower and capacity which invites further increases in output potential. The powers and responsibilities inherent in the Federal Government, exercised through the Federal Reserve control of the volume of bank reserves, the Treasury management of the public debt, and the administration of a variety of lending and credit guarantee programs, can significantly affect the adequacy of demand on a rising scale. The effective utilization of these monetary powers in coordination with Federal fiscal activity is the very essence of any program for sustained prosperity.

This coordination can be effectively enhanced by the provision of the new fiscal tools stipulated in the President's program, particularly in a period, such as the present one, when an imbalance of our international payments places additional constraints on the use of monetary policy to effect recovery from recession or promote growth. Therefore, it is particularly important at this time to provide the tools for more effective fiscal action which the President has recommended.

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This brief consideration of the new program elements designed to assure a utilization of existing productive capacity leads to an analysis of some of the principal potentials for a higher rate of economic growth in the United States in the decade ahead.

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## IV. Some New Elements in Program -- Part Two -- Toward Increased and More Efficient Individual Effort

An adequate utilization of existing capacity and available manpower, which connotes reasonable full employment, makes it practical and meaningful to encourage and make possible increased and more effective individual effort -- whether in the plant, office, school, or on the land.

Already this type of effort has become an integral part of the President's program to strengthen our national manpower base, with several key legislative proposals pending before the Congress, notably:

1. The proposed Manpower Training and Development Act, providing for counseling, training, relocation assistance and vocational education. It is addressed particularly to the need for retraining unemployed persons who cannot reasonably be expected to secure full time employment without retraining, and for upgrading the skills of other members of the workforce.

2. The Youth Employment Opportunities Act, providing three types of pilot programs to give young people employment opportunities which will enable them to acquire much needed skills. This takes into account the fact that in the current decade approximately 26 million young men and women will be entering the labor force at an unprecedented rate and many of them will need opportunities to acquire skills and to do useful work.

3. The funding for a strengthened and more effective U. S. Employment Service, particularly in the field of technology displacement of adult workers and youth employment.

Perhaps equally significant from the point of view of long-term economic growth, are certain of the pending legislative proposals dealing with education and health which number foundations for growth among their benefits. Devoting resources to education and health is, in some part at least, an act of investment in human capital for growth. Certainly, a failure to pursue vigorous educational and health policies and programs leads to smaller increases in output in the long run.

Education is of vital importance in shaping the skilled labor force demanded by new investment and new technology. The program of the Administration includes specific proposals designed to meet urgent needs in the field of education; increased funds for scholarships, assistance to institutions of higher education for the construction of facilities; aid to States for assistance to public elementary and secondary schools; and a program to improve the quality of elementary and secondary education through curricular research, demonstration projects, teacher training institutes, and special project grants. Work has already begun in supplementary training of teachers of science and mathematics, especially in high schools, and in the development of new courses in physics, mathematics, chemistry and biology, which are basic to increasing the long-term potential output of scientists and engineers.

On the theory that better health contributes to economic growth and makes possible an increase in the size of the labor force and the effectiveness of its effort on the job, public support for medical research, most basic investment in better health, is growing. Increased demands for medical services, stemming in part from new discoveries and from the growth and change of population, has led the Administration to present a program to authorize Federal grants for the construction of medical, dental, osteopathic, and public health teaching facilities, project grants to plan for new facilities and improved educational programs, and school aid to medical students.

Through the Department of Justice, the President's Committee on Equal Employment Opportunities, and the U. S. Commission on Civil Rights, a vigorous Administrative program is under way to reduce discrimination. Economic growth will be furthered by the adoption of non-discriminatory policies and practices to insure that all Americans may develop their abilities to the fullest extent and that these abilities will be used. This the government cannot do successfully alone. For it to be successful, the campaign must be joined in by all parts of the population and units of government, business and labor.

In many other areas the achievement of higher rates of economic growth through increased and more effective individual effort will depend primarily, if not entirely, on the voluntary action of individuals and organizations. The extremely vital question of labor input -- retarding the shortening of weekly and annual hours of work, the elimination of labor restraints on incentives for productivity, the elimination of featherbedding and related measures of rationalization -- all these fall primarily in the field of private contract. But taken together they are of vital importance to increasing our rate of economic growth.

It was for that reason that, at a news conference on January 24, President Kennedy declared:

> "I have stated that I thought that the 40-hour week, in view of the many obligations that we had upon us both at home and abroad, represented the national goal at this time."

## V. Some New Elements in Program -- Part Three -- Increasing Technological Development and Capital Formation

Accelerating national economic growth requires the development and adoption of policies designed to increase the share of our national wealth and effort invested in expanding technology and capital formation.

The relationship of the expansion of these factors to a higher rate of growth and their interaction is in itself a theory of growth. An expanding technology multiplies new investment opportunities by opening up new products, services and demands; by increasing efficiency in existing products and services it may spur defensive or competitive investment or open additional markets, increasing productivity per capita.

But expanding technology needs capital formation if it is to be put into practical application. As technology moves ahead, investment follows, sometimes close behind and sometimes with great lags. The degree of lag between technological development and investment depends on general economic conditions, i.e., market demand, incentives, and the availability of capital on reasonable terms. The lag may vary from industry to industry and from company to company, depending somewhat on the initiative and character of management and the attitudes of labor.

The relationship of an increase in the share of our national wealth committed to capital formation or investment to a higher rate of economic growth is equally clear. Capital expenditure is necessary in order to increase capacity with or without a rise in productivity; it is necessary if the motive is aggressive, i.e., to capture additional markets through increased output or expansion; it is necessary if the motive is defensive, i.e., to protect markets and profit margins through modernization and increased efficiency and lower costs without necessarily increasing over-all capacity. The rate of growth of a country's real output becomes a function of the level of investment, assuming, of course, an adequate and effective demand.

There are substantial opportunities to take increasing advantage of these economic relationships through tax policy. The Administration's two-pronged program for depreciation reform scheduled for completion this spring represents a first phase. The second phase is foreshadowed by the statement of the President in his Economic Report:

> "Later this year, I shall present to the Congress a major program of tax reform. This broad program will re-examine tax rates and the definition of the income tax base. It will be aimed at the simplification of our tax structure, the equal treatment of equally situated persons, and the strengthening of incentives for individual effort and for productive investment."

### A. Expanding Technology

Expenditures on research and development in 1961 will total approximately $15 billion, nearly three times the expenditures in 1953, or 2.8 percent of GNP. In 1947, research and development was still a small dimension of the American economy, accounting for $2 billion of spending -- only a little less than one percent of national output.

More than 90 percent of the research and development spending is for the applied type, mostly development with less than 10 percent for basic research. About three-fourths of this activity is performed by industry, with over half of this financed by the Federal Government. However, only one-third of all basic research is done by industry. Government, the universities, and other non-profit institutions, although doing only one-fourth of total research, do most of the Nation's basic research which, in the long run, is the key to the most important advances in technology that may ultimately revolutionize large sectors of industry and have a tremendous ultimate effect on growth and productivity.

Although increasing rapidly in many industries, more than 55 percent of industrial research is performed by two industry groups and there is a heavy concentration of industrial research reflecting primarily the concentration of defense contracts. There is obviously much room for expansion of technological research, especially into areas where little research is done.

The Federal Government finances about two-thirds of the total national research effort, including, in addition to the work done in government laboratories, almost 60 percent of research undertaken in industry laboratories and over 70 percent of the research done by universities. Ninety percent of the government research and development spending is accounted for by the Department of Defense, Atomic Energy Commission and National Aeronautic and Space Administration.

In addition to direct financial contributions, the Federal Government stimulates private research and development by providing a science information service. The Federal tax law encourages research and development by making such costs fully deductible in the year they are incurred. The Small Business Act encourages spending on research and development, including cooperative research by small companies.

The limiting factors on increasing our national research and development effort appear to be: (1) supply of scientists and engineers in certain fields; (2) the small relative quantity of effort devoted to non-military research; (3) the small relative effort devoted to basic research, and (4) the limited percentages of resources applied to research and development in many industries and companies.

Many features of the Administration's education program, described above, are directly responsive to the long-term problem of an increasing supply of scientists and engineers, and the President has directed the National Science Foundation to develop further programs responsive to this need.

The remaining three limitations are under current examination by the Panel on Civilian Technology, composed of a group of distinguished scientists, engineers, businessmen and economists, which has been brought together under the joint auspices of the Office of the President's Special Assistant for Science and Technology, the Department of Commerce, and the Council of Economic Advisers. The Panel is examining opportunities for stimulating civilian research and development as well as for more effective use of existing technology. It has begun to address itself particularly to those sectors of our economy where vigorous social and economic benefits could be expected to accrue from technology advances.

This survey can be of great significance for economic growth, not only by making possible increasing productivity per capita, but also by making the development of investment opportunities an industry.

In appraising the relationship of the present technological potential to economic growth, Professor Slichter described the situation in these exciting terms:

> "For the first time in human history the making of discoveries has been able to compete with other industries for men and materials by offering a good living to men and a good return to capital. . . .

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> The rise of the industry of discovery gives business a far greater command of the demand for goods than it has ever enjoyed before. Enterprise need not sit back and wait for demand to grow. They have it within their power to create a huge demand for goods by creating obsolescence. This new capacity to foster a large and growing demand for goods that the economy has acquired makes existing theories of demand quite inadequate and in some respects erroneous."

Because of the key role of an expanding civilian technology in increasing economic growth, the Treasury Department is including in its broad examination, preparatory to the submission by the President of his major program of tax reform scheduled for later this year, the question of the utilization of new tax incentives for expanding research as compared with other approaches.

B. Expanding the Rate of Capital Formation

As has been noted, investment in fixed capital leads to increased capacity, both by equipping new members of the labor force with capital up to existing standards and providing greater amounts for all workers. The proportion of output devoted to investment and the rate of growth of the capital stock itself are measures of the diversion of current resources to the creation of future capacity.

During the period 1947-54, expenditures on business fixed investment averaged 11.0 percent of GNP and the stock of plant and equipment grew at an annual rate of 4.2 percent (valued in 1961 prices). In the period 1955-60, 9.8 percent of GNP was invested and the capital stock grew at an annual rate of 3.2 percent. The ratio of investment to potential GNP was 10.9 percent and 9.4 percent for the two periods, the difference of 1.5 percent representing nearly $45 billion of additional capital.

An examination of the series "Federal Reserve Index of Industrial Production and Business Equipment" will show the extent to which one of the most important factors in the rate of growth has declined in the past ten years. From 1952 to 1961, industrial production increased by 30.1 percent; the increase in the production of business equipment was only 17.4 percent. Machinery and equipment is one sector in which the lag in output has held back the growth of the entire economy. But, more important, is the fact that this sector is the key to the longer run problem of accelerating growth in productivity and in total output. The percentage of GNP going into producers' durable equipment has steadily declined since 1956 when its ratio in current dollars was 6.49 percent of GNP. It is estimated to be approximately 4.95 percent of GNP in 1961.

A sharply contrasting pattern and trend has prevailed in Western Europe and Japan during the last decade. A steady increase in the percentage of GNP devoted to machinery and equipment has characterized the situation. With most of these industrial rivals starting the last decade at a relatively higher rate of percentage of GNP invested in machinery and equipment than that which prevailed in the U. S., the trend up overseas compared to the trend down in the U. S. is all the more distressing -- either from the point of view of economic growth or competitive efficiency.

It has been estimated that approximately 50 percent of our present productive capacity in the U. S. was installed before or during World War II with more than 65 percent installed before the Korean War period. Thus, of all business plant and equipment, less than one-third is modern in the sense of being new since 1950. Estimates further show that there has been a startling rise in recent years in the proportion of our machinery and equipment which is over ten years old. In a dynamic economy of growth that average should be falling as new equipment is put in its place. This, too, is in contrast with the experiences in other industrialized countries that have succeeded in lowering the average age of their fixed capital.

It was against this background, plus the need to become increasingly effective in the export and import competing industries for balance of payments reasons, that led the Treasury Department, supported by the President, to give a first priority in its tax policy to a depreciation reform program consisting of two steps.

The first is a realistic and modernized set of depreciation schedules for productive equipment, taking into account economic life and recent and prospective technological advances. On January 18, 1962, Secretary Dillon informed the Joint Committee on Internal Revenue Taxation that "It is my firm intention to announce new guidelines for depreciation during the course of the spring of this year. These guidelines will cover all major assets for all industries." It is planned to provide for subsequent changes to keep this process up to date with technological change.

That change, helpful though it will be, will not put American producers on a fair footing with their European competitors. To achieve that goal and accelerate economic growth, the President, in his State of the Union Message, requested the enactment of an 8 percent tax credit for investment in machinery and equipment which represented a modification of an earlier proposal he made in his first Tax Message in April 1961.

One of the most important policy goals of this Administration is to complete this two-phased depreciation reform and thereby encourage the increase in productive private investment, for both growth and balance of payments reasons. We need to make sure that our tax laws are fostering a strong flow of funds into investment in new productive facilities. We believe that this depreciation reform, including both the Administrative revision of depreciation guidelines and the investment credit, is not only the best way to bring about a higher investment level, but is absolutely necessary if the Nation is to grow at a more rapid rate and correct the imbalance of our international payments.

Let me make it clear that these are not proposed as temporary measures. They are long-term in their outlook and consequences. Their sponsors hope and intend for them to become a permanent part of the economic structure for attaining over the long pull a higher rate of economic growth in the U. S. fed by an expanding technology. Through their effects on cash flows, expected rates of return, and risk, they are expected to stimulate investment -- and the need to stimulate investment is a permanent need in our society.

But this depreciation reform program alone may not be the ultimate answer to growth through tax policy. Certainly, it does not exhaust the possibilities of utilizing changes in the present tax structure to encourage a higher rate of capital formation.

The factors that induce private capital expenditure are varied. There are many that determine investment in addition to the availability of investment opportunities through technological development and the opportunity to write off machinery and equipment quickly. They include changes in income, output, consumption or profits, the level of income or profits, the price of capital goods, the volume of existing capital stock, the rate of interest, or the supply of funds for investment.

A basic question confronting the U. S. is the relationship of tax policy to an increase in the private incentives to capital formation which is needed to translate technological advances into new or improved products and services at a much more rapid rate than has characterized the economy in recent years. In fact, the number of concrete suggestions on exactly how to increase the rate of capital formation has been remarkably small, much less indeed than the statements arguing that a substantial rise in our rate of growth is essential. Most of the suggestions have centered on lower tax rates on high bracket incomes and lower interest rates, in addition to depreciation reform without too much particularization on method, consequences, or side effects.

With the depreciation reform ripe for a final decision and the utilization of lower interest rates somewhat constrained by balance of payments consideration, attention is likely to focus on lower tax rates on personal income and lower corporate rates as one likely alternative for inducement to increased capital formation.

There are some who express doubts as to whether these measures will increase investment anywhere near enough to produce a substantially accelerated rate of economic growth. They contend that a reduction in the tax brackets might somewhat encourage saving and risk-taking and add some incentive for overtime work. But they argue that there is no reason to expect spectacular effects on growth of national output. The skeptics on general rate reduction as the answer to growth search for devices which would confine reduction to the corporate or business unit and increase any individual firm's rewards only if it makes a contribution to growth according to some general standard, such as value added beyond a given norm.

Finally, there are many who believe that equity and simplification should take priority in any tax reform.

But before either of these choices are anticipated it would be realistic to recognize one additional alternative -- the status quo. Favoring the likelihood of the status quo is the fact that there is no immediate prospect for net tax reduction and the likelihood that those who enjoy the benefits of existing "loopholes" are likely to outnumber in intensity of interest in tax legislation those in the general public who rally to support a proposal in the general public interest.

This situation calls for a high order of statesmanship if the major program of tax reform to be presented to the Congress later this year (after the conclusion of action on the current bill) is to become law in 1963 and, in so doing, unlock the door to an increased rate of economic growth of the scale and character required by the national interest.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 8, 1962

FOR RELEASE 12:30 P.M., P.S.T.
FRIDAY, FEBRUARY 9, 1962

## UNDER SECRETARY FOWLER ADDRESSES STANFORD RESEARCH INSTITUTE

Henry H. Fowler, Under Secretary of the Treasury, said Friday that a basic question now confronting the United States "is the relationship of tax policy to an increase in the private incentives to capital formation which is needed to translate technological advances into new or improved products at a much more rapid rate than has characterized the economy in recent years."

This question, he said, deserves careful consideration in connection with both the Administration's current depreciation reform program and the overall tax reform program which will be sent to Congress later this year.

His comments were made in an address to a meeting of the Stanford Research Institute's Long-range Planning Service at the Sheraton-Palace Hotel, San Francisco, California.

In his address, titled "Some Challenges and Prospects for Economic Growth," he dealt with the need for more rapid growth, the measures already taken, possible future measures and the need for long-range policy decisions on the direction of such measures.

Because of the importance of civilian technology in increasing economic growth, he said, "the Treasury Department is including in its broad examination, preparatory to the submission by the President of his major program of tax reform scheduled for later this year, the question of the utilization of new tax incentives for expanding research as compared with other approaches."

He emphasized the importance of both broadened industrial research and basic research. He pointed out that Government, universities and non-profit institutions, which do only about a quarter of all research, now do most of U. S. basic research. Basic research,he said, "in the long run is the key to the most important advances in technology that may ultimately revolutionize large sectors of industry and have a tremendous ultimate effect on growth and productivity."

He made it clear, however, that the principal requirement of a sound growth policy is an increased level of private investment in productive facilities utilizing technological developments. The lag in output of machinery and equipment has held back the entire economy, he said, noting that from 1952 to 1961 industrial production increased by 30.1 per cent while the increase in the production of business equipment was only 17.4 per cent.

As measures to stimulate higher investment, he cited the Treasury Department's revisions in depreciation guidelines for taxation of productive equipment, which will be completed this spring, and the proposed 8 per cent tax credit for new investment now before Congress. "Let me make it clear," he said of these two measures, "that these are not proposed as temporary measures. They are long-term in their outlook and consequences. Their sponsors hope and intend for them to become a permanent part of the economic structure for attaining over the long pull a higher rate of economic growth in the U. S. fed by an expanding technology.

"It will not be easy to achieve and sustain a substantially higher rate of economic growth," he said, "it is a major undertaking involving much wise decision-making, a good deal of national dedication, and some short-term sacrifice of consumption to investment."

"The President's Economic Report and his Budget," he said, "are based squarely on the premise that the stimulus for growth in the 1960s must come primarily from private market forces bolstered by investment in increased capacity, productivity and efficiency." This program, however, he added, "does not fail to insist upon public investment in those programs such as education and health that spur our growth and fortify our strength."

In connection with the approaching program of overall tax reform, Under Secretary Fowler said that there have been remarkably few concrete suggestions on exactly how to increase the rate of capital formation.

He noted that most of the tax policy suggestions have centered on lower tax rates on high bracket and corporate incomes in addition to depreciation reform "without too much particularizatic on method, consequences or side effects." He added that: "there are some who express doubts as to whether these measures will increase investment anywhere near enough to produce a substantially accelerated rate of economic growth."

There are other alternatives as well, he said, and concluded that "this situation calls for a high order of statesmanship if the major program of tax reform to be presented to the Congress later this year (after the conclusion of action on the current bill) is to become law in 1963 and, in so doing, unlock the door to an increased rate of economic growth of the scale and character required by the national interest."

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FOR RELEASE A. M. NEWSPAPERS,
Saturday, February 10, 1962.

February 9, 1962

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 16, 1961, and the other series to be dated February 15, 1962, which were offered on February were opened at the Federal Reserve Banks on February 9. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $600,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

| RANGE OF ACCEPTED COMPETITIVE BIDS: | 91-day Treasury bills maturing May 17, 1962 | | 182-day Treasury bills maturing August 16, 1962 | |
|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | Price | Approx. Equiv. Annual Rate |
| High | 99.317 | 2.702% | 98.519 a/ | 2.929% |
| Low | 99.298 | 2.777% | 98.500 | 2.967% |
| Average | 99.303 | 2.759% 1/ | 98.508 | 2.952% 1/ |

a/ Excepting two tenders totaling $900,000
80 percent of the amount of 91-day bills bid for at the low price was accepted
15 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | Applied For | Accepted |
|---|---|---|---|---|
| Boston | $ 22,138,000 | $ 22,038,000 | $ 13,027,000 | $ 9,327,000 |
| New York | 1,524,495,000 | 793,675,000 | 956,280,000 | 443,280,000 |
| Philadelphia | 27,250,000 | 12,250,000 | 13,893,000 | 8,893,000 |
| Cleveland | 33,041,000 | 32,741,000 | 15,290,000 | 15,290,000 |
| Richmond | 11,936,000 | 11,936,000 | 1,440,000 | 1,440,000 |
| Atlanta | 23,331,000 | 23,031,000 | 8,835,000 | 8,835,000 |
| Chicago | 201,524,000 | 152,924,000 | 99,020,000 | 42,320,000 |
| St. Louis | 28,013,000 | 22,013,000 | 8,494,000 | 7,069,000 |
| Minneapolis | 21,693,000 | 19,593,000 | 5,748,000 | 4,748,000 |
| Kansas City | 48,829,000 | 34,829,000 | 7,324,000 | 7,324,000 |
| Dallas | 24,883,000 | 23,683,000 | 8,890,000 | 6,890,000 |
| San Francisco | 62,528,000 | 51,628,000 | 56,524,000 | 44,824,000 |
| | $2,029,661,000 | $1,200,341,000 b/ | $1,194,765,000 | $600,240,000 c/ |

b/ Includes $214,966,000 noncompetitive tenders accepted at the average price of 99.303
c/ Includes $48,639,000 noncompetitive tenders accepted at the average price of 98.508
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.82% for the 91-day bills, and 3.04% for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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# TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS,
Saturday, February 10, 1962.

February 9, 1962

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| Average | 99.303 | 2.759% 1/ | 98.508 | 2.952% 1/ |

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80 percent of the amount of 91-day bills bid for at the low price was accepted
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| Cleveland | 33,041,000 | 32,741,000 | 15,290,000 | 15,290,000 |
| Richmond | 11,936,000 | 11,936,000 | 1,440,000 | 1,440,000 |
| Atlanta | 23,331,000 | 23,031,000 | 8,835,000 | 8,835,000 |
| Chicago | 201,524,000 | 152,924,000 | 99,020,000 | 42,320,000 |
| St. Louis | 28,013,000 | 22,013,000 | 8,494,000 | 7,069,000 |
| Minneapolis | 21,693,000 | 19,593,000 | 5,748,000 | 4,748,000 |
| Kansas City | 48,829,000 | 34,829,000 | 7,324,000 | 7,324,000 |
| Dallas | 24,883,000 | 23,683,000 | 8,890,000 | 6,890,000 |
| San Francisco | 62,528,000 | 51,628,000 | 56,524,000 | 44,824,000 |
| | $2,029,661,000 | $1,200,341,000 b/ | $1,194,765,000 | $600,240,000 c/ |

b/ Includes $214,966,000 noncompetitive tenders accepted at the average price of 99.303
c/ Includes $48,639,000 noncompetitive tenders accepted at the average price of 98.508
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.82% for the 91-day bills, and 3.04% for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 9, 1962

FOR IMMEDIATE RELEASE

## PRELIMINARY RESULTS OF TREASURY'S CURRENT EXCHANGE OFFERING

Treasury officials indicated today their satisfaction with the results of the exchange offering completed on Wednesday, February 7. Preliminary figures show that about $11,283 million, or 96.2% of Treasury notes maturing February 15 and April 1, 1962, aggregating $11,731 million, have been exchanged for the two new issues included in the current exchange offering. About $448 million, or 3.8%, of the four maturing issues remain for cash redemption. Of this, $359 million, or 3.2%, of the issues maturing February 15 and $89 million, or 16.2%, of the April 1 note will be redeemed.

Of the maturing securities held outside the Federal Reserve Banks and Government accounts, 94.3% of the February 15 maturities were exchanged and 83.8% of the April 1 note. The combined exchange was 93.4% of the maturing publicly held issues.

A breakdown of the subscriptions is as follows: (in millions)

| Maturing Notes | Outstanding | Exchanged for 3½% Ctfs. due 2/15/63 | Exchanged for 4% Notes due 8/15/66 | Total Exchanged | Percentage Exchanged |
|---|---|---|---|---|---|
| 3-5/8% Series A-1962 | $ 647 | $ 282 | $ 302 | $ 584 | 90.3 |
| 4% Series D-1962 | 1,435 | 453 | 863 | 1,316 | 91.7 |
| 3-1/4% Series F-1962 | 9,098 | 5,746 | 3,175 | 8,921 | 98.1 |
| 1-1/2% Series EA-1962 | 551 | 370 | 92 | 462 | 83.8 |
| Total | $11,731 | $6,851 | $4,432 | $11,283 | 96.2 |

| Subscribers | 3½% Ctfs. due 2/15/63 | 4% Notes due 8/15/66 | Total Exchanged |
|---|---|---|---|
| Federal Reserve Banks and Govt. accounts | $3,410.7 | $1,517.8 | $ 4,928.5 |
| All others | 3,439.9 | 2,914.4 | 6,354.3 |
| Total | $6,850.6 | $4,432.2 | $11,282.8 |

Final figures regarding the exchange will be announced after final reports are received from the Federal Reserve Banks.

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# STATUTORY DEBT LIMITATION

As of January 31, 1962

Washington, Feb 13, 1962

Section 21 of Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authority of that Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), "shall not exceed in the aggregate $285,000,000,000 (Act of June 30, 1959; U. S. C., title 31, sec. 757b), outstanding at any one time. For purposes of this section the current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder shall be considered as its face amount." The Act of June 30, 1961 (P. L. 87-69 87th Congress) provides that during the period beginning on July 1, 1961 and ending June 30, 1962, the above limitation ($285,000,000,000) shall be temporarily increased by $13,000,000,000.

The following table shows the face amount of obligations outstanding and the face amount which can still be issued under this limitation:

| | | | |
|---|---|---|---|
| Total face amount that may be outstanding at any one time | | | $298,000,000,00 |
| Outstanding - | | | |
| Obligations issued under Second Liberty Bond Act, as amended | | | |
| Interest-bearing: | | | |
| Treasury bills | $43,946,824,000 | | |
| Certificates of indebtedness | 5,509,218,000 | | |
| Treasury notes | 71,574,280,000 | $121,030,322,000 | |
| Bonds - | | | |
| Treasury | 76,597,994,550 | | |
| *Savings (current redemption value) | 47,499,723,298 | | |
| Depositary | 148,318,500 | | |
| R. E. A. series | 23,590,000 | | |
| Investment series | 5,008,375,000 | 129,278,001,348 | |
| Certificates of Indebtedness - | | | |
| Foreign series | 450,000,000 | | |
| Foreign Currency series | 48,128,250 | 498,128,250 | |
| Special Funds - | | | |
| Certificates of indebtedness | 5,915,096,000 | | |
| Treasury notes | 6,652,969,000 | | |
| Treasury bonds | 29,736,432,000 | 42,304,497,000 | |
| Total interest-bearing | | 293,110,948,598 | |
| Matured, interest-ceased | | 382,351,548 | |
| Bearing no interest: | | | |
| United States Savings Stamps | 51,543,662 | | |
| Excess profits tax refund bonds | 738,374 | | |
| Special notes of the United States: | | | |
| Internat'l Monetary Fund series | 2,390,000,000 | | |
| Internat'l Develop. Ass'n. series | 115,304,400 | | |
| Inter-American Develop. Bank series | 25,000,000 | 2,582,586,436 | |
| Total | | 296,075,886,582 | |
| Guaranteed obligations (not held by Treasury): | | | |
| Interest-bearing: | | | |
| Debentures: F. H. A. & DC Stad. Bds. | 343,877,900 | | |
| Matured, interest-ceased | 2,660,700 | 346,538,600 | |
| Grand total outstanding | | | 296,422,425,18 |
| Balance face amount of obligations issuable under above authority | | | 1,577,574,81 |

Reconcilement with Statement of the Public Debt January 31, 1962
(Date)

(Daily Statement of the United States Treasury, January 31, 1962)
(Date)

| | |
|---|---|
| Outstanding - | |
| Total gross public debt | 296,513,476,31 |
| Guaranteed obligations not owned by the Treasury | 346,538,60 |
| Total gross public debt and guaranteed obligations | 296,860,014,91 |
| Deduct - other outstanding public debt obligations not subject to debt limitation | 437,589,73 |
| | 296,422,425,18 |

D-390

## STATUTORY DEBT LIMITATION

As of January 31, 1962

Washington, Feb 13, 1962

Section 21 of Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authority of that Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), "shall not exceed in the aggregate $285,000,000,000 (Act of June 30, 1959; U. S. C., title 31, sec. 757b), outstanding at any one time. For purposes of this section the current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder shall be considered as its face amount." The Act of June 30, 1961 (P. L. 87-69 87th Congress) provides that during the period beginning on July 1, 1961 and ending June 30, 1962, the above limitation ($285,000,000,000) shall be temporarily increased by $13,000,000,000.

The following table shows the face amount of obligations outstanding and the face amount which can still be issued under this limitation:

| | | | |
|---|---|---|---|
| Total face amount that may be outstanding at any one time | | | $298,000,000,000 |
| Outstanding - | | | |
| Obligations issued under Second Liberty Bond Act, as amended | | | |
| Interest-bearing: | | | |
| Treasury bills | $43,946,824,000 | | |
| Certificates of indebtedness | 5,509,218,000 | | |
| Treasury notes | 71,574,280,000 | $121,030,322,000 | |
| Bonds - | | | |
| Treasury | 76,597,994,550 | | |
| *Savings (current redemption value) | 47,499,723,298 | | |
| Depositary | 148,318,500 | | |
| R. E. A. series | 23,590,000 | | |
| Investment series | 5,008,375,000 | 129,278,001,348 | |
| Certificates of Indebtedness - | | | |
| Foreign series | 450,000,000 | | |
| Foreign Currency series | 48,128,250 | 498,128,250 | |
| Special Funds - | | | |
| Certificates of indebtedness | 5,915,096,000 | | |
| Treasury notes | 6,652,969,000 | | |
| Treasury bonds | 29,736,432,000 | 42,304,497,000 | |
| Total interest-bearing | | 293,110,948,598 | |
| Matured, interest-ceased | | 382,351,548 | |
| Bearing no interest: | | | |
| United States Savings Stamps | 51,543,662 | | |
| Excess profits tax refund bonds | 738,374 | | |
| Special notes of the United States: | | | |
| Internat'l Monetary Fund series | 2,390,000,000 | | |
| Internat'l Develop. Ass'n. series | 115,304,400 | | |
| Inter-American Develop. Bank series | 25,000,000 | 2,582,586,436 | |
| Total | | 296,075,886,582 | |
| Guaranteed obligations (not held by Treasury): | | | |
| Interest-bearing: | | | |
| Debentures: F. H. A. & DC Stad. Bds. | 343,877,900 | | |
| Matured, interest-ceased | 2,660,700 | 346,538,600 | |
| Grand total outstanding | | | 296,422,425,182 |
| Balance face amount of obligations issuable under above authority | | | 1,577,574,818 |

Reconcilement with Statement of the Public Debt January 31, 1962
(Date)

(Daily Statement of the United States Treasury, January 31, 1962)
(Date)

| | |
|---|---|
| Outstanding - | |
| Total gross public debt | 296,513,476,319 |
| Guaranteed obligations not owned by the Treasury | 346,538,600 |
| Total gross public debt and guaranteed obligations | 296,860,014,919 |
| Deduct - other outstanding public debt obligations not subject to debt limitation | 437,589,737 |
| | 296,422,425,182 |

D-390

XXXXXXXXXXXXXXX

and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

~~BETA -- MODIFIED~~

decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ 200,000 or less for the additional bills dated November 24, 1961 , ( 90 days remaining until maturity date on May 24, 1962 ) and noncompetitive tenders for $ 100,000 or less for the 181 -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on February 23, 1962 , in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 23, 1962 . Cash

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE.

February 14, 1962

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,800,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 23, 1962, in the amount of $ 1,700,583,000, as follows:

90 -day bills (to maturity date) to be issued February 23, 1962, in the amount of $ 1,200,000,000, or thereabouts, representing an additional amount of bills dated November 24, 1961, and to mature May 24, 1962, originally issued in the amount of $ 600,696,000, the additional and original bills to be freely interchangeable.

181 -day bills, for $ 600,000,000, or thereabouts, to be dated February 23, 1962, and to mature August 23, 1962.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 19, 1962. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

# TREASURY DEPARTMENT

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WASHINGTON, D.C.

February 14, 1962

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 1,800,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 23, 1962, in the amount of $ 1,700,583,000, as follows:

90-day bills (to maturity date) to be issued February 23, 1962, in the amount of $1,200,000,000, or thereabouts, representing an additional amount of bills dated November 24, 1961, and to mature May 24, 1962, originally issued in the amount of $ 600,696,000, the additional and original bills to be freely interchangeable.

181-day bills, for $600,000,000, or thereabouts, to be dated February 23, 1962, and to mature August 23, 1962.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

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Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Departmment of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated November 24, 1961,( 90-days remaining until maturity date on May 24, 1962) and noncompetitive tenders for $100,000 or less for the 181-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 23, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 23, 1962.Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

oOo

MEMORANDUM TO MR. MARTIN L. MOORE:

The following transactions were made in direct and guaranteed securities of the government for Treasury investment and other accounts during the month of January:

| | |
|---|---|
| Purchases ................ | $94,836,200.00 |
| Sales ..................... | 17,924,500.00 |
| Net Purchases ..... | $76,911,700.00 |

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# TREASURY DEPARTMENT

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WASHINGTON, D.C.

February ~~January~~ 15, 1962

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN Jan. ~~DECEMBER~~

During January 1962, ~~December 1961~~, market transactions in direct and guaranteed securities of the government for Treasury investment and other accounts resulted in net purchases by the Treasury Department of $76,911,700 ~~$27,826,200~~.

oOo

D-392

~~D-365~~

# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 15, 1962


FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JANUARY

During January 1962, market transactions in direct and guaranteed securities of the government for Treasury investment and other accounts resulted in net purchases by the Treasury Department of $76,911,700.

oOo

D-392

| Commodity | Period and Quantity | | Unit of Quantity | Imports as of February 3, 19 |
|---|---|---|---|---|
| Absolute Quotas: | | | | |
| Butter substitutes, including butter oil, containing 45% or more butter fat............... | Calendar Year 1962 | 1,200,000 | Pound | Quota Filled |
| Cotton products, except cotton wastes, produced in any stage preceding the spinning into yarn............................ | 12 mos. from Sept. 11, 1961 | 1,000 | Pound | Quota Filled |
| Peanuts, shelled, unshelled, blanched, salted, prepared or preserved (incl. roasted peanuts but not peanut butter)...... | 12 mos. from Aug. 1, 1961 | 1,709,000 | Pound | 817,087 |
| Tung Oil........................ | Nov. 1, 1961-Jan. 31, 1962 | | | |
| | Argentina | 5,525,000 | Pound | 4,873,836 |
| | Paraguay | 741,000 | Pound | 630 |
| | Other Countries | 234,000 | Pound | - |
| | Feb. 1-Oct. 31, 1962 | | | |
| | Argentina | 17,226,164 | Pound | 1,646,074 |
| | Paraguay | 2,963,370 | Pound | - |
| | Other Countries | 936,000 | Pound | - |

1/ Imports through February 12, 1962.

2/ Imports through January 31, 1962.

TREASURY DEPARTMENT
Washington

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MMEDIATE RELEASE
HURSDAY, FEBRUARY 15, 1962.

D-393

The Bureau of Customs announced today preliminary figures showing the imports or consumption of the commodities listed below within quota limitations from the eginning of the quota periods to February 3, 1962, inclusive, as follows:

| Commodity | Period and Quantity | | Unit of Quantity | Imports as of February 3, 1962 |
|---|---|---|---|---|
| ariff-Rate Quotas: | | | | |
| ream, fresh or sour............. | Calendar Year | 1,500,000 | Gallon | |
| hole Milk, fresh or sour......... | Calendar Year | 3,000,000 | Gallon | 32 |
| attle, 700 lbs. or more each (other than dairy cows)......... | Jan. 1, 1962- March 31, 1962 | 120,000 | Head | 9,326 |
| attle less than 200 lbs. each... | 12 mos. from April 1, 1961 | 200,000 | Head | 34,347 |
| ish, fresh or frozen, filleted, c., cod, haddock, hake, pol- ock, cusk, and rosefish......... | Calendar Year | 28,571,433 | Pound | Quota Filled |
| una Fish....................... | Calendar Year | To be announced | Pound | 4,526,521 |
| hite or Irish potatoes: | | | | |
| Certified seed.................. | 12 mos. from | 114,000,000 | Pound | 33,066,950 |
| Other.......................... | Sept. 15, 1961 | 36,000,000 | Pound | 3,436,945 |
| alnuts......................... | Calendar Year | 5,000,000 | Pound | 84,522 |
| ainless steel table flatware (table knives, table forks, table spoons).................. | Nov. 1, 1961- Oct. 31, 1962 | 69,000,000 | Pieces | 54,788,139 2/ |

Imports for consumption at the quota rate are limited to 7,142,858 pounds during e first three months of the calendar year.

Imports through February 9, 1962.

TREASURY DEPARTMENT
Washington

MMEDIATE RELEASE
HURSDAY, FEBRUARY 15, 1962.

D-393

The Bureau of Customs announced today preliminary figures showing the imports or consumption of the commodities listed below within quota limitations from the eginning of the quota periods to February 3, 1962, inclusive, as follows:

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|---|---|---|---|---|
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| rea**m**, fresh or sour............. | Calendar Year | 1,500,000 | Gallon | - |
| hole Milk, fresh or sour......... | Calendar Year | 3,000,000 | Gallon | 32 |
| attle, 700 lbs. or more each (other than dairy cows)......... | Jan. 1, 1962- March 31, 1962 | 120,000 | Head | 9,326 |
| attle less than 200 lbs. each... | 12 mos. from April 1, 1961 | 200,000 | Head | 34,347 |
| ish, fresh or frozen, filleted, tc., cod, haddock, hake, pol- ock, cusk, and rosefish......... | Calendar Year | 28,571,433 | Pound | Quota Filled 1/ |
| una Fish......................... | Calendar Year | To be announced | Pound | 4,526,521 |
| hite or Irish potatoes: | | | | |
| Certified seed.................. | 12 mos. from | 114,000,000 | Pound | 33,066,950 |
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| tainless steel table flatware (table knives, table forks, table spoons).................. | Nov. 1, 1961- Oct. 31, 1962 | 69,000,000 | Pieces | 54,788,139 2/ |

/ Imports for consumption at the quota rate are limited to 7,142,858 pounds during he first three months of the calendar year.

/ Imports through February 9, 1962.

| Commodity | Period and Quantity | | Unit of Quantity | Imports as of February 3, 19 |
|---|---|---|---|---|
| **Absolute Quotas:** | | | | |
| Butter substitutes, including butter oil, containing 45% or more butter fat............... | Calendar Year 1962 | 1,200,000 | Pound | Quota Filled |
| Cotton products, except cotton wastes, produced in any stage preceding the spinning into yarn............................ | 12 mos. from Sept. 11, 1961 | 1,000 | Pound | Quota Filled |
| Peanuts, shelled, unshelled, blanched, salted, prepared or preserved (incl. roasted peanuts but not peanut butter)...... | 12 mos. from Aug. 1, 1961 | 1,709,000 | Pound | 817,087 |
| Tung Oil........................ | Nov. 1, 1961-Jan. 31, 1962 | | | |
| | Argentina | 5,525,000 | Pound | 4,873,836 |
| | Paraguay | 741,000 | Pound | 630 |
| | Other Countries | 234,000 | Pound | |
| | Feb. 1-Oct. 31, 1962 | | | |
| | Argentina | 17,226,164 | Pound | 1,646,074 |
| | Paraguay | 2,963,370 | Pound | |
| | Other Countries | 936,000 | Pound | |

/ Imports through February 12, 1962.

/ Imports through January 31, 1962.

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, FEBRUARY 15, 1962.

D-394

PRELIMINARY DATA ON IMPORTS FOR CONSUMPTION OF UNMANUFACTURED LEAD AND ZINC CHARGEABLE TO THE QUOTAS ESTABLISHED BY PRESIDENTIAL PROCLAMATION NO. 3257 OF SEPTEMBER 22, 1958

QUARTERLY QUOTA PERIOD - January 1 - March 31, 1962

IMPORTS - January 1 - February 10, 1962 (or as noted)

| Country of Production | ITEM 391: Lead-bearing ores, flue dust, and mattes | | ITEM 392: Lead bullion or base bullion, lead in pigs and bars, lead dross, reclaimed lead, scrap lead, antimonial lead, antimonial scrap lead, type metal, all alloys or combinations of lead n.s.p.f. | | ITEM 393: Zinc-bearing ores of all kinds, except pyrites containing not over 3% of zinc | | ITEM 394: Zinc in blocks, pigs, or slabs; old and worn-out zinc, fit only to be remanufactured, zinc dross, and zinc skimmings | |
|---|---|---|---|---|---|---|---|---|
| | Quarterly Quota Dutiable Lead (Pounds) | Imports (Pounds) | Quarterly Quota Dutiable Lead (Pounds) | Imports (Pounds) | Quarterly Quota Dutiable Zinc (Pounds) | Imports (Pounds) | Quarterly Quota By Weight (Pounds) | Imports (Pounds) |
| Australia | 10,080,000 | 9,764,581* | 23,680,000 | 15,856,564 | - | - | - | - |
| Belgian Congo | - | - | - | - | - | - | 5,440,000 | 1,433,016* |
| Belgium and Luxemburg (total) | - | - | - | - | - | - | 7,520,000 | 7,520,000 |
| Bolivia | 5,040,000 | 5,040,000 | - | - | - | - | - | - |
| Canada | 13,440,000 | 13,440,000 | 15,920,000 | 8,387,023* | 66,480,000 | 45,023,529 | 37,840,000 | 20,189,116 |
| Italy | - | - | - | - | - | - | 3,600,000 | - |
| Mexico | - | - | 36,880,000 | 14,230,955 | 70,480,000 | 31,858,512 | 6,320,000 | 2,826,674 |
| Peru | 16,160,000 | 1,239,069 | 12,880,000 | 333,958 | 35,120,000 | 15,531,512 | 3,760,000 | - |
| Un. So. Africa | 14,880,000 | 14,880,000 | - | - | - | - | - | - |
| Yugoslavia | - | - | 15,760,000 | 14,805,513* | - | - | - | - |
| All other foreign countries (total) | 6,560,000 | 6,560,000 | 6,080,000 | 6,080,000 | 17,840,000 | 17,840,000 | 6,080,000 | 6,080,000 |

*Imports as of February 12

The above country designations are those specified in Presidential Proclamation No. 3257 of September 22, 1958. Since that date the names of certain countries have been changed.

PREPARED IN THE BUREAU OF CUSTOMS

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, FEBRUARY 15, 1962.

D-394

PRELIMINARY DATA ON IMPORTS FOR CONSUMPTION OF UNMANUFACTURED LEAD AND ZINC CHARGEABLE TO THE QUOTAS ESTABLISHED BY PRESIDENTIAL PROCLAMATION NO. 3257 OF SEPTEMBER 22, 1958

QUARTERLY QUOTA PERIOD - January 1 - March 31, 1962

IMPORTS - January 1 - February 10, 1962 (or as noted)

| Country of Production | ITEM 391 Lead-bearing ores, flue dust, and mattes | | ITEM 392 Lead bullion or base bullion, lead in pigs and bars, lead dross, reclaimed lead, scrap lead, antimonial lead, antimonial scrap lead, type metal, all alloys or combinations of lead n.s.p.f. | | ITEM 393 Zinc-bearing ores of all kinds, except pyrites containing not over 3% of zinc | | ITEM 394 Zinc in blocks, pigs, or slabs; old and worn-out zinc, fit only to be remanufactured, zinc dross, and zinc skimmings | |
|---|---|---|---|---|---|---|---|---|
| | Quarterly Quota Dutiable Lead (Pounds) | Imports | Quarterly Quota Dutiable Lead (Pounds) | Imports | Quarterly Quota Dutiable Zinc (Pounds) | Imports | Quarterly Quota By Weight (Pounds) | Imports |
| Australia | 10,080,000 | 9,764,581* | 23,680,000 | 15,856,564 | - | - | - | - |
| Belgian Congo | - | - | - | - | - | - | 5,440,000 | 1,433,016* |
| Belgium and Luxemburg (total) | - | - | - | - | - | - | 7,520,000 | 7,520,000 |
| Bolivia | 5,040,000 | 5,040,000 | - | - | - | - | - | - |
| Canada | 13,440,000 | 13,440,000 | 15,920,000 | 8,387,023* | 66,480,000 | 45,023,529 | 37,840,000 | 20,189,116 |
| Italy | - | - | - | - | - | - | 3,600,000 | - |
| Mexico | - | - | 36,880,000 | 14,230,955 | 70,480,000 | 31,858,512 | 6,320,000 | 2,826,674 |
| Peru | 16,160,000 | 1,239,069 | 12,880,000 | 333,958 | 35,120,000 | 15,531,512 | 3,760,000 | - |
| Un. So. Africa | 14,880,000 | 14,880,000 | - | - | - | - | - | - |
| Yugoslavia | - | - | 15,760,000 | 14,805,513* | - | - | - | - |
| All other foreign countries (total) | 6,560,000 | 6,560,000 | 6,080,000 | 6,080,000 | 17,840,000 | 17,840,000 | 6,080,000 | 6,080,000 |

*Imports as of February 12

The above country designations are those specified in Presidential Proclamation No. 3257 of September 22, 1958. Since that date the names of certain countries have been changed.

PREPARED IN THE BUREAU OF CUSTOMS

## COTTON WASTES
(In pounds)

COTTON CARD STRIPS made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany, and Italy:

| Country of Origin | Established TOTAL QUOTA | Total Imports Sept. 20, 1961, to February 12, 1962 | Established 33-1/3% of Total Quota | Imports 1/ Sept. 20, 1961, to February 12, 1962 |
|---|---|---|---|---|
| United Kingdom . . . . . | 4,323,457 | 1,627,808 | 1,441,152 | 1,441,152 |
| Canada . . . . . . . . . . | 239,690 | 239,690 | - | - |
| France . . . . . . . . . . | 227,420 | 75,807 | 75,807 | 75,807 |
| British India . . . . . . . | 69,627 | 69,627 | - | - |
| Netherlands . . . . . . . . | 68,240 | 22,747 | 22,747 | 22,747 |
| Switzerland . . . . . . . . | 44,388 | 42,019 | 14,796 | 12,505 |
| Belgium . . . . . . . . . . | 38,559 | - | 12,853 | - |
| Japan . . . . . . . . . . . | 341,535 | 341,500 | - | - |
| China . . . . . . . . . . . | 17,322 | - | - | - |
| Egypt . . . . . . . . . . . | 8,135 | - | - | - |
| Cuba . . . . . . . . . . . | 6,544 | - | - | - |
| Germany . . . . . . . . . . | 76,329 | 34,462 | 25,443 | 23,484 |
| Italy . . . . . . . . . . . | 21,263 | - | 7,088 | - |
| | 5,482,509 | 2,453,660 | 1,599,886 | 1,575,695 |

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

The country designations listed in this press release are those specified in Presidential Proclamation No. 2351 of September 5, 1939. Since that date the names of certain countries have been changed.

TREASURY DEPARTMENT
Washington, D. C.

30/

IMMEDIATE RELEASE
**THURSDAY, FEBRUARY 15, 1962**

D-395

Preliminary data on imports for consumption of cotton and cotton waste chargeable to the quotas established by the President's Proclamation of September 5, 1939, as amended

COTTON (other than linters) (in pounds)
Cotton under 1-1/8 inches other than rough or harsh under 3/4"
Imports September 20, 1961, to February 12, 1962

| Country of Origin | Established Quota | Imports |
|---|---|---|
| Egypt and the Anglo-Egyptian Sudan | 783,816 | 779,456 |
| Peru | 247,952 | 37,995 |
| British India | 2,003,483 | 2,003,483 |
| China | 1,370,791 | - |
| Mexico | 8,883,259 | 8,883,259 |
| Brazil | 618,723 | 618,723 |
| Union of Soviet Socialist Republics | 475,124 | 114,908 |
| Argentina | 5,203 | - |
| Haiti | 237 | - |
| Ecuador | 9,333 | - |
| Honduras | 752 | - |
| Paraguay | 871 | - |
| Colombia | 124 | - |
| Iraq | 195 | - |
| British East Africa | 2,240 | - |
| Netherlands E. Indies | 71,388 | - |
| Barbados | - | - |
| 1/Other British W. Indies | 21,321 | - |
| Nigeria | 5,377 | - |
| 2/Other British W. Africa | 16,004 | - |
| 3/Other French Africa | 689 | - |
| Algeria and Tunisia | - | - |

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

Cotton 1-1/8" or more
Imports August 1, 1961, to February 12, 1962

Established Quota (Global) - 45,656,420 Lbs.

| Staple Length | Allocation | Imports |
|---|---|---|
| 1-3/8" or more | 39,590,778 | 39,590,778 |
| 1-5/32" or more and under 1-3/8" (Tanguis) | 1,500,000 | 548,588 |
| 1-1/8" or more and under 1-3/8" | 4,565,642 | 4,565,642 |

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
**THURSDAY, FEBRUARY 15, 1962** D-395

Preliminary data on imports for consumption of cotton and cotton waste chargeable to the quotas established by the President's Proclamation of September 5, 1939, as amended

COTTON (other than linters) (in pounds)
Cotton under 1-1/8 inches other than rough or harsh under 3/4"
Imports September 20, 1961, to February 12, 1962

| Country of Origin | Established Quota | Imports |
|---|---|---|
| Egypt and the Anglo-Egyptian Sudan | 783,816 | 779,456 |
| Peru | 247,952 | 37,995 |
| British India | 2,003,483 | 2,003,483 |
| China | 1,370,791 | - |
| Mexico | 8,883,259 | 8,883,259 |
| Brazil | 618,723 | 618,723 |
| Union of Soviet Socialist Republics | 475,124 | 114,908 |
| Argentina | 5,203 | - |
| Haiti | 237 | - |
| Ecuador | 9,333 | - |
| Honduras | 752 | - |
| Paraguay | 871 | - |
| Colombia | 124 | - |
| Iraq | 195 | - |
| British East Africa | 2,240 | - |
| Netherlands E. Indies | 71,388 | - |
| Barbados | - | - |
| 1/ Other British W. Indies | 21,321 | - |
| Nigeria | 5,377 | - |
| 2/ Other British W. Africa | 16,004 | - |
| 3/ Other French Africa | 689 | - |
| Algeria and Tunisia | - | - |

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

Cotton 1-1/8" or more
Imports August 1, 1961, to February 12, 1962

Established Quota (Global) - 45,656,420 Lbs.

| Staple Length | Allocation | Imports |
|---|---|---|
| 1-3/8" or more | 39,590,778 | 39,590,778 |
| 1-5/32" or more and under 1-3/8" (Tanguis) | 1,500,000 | 548,588 |
| 1-1/8" or more and under 1-3/8" | 4,565,642 | 4,565,642 |

## COTTON WASTES
(In pounds)

COTTON CARD STRIPS made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany, and Italy:

| Country of Origin | Established TOTAL QUOTA | Total Imports Sept. 20, 1961, to February 12, 1962 | Established 33-1/3% of Total Quota | Imports 1/ Sept. 20, 1961, to February 12, 1962 |
|---|---|---|---|---|
| United Kingdom | 4,323,457 | 1,627,808 | 1,441,152 | 1,441,152 |
| Canada | 239,690 | 239,690 | - | - |
| France | 227,420 | 75,807 | 75,807 | 75,807 |
| British India | 69,627 | 69,627 | - | - |
| Netherlands | 68,240 | 22,747 | 22,747 | 22,747 |
| Switzerland | 44,388 | 42,019 | 14,796 | 12,505 |
| Belgium | 38,559 | - | 12,853 | - |
| Japan | 341,535 | 341,500 | - | - |
| China | 17,322 | - | - | - |
| Egypt | 8,135 | - | - | - |
| Cuba | 6,544 | - | - | - |
| Germany | 76,329 | 34,462 | 25,443 | 23,484 |
| Italy | 21,263 | - | 7,088 | - |
| | 5,482,509 | 2,453,660 | 1,599,886 | 1,575,695 |

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

The country designations listed in this press release are those specified in Presidential Proclamation No. 2351 of September 5, 1939. Since that date the names of certain countries have been changed.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, FEBRUARY 15, 1962.

D-396

The Bureau of Customs announced today the following preliminary figures showing the imports for consumption from January 1, 1962, to February 3, 1962, inclusive, of commodities for which quotas were established pursuant to the Philippine Trade Agreement Revision Act of 1955:

| Commodity | Established Annual Quota Quantity | Unit of Quantity | Imports as of February 3, 1962 |
|---|---|---|---|
| Buttons............. | 680,000 | Gross | 1,951 |
| Cigars.............. | 160,000,000 | Number | 845,560 |
| Coconut oil......... | 358,400,000 | Pound | 20,504,802 |
| Cordage............. | 6,000,000 | Pound | 404,424 |
| Tobacco............. | 5,200,000 | Pound | 625,000 |

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
**THURSDAY, FEBRUARY 15, 1962.**

D-396

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| Tobacco............. | 5,200,000 | Pound | 625,000 |

# TREASURY DEPARTMENT

WASHINGTON, D.C.
February 15, 1962

FOR IMMEDIATE RELEASE

## SUBSCRIPTION FIGURES FOR CURRENT EXCHANGE OFFERING

The results of the Treasury's current exchange offering of

3-1/2% certificates dated February 15, 1962, maturing February 15, 1963, and
4% notes dated February 15, 1962, maturing August 15, 1966,

are summarized in the following tables.

| Maturing Notes | Eligible for Exchange | Exchange Subscriptions 3-1/2% Ctfs. | 4% Notes | Total | For Cash Redemption |
|---|---|---|---|---|---|
| | (In millions) | | | | |
| 3-5/8% Series A-1962 | $ 647 | $ 282 | $ 303 | $ 586 | $ 61 |
| 4% Series D-1962 | 1,435 | 454 | 858 | 1,311 | 124 |
| 3-1/4% Series F-1962 | 9,098 | 5,753 | 3,198 | 8,950 | 148 |
| 1-1/2% Series EA-1962 | 551 | 370 | 95 | 465 | 86 |
| Total | $11,731 | $6,858 | $4,454 | $11,312 | $419 |

### Exchanges for 3-1/2% Certificates of Series A-1963

| Federal Reserve District | 3-5/8% Notes, Series A-1962 | 4% Notes, Series D-1962 | 3-1/4% Notes, Series F-1962 | 1-1/2% Notes, Series EA-1962 | Total for A-1963 Ctfs. |
|---|---|---|---|---|---|
| Boston | $ 7,450,000 | $ 27,683,000 | $ 110,417,000 | $ 2,700,000 | $ 148,250,000 |
| New York | 155,226,000 | 163,854,000 | 4,474,671,000 | 308,729,000 | 5,102,480,000 |
| Philadelphia | 10,672,000 | 5,732,000 | 67,172,000 | 5,493,000 | 89,069,000 |
| Cleveland | 9,520,000 | 45,866,000 | 174,054,000 | 3,540,000 | 232,980,000 |
| Richmond | 8,185,000 | 5,890,000 | 34,907,000 | 2,708,000 | 51,690,000 |
| Atlanta | 7,805,000 | 16,950,000 | 90,283,000 | 8,699,000 | 123,737,000 |
| Chicago | 42,213,000 | 75,968,000 | 217,997,000 | 25,603,000 | 361,781,000 |
| St. Louis | 14,750,000 | 19,642,000 | 163,398,000 | 6,307,000 | 204,097,000 |
| Minneapolis | 3,986,000 | 20,698,000 | 36,583,000 | 527,000 | 61,794,000 |
| Kansas City | 8,538,000 | 20,850,000 | 59,414,000 | 2,664,000 | 91,466,000 |
| Dallas | 2,475,000 | 7,860,000 | 26,667,000 | 500,000 | 37,502,000 |
| San Francisco | 10,988,000 | 40,763,000 | 285,882,000 | 2,162,000 | 339,795,000 |
| Treasury | 278,000 | 1,908,000 | 11,501,000 | 55,000 | 13,742,000 |
| Total | $282,086,000 | $453,664,000 | $5,752,946,000 | $369,687,000 | $6,858,383,000 |

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(OVER)

Exchanges for 4% Notes of Series A-1966

| Federal Reserve District | 3-5/8% Notes, Series A-1962 | 4% Notes, Series D-1962 | 3-1/4% Notes, Series F-1962 | 1-1/2% Notes, Series EA-1962 | Total for A-1966 Notes |
|---|---|---|---|---|---|
| Boston | $ 10,285,000 | $ 49,584,000 | $ 101,598,000 | $ 2,363,000 | $ 163,830,00( |
| New York | 141,953,000 | 238,305,000 | 2,217,103,000 | 37,553,000 | 2,634,914,00( |
| Philadelphia | 13,681,000 | 65,734,000 | 49,870,000 | 1,376,000 | 130,661,00( |
| Cleveland | 14,091,000 | 37,757,000 | 146,219,000 | 1,248,000 | 199,315,00( |
| Richmond | 8,165,000 | 12,215,000 | 34,134,000 | 529,000 | 55,043,00( |
| Atlanta | 10,870,000 | 45,885,000 | 75,781,000 | 2,095,000 | 134,631,00( |
| Chicago | 44,402,000 | 170,684,000 | 211,963,000 | 24,494,000 | 451,543,00( |
| St. Louis | 10,078,000 | 48,047,000 | 74,980,000 | 8,750,000 | 141,855,00( |
| Minneapolis | 13,864,000 | 53,440,000 | 41,185,000 | 1,562,000 | 110,051,00( |
| Kansas City | 12,757,000 | 59,820,000 | 55,670,000 | 7,567,000 | 135,814,00( |
| Dallas | 10,806,000 | 39,075,000 | 50,351,000 | 685,000 | 100,917,00( |
| San Francisco | 11,322,000 | 35,135,000 | 137,317,000 | 5,773,000 | 189,547,00( |
| Treasury | 1,152,000 | 2,139,000 | 1,360,000 | 1,301,000 | 5,952,00( |
| Total | $303,426,000 | $857,820,000 | $3,197,531,000 | $95,296,000 | $4,454,073,00( |

| Maturing Notes | Eligible for Exchange: Publicly Held | Eligible for Exchange: Federal Reserve Banks and Government Accounts | For Cash Redemption: % of Total Outstanding | For Cash Redemption: % of Publi Holdings |
|---|---|---|---|---|
| | (In millions) | | | |
| 3-5/8% Series A-1962 | $ 615 | $ 32 | 9.4 | 9.9 |
| 4% Series D-1962 | 1,413 | 22 | 8.6 | 8.8 |
| 3-1/4% Series F-1962 | 4,248 | 4,850 | 1.6 | 3.5 |
| 1-1/2% Series EA-1962 | 526 | 25 | 15.6 | 16.3 |
| Total | $6,802 | $4,929 | 3.6 | 6.2 |

12. Investment rates on the new or additional bonds offered in exchange to holders of the eligible 3%, 2-5/8%, or 2-1/2% bonds:

| Eligible bonds | 3% Feb. 15, 1964 | 2-5/8% Feb. 15, 1965 | | 2-1/2% June 15, 1972 | | 2-1/2% Sept. 15, 1972 | | 2-1/2% Dec. 15, 1972 | |
|---|---|---|---|---|---|---|---|---|---|
| Bonds offered in exchange ------ | 4% Aug. 15, 1971 | 4% Aug. 15, 1971 | 4% Feb. 15, 1980 | 3-1/2% Feb. 15, 1990 | 3-1/2% Nov. 15, 1998 | 3-1/2% Feb. 15, 1990 | 3-1/2% Nov. 15, 1998 | 3-1/2% Feb. 15, 1990 | 3-1/2% Nov. 15, 1998 |
| Payments on account of $100 issue price: | | | | | | | | | |
| By subscriber -------------- | -- | $2.00 | $0.25 | $1.25 | $ -- | $1.50 | $0.25 | $1.75 | $0.50 |
| To subscriber -------------- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Approximate investment yield from exchange date (3/1/62) to maturity of bonds offered in exchange based on price of bonds eligible for exchange 1/ -- | 4.11% | 4.10% | 4.20% | 4.21% | 4.19% | 4.21% | 4.19% | 4.19% | 4.17% |
| Approximate minimum reinvestment rate for the extension period 2/ ------------------------- | 4.32 | 4.36 | 4.36 | 4.37 | 4.30 | 4.38 | 4.30 | 4.38 | 4.30 |

1/ Yield to nontaxable holder or before tax. Based on mean of bid and ask prices (adjusted for payments on account of issue price) at noon on February 14, 1962.

2/ Rate for nontaxable holder or before tax. For explanation see paragraph 11 above.

8. (c) Gain or loss, if any, upon the 3%, 2-5/8%, or 2-1/2% bonds surrendered in exchange will be taken into account upon the disposition or redemption of the 4% or 3-1/2% bonds issued in exchange.

9. Federal estate tax option on the additional bonds -- the 4% Treasury bonds of 1980, and the 3-1/2% Treasury bonds of 1990 and 1998 will be redeemable at par and accrued interest prior to maturity for the purpose of using the proceeds in payment of Federal estate taxes but only if they are owned by the decedent at the time of his death and thereupon constitute part of his estate. Accordingly, estates of decedents to which the similar option in the 2-1/2% Treasury bonds of 1967-72 has accrued at the date of exchange cannot make the exchange with the expectation of using the proceeds of redemption of the 4% bonds of 1980 or the 3-1/2% bonds of 1990 and 1998 prior to maturity in payment of estate taxes because such bonds were not owned by the decedent at the time of his death.

10. Book value of new bonds to banking institutions -- the Comptroller of the Curre Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation have indicated to the Treasury that banks under their supervis may place the new or additional bonds received in exchange on their books at an amount not greater than the amount at which the eligible bonds surrendered by t are carried on their books plus the amount of premium, if any, paid on the new bonds. They will so advise their examiners.

11. Computation of reinvestment rate for the extension of maturity -- a holder of t outstanding eligible 3%, 2-5/8%, or 2-1/2% bonds has the option of accepting the Treasury's exchange offer or of holding the bonds to maturity. Consequentl he can compare the interest he will receive resulting from exchanging now with the interest that he might obtain by reinvesting the proceeds of the 3%, 2-5/8% or 2-1/2% bonds at maturity.

The interest income before tax for making the extension now through exchange will be the coupon rates on the new issues. If a holder of the eligible bonds does not make the exchange, he would receive only the 3%, 2-5/8%, or 2-1/2% rates to their maturity and would have to reinvest at that time at a rate equal to that indicated in paragraph 12 below for the remaining terms of the issues now offered, in order to equal the interest he would receive by accepting the exchange offer. For example, if the 2-1/2% bonds of 6/15/67-72 are exchanged for the 3-1/2% bonds of 1990, the rate for the entire twenty-seven years and eleven and one-half months will be 3-1/2%. If the exchange is not made, a 2-1/2% rate will be received until June 15, 1972, requiring reinvestment of the proceeds of the 2-1/2's at that time at a rate of at least 4.37% for the remaining seventeen years and eight months, all at compound interest, to averag out to a 3-1/2% rate for twenty-seven years and eleven and one-half months. This minimum reinvestment rate for the extension period is shown in the table under paragraph 12. The minimum reinvestment rates for the other issues includ in the exchange are also shown in the table under paragraph 12.

Coupons dated August 15, 1962, on the 3% and 2-5/8% bonds; coupons dated June 15, 1962, on the 2-1/2% bonds of June 15, 1972, and December 15, 1972; and coupons dated March 15, 1962, on the 2-1/2% bonds of September 15, 1972, in bearer form should be attached to the bonds when they are surrendered for exchange. Accrued interest on the 3% bonds of 1964 will be paid to subscribers, in the case of bearer bonds following their acceptance, and in the case of registered bonds following discharge of registration in accordance with the assignments on the bonds surrendered.

4. Limitation on amount of bonds to be issued:

The amount of the new or additional bonds to be issued under this offering will be limited to the amount of the eligible 3%, 2-5/8%, and 2-1/2% bonds tendered in exchange and accepted.

5. Books open for subscription for the new or additional bonds:

The books will be open for the receipt of subscriptions from ALL classes of subscribers from Monday, February 19, through Wednesday, February 21, 1962. In addition, the books will also be open for the receipt of subscriptions from individuals through Wednesday, February 28. For this purpose, individuals are defined as natural persons in their own right. Subscriptions placed in the mail by midnight of the respective closing dates, addressed to the Treasurer, U. Washington 25, D. C., or any Federal Reserve Bank or Branch, will be considered as timely. The use of registered mail is recommended for bondholders' protecti in submitting bonds to be exchanged. The 4% bonds of 1971 and 4% bonds of 1980 will be delivered to subscribers on March 9, 1962. The 3-1/2% bonds of 1990 a 3-1/2% bonds of 1998, will be delivered on March 16, 1962.

6. Requirements applicable to subscriptions:

Subscriptions will be received at Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington 25, D. C. Banking institutions generally may submit subscriptions for account of customers, provided the names of the customers are set forth in such subscriptions.

7. Denominations and other characteristics of the new or additional bonds:

$500, $1,000, $5,000, $10,000, $100,000, and $1,000,000 in coupon and registere forms. They will be acceptable to secure deposits of public moneys.

8. Nonrecognition of gain or loss for Federal income tax purposes:

(a) Where the exchange is solely of the 3%, 2-5/8%, or 2-1/2% bonds surrendere for exchange for the new or additional bonds -- the Secretary of the Treasury has declared pursuant to section 1037(a) of the Internal Revenue Code that no gain or loss shall be recognized for Federal income tax purposes upon the exchange.

(b) Where premium is paid by the subscriber -- if a premium is paid by the subscriber no gain or loss will be recognized; but his tax basis in the new or additional 4% or 3-1/2% bonds will be his cost basis in the 3%, 2-5/8%, or 2-1/2% bonds surrendered for exchange increased by the amount of the premium.

Terms and Conditions of the Advance Refunding Offer

1. To all holders owning $500, or more, of the following outstanding Treasury bonds:

| Description of bonds | Issue date | Final maturity date | Remaining term to final maturity (Yrs. - Mos.) | Amount outstandi (in billio |
|---|---|---|---|---|
| 3% bonds 1964 | Feb. 14, 1958 | Feb. 15, 1964 | 1 - 11½ | $3.9 |
| 2-5/8% bonds 1965 | June 15, 1958 | Feb. 15, 1965 | 2 - 11½ | 6.9 |
| 2-1/2% bonds 6/15/67-72 | June 1, 1945 | June 15, 1972 | 10 - 3½ | 1.8 |
| 2-1/2% bonds 9/15/67-72 | Oct. 20, 1941 | Sept. 15, 1972 | 10 - 6½ | 2.7 |
| 2-1/2% bonds 12/15/67-72 | Nov. 15, 1945 | Dec. 15, 1972 | 10 - 9½ | 3.5 |

2. New bonds to be issued: (or additional amounts of outstanding issues)

| Description of bonds | Issue date | Amount outstanding (in billions) | Interest starts 1/ | Interest payable |
|---|---|---|---|---|
| 4% bonds of Aug. 15, 1971 | Mar. 1, 1962 | - | Mar. 1, 1962 | Feb.15&Aug. |
| 4% bonds of Feb. 15, 1980 | Jan. 23, 1959 | $.9 | Mar. 1, 1962 | Feb.15&Aug. |
| 3-1/2% bonds of Feb. 15, 1990 | Feb. 14, 1958 | 4.0 | Mar. 1, 1962 | Feb.15&Aug. |
| 3-1/2% bonds of Nov. 15, 1998 | Oct. 3, 1960 | 3.5 | Mar. 1, 1962 | May 15&Nov. |

1/ Interest on the bonds surrendered stops on March 1, 1962.

3. Terms of the exchange:

Exchanges will be made on the basis of equal face amounts, with payments to the Treasury and with adjustments of accrued interest to March 1, 1962, on the bonds surrendered, and the bonds issued in the exchange (per $100 face amount), as indicated below:

| Bonds to be exchanged | Bonds to be issued | Amount of purchase price of bonds to be issued: To be collected from subscriber | Accrued interest: To be paid to subscriber | Accrued interest: To be collected from subscriber | Net amount: To be paid to subscriber | Net amount: To be collected from subscriber | Extensi of maturit Yrs.-Mo |
|---|---|---|---|---|---|---|---|
| 3% -- 2/15/64 | 4% 1971 | - | $.11602 | - | $.11602 | - | 7 - |
| 2-5/8%--2/15/65 | 4% 1971 | $2.00 | .10152 | - | - | $1.89848 | 6 - |
| | 4% 1980 | .25 | .10152 | $.15470 | - | .30318 | 15 - |
| 2-1/2%--6/15/72 | 3½% 1990 | 1.25 | .52198 | .13536 | - | .86338 | 17 - |
| | 3½% 1998 | - | .52198 | 1.02486 | - | .50288 | 26 - |
| 2-1/2%--9/15/72 | 3½% 1990 | 1.50 | 1.15331 | .13536 | - | .48205 | 17 - |
| | 3½% 1998 | .25 | 1.15331 | 1.02486 | - | .12155 | 26 - |
| 2-1/2%--12/15/72 | 3½% 1990 | 1.75 | .52198 | .13536 | - | 1.36338 | 17 - |
| | 3½% 1998 | .50 | .52198 | 1.02486 | - | 1.00288 | 25 - |

Holders will have the option of selecting either the 3-1/2 percent bonds maturing in February 1990 or the 3-1/2 percent bonds maturing in November 1998.

The Treasury is making it possible for investors to gain additional income at terms mutually advantageous to the Treasury and themselves, by extending the maturity of their holdings for additional periods ranging between 6-1/2 and 26-1/2 years. As explained below, holders will be expected in most cases to make small cash payments to supplement the outstanding bonds which they submit in exchange for new or additional amounts of other bonds. In order to equal the terms of this offering through any alternative investment, investors would otherwise have to reinvest the proceeds of their present holdings, on maturity, at interest rates ranging from 4.30 to 4.38 percent.

The exchange of old for new securities will not be treated as a sale and purchase for tax purposes, thereby avoiding the immediate charging of book losses on the securities being accepted by the Treasury in exchange for the new issues.

To the extent that investors choose to extend the maturity of their existing holdings, the Treasury will have accomplished some needed restructuring of its outstanding debt, without diverting from productive purposes in other sectors of the economy the new savings currently flowing into the intermediate and longer-term capital markets. Books will be open for subscriptions beginning Monday, February 19, and will remain open through Wednesday, February 21. In addition, individuals will be allowed to subscribe for a further period through Wednesday, February 28.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 15, 1962

FOR IMMEDIATE RELEASE

ADVANCE REFUNDING OFFER

The Treasury announced today that it will offer holders of nearly $19 billion of outstanding bonds an opportunity to extend their holdings at higher yields. For the first time, the Treasury is combining in one operation a "junior" advance refunding (in which holders of relatively short-term maturities are given an opportunity to move into an intermediate maturity) and a "senior" advance refunding (in which holders of intermediate-term securities may exchange into a longer-term issue).

Holders of $10.8 billion of two bonds issued in February and June 1958, and maturing in February 1964 and February 1965, will be given an opportunity to exchange them for a new 4 percent bond to mature in August 1971. In addition, holders of one of these bonds, the 2-5/8 percent issue maturing in 1965, will be given a second option -- the right to exchange for additional amounts of the outstanding 4 percent bond maturing in February 1980.

The "senior" portion of this advance refunding is available to all holders of the 2-1/2 percent bonds maturing in June, September and December, 1967-72. These bonds were originally issued in 1941 and 1945.

D-398

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 15, 1962

FOR IMMEDIATE RELEASE

ADVANCE REFUNDING OFFER

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The "senior" portion of this advance refunding is available to all holders of the 2-1/2 percent bonds maturing in June, September and December, 1967-72. These bonds were originally issued in 1941 and 1945.

Holders will have the option of selecting either the 3-1/2 percent bonds maturing in February 1990 or the 3-1/2 percent bonds maturing in November 1998.

The Treasury is making it possible for investors to gain additional income at terms mutually advantageous to the Treasury and themselves, by extending the maturity of their holdings for additional periods ranging between 6-1/2 and 26-1/2 years. As explained below, holders will be expected in most cases to make small cash payments to supplement the outstanding bonds which they submit in exchange for new or additional amounts of other bonds. In order to equal the terms of this offering through any alternative investment, investors would otherwise have to reinvest the proceeds of their present holdings, on maturity, at interest rates ranging from 4.30 to 4.38 percent.

The exchange of old for new securities will not be treated as a sale and purchase for tax purposes, thereby avoiding the immediate charging of book losses on the securities being accepted by the Treasury in exchange for the new issues.

To the extent that investors choose to extend the maturity of their existing holdings, the Treasury will have accomplished some needed restructuring of its outstanding debt, without diverting from productive purposes in other sectors of the economy the new savings currently flowing into the intermediate and longer-term capital markets. Books will be open for subscriptions beginning Monday, February 19, and will remain open through Wednesday, February 21. In addition, individuals will be allowed to subscribe for a further period through Wednesday, February 28.

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## Terms and Conditions of the Advance Refunding Offer

To all holders owning $500, or more, of the following outstanding Treasury bonds:

| scription of bonds | Issue date | Final maturity date | Remaining term to final maturity (Yrs. - Mos.) | Amount outstanding (in billions) |
|---|---|---|---|---|
| bonds 1964 | Feb. 14, 1958 | Feb. 15, 1964 | 1 - 11½ | $3.9 |
| 5/8% bonds 1965 | June 15, 1958 | Feb. 15, 1965 | 2 - 11½ | 6.9 |
| 1/2% bonds 6/15/67-72 | June 1, 1945 | June 15, 1972 | 10 - 3½ | 1.8 |
| 1/2% bonds 9/15/67-72 | Oct. 20, 1941 | Sept. 15, 1972 | 10 - 6½ | 2.7 |
| 1/2% bonds 12/15/67-72 | Nov. 15, 1945 | Dec. 15, 1972 | 10 - 9½ | 3.5 |

New bonds to be issued: (or additional amounts of outstanding issues)

| Description of bonds | Issue date | Amount outstanding (in billions) | Interest starts 1/ | Interest payable |
|---|---|---|---|---|
| bonds of Aug. 15, 1971 | Mar. 1, 1962 | - | Mar. 1, 1962 | Feb.15&Aug.15 |
| bonds of Feb. 15, 1980 | Jan. 23, 1959 | $.9 | Mar. 1, 1962 | Feb.15&Aug.15 |
| 1/2% bonds of Feb. 15, 1990 | Feb. 14, 1958 | 4.0 | Mar. 1, 1962 | Feb.15&Aug.15 |
| 1/2% bonds of Nov. 15, 1998 | Oct. 3, 1960 | 3.5 | Mar. 1, 1962 | May 15&Nov.15 |

1/ Interest on the bonds surrendered stops on March 1, 1962.

Terms of the exchange:

changes will be made on the basis of equal face amounts, with payments to the Treasury, d with adjustments of accrued interest to March 1, 1962, on the bonds surrendered, and on e bonds issued in the exchange (per $100 face amount), as indicated below:

| Bonds to be exchanged | Bonds to be issued | Amount of purchase price of bonds to be issued: To be collected from subscriber | Accrued interest: To be paid to subscriber | Accrued interest: To be collected from subscriber | Net amount: To be paid to subscriber | Net amount: To be collected from subscriber | Extension of maturity Yrs.-Mos. |
|---|---|---|---|---|---|---|---|
| -- 2/15/64 | 4% 1971 | - | $.11602 | - | $.11602 | - | 7 - 6 |
| 5/8%--2/15/65 | 4% 1971 | $2.00 | .10152 | - | - | $1.89848 | 6 - 6 |
| | 4% 1980 | .25 | .10152 | $.15470 | - | .30318 | 15 - 0 |
| 1/2%--6/15/72 | 3½% 1990 | 1.25 | .52198 | .13536 | - | .86338 | 17 - 8 |
| | 3½% 1998 | - | .52198 | 1.02486 | - | .50288 | 26 - 5 |
| 1/2%--9/15/72 | 3½% 1990 | 1.50 | 1.15331 | .13536 | - | .48205 | 17 - 5 |
| | 3½% 1998 | .25 | 1.15331 | 1.02486 | - | .12155 | 26 - 2 |
| 1/2%--12/15/72 | 3½% 1990 | 1.75 | .52198 | .13536 | - | 1.36338 | 17 - 2 |
| | 3½% 1998 | .50 | .52198 | 1.02486 | - | 1.00288 | 25 - 11 |

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Coupons dated August 15, 1962, on the 3% and 2-5/8% bonds; coupons dated June 15, )62, on the 2-1/2% bonds of June 15, 1972, and December 15, 1972; and coupons dated arch 15, 1962, on the 2-1/2% bonds of September 15, 1972, in bearer form should be ttached to the bonds when they are surrendered for exchange. Accrued interest on the % bonds of 1964 will be paid to subscribers, in the case of bearer bonds following heir acceptance, and in the case of registered bonds following discharge of registraion in accordance with the assignments on the bonds surrendered.

4. Limitation on amount of bonds to be issued:

The amount of the new or additional bonds to be issued under this offering will be limited to the amount of the eligible 3%, 2-5/8%, and 2-1/2% bonds tendered in exchange and accepted.

5. Books open for subscription for the new or additional bonds:

The books will be open for the receipt of subscriptions from ALL classes of subscribers from Monday, February 19, through Wednesday, February 21, 1962. In addition, the books will also be open for the receipt of subscriptions from individuals through Wednesday, February 28. For this purpose, individuals are defined as natural persons in their own right. Subscriptions placed in the mail by midnight of the respective closing dates, addressed to the Treasurer,U.S., Washington 25, D. C., or any Federal Reserve Bank or Branch, will be considered as timely. The use of registered mail is recommended for bondholders' protection in submitting bonds to be exchanged. The 4% bonds of 1971 and 4% bonds of 1980 will be delivered to subscribers on March 9, 1962. The 3-1/2% bonds of 1990 and 3-1/2% bonds of 1998, will be delivered on March 16, 1962.

6. Requirements applicable to subscriptions:

Subscriptions will be received at Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington 25, D. C. Banking institutions generally may submit subscriptions for account of customers, provided the names of the customers are set forth in such subscriptions.

7. Denominations and other characteristics of the new or additional bonds:

$500, $1,000, $5,000, $10,000, $100,000, and $1,000,000 in coupon and registered forms. They will be acceptable to secure deposits of public moneys.

8. Nonrecognition of gain or loss for Federal income tax purposes:

(a) Where the exchange is solely of the 3%, 2-5/8%, or 2-1/2% bonds surrendered for exchange for the new or additional bonds -- the Secretary of the Treasury has declared pursuant to section 1037(a) of the Internal Revenue Code that no gain or loss shall be recognized for Federal income tax purposes upon the exchange.

(b) Where premium is paid by the subscriber -- if a premium is paid by the subscriber no gain or loss will be recognized; but his tax basis in the new or additional 4% or 3-1/2% bonds will be his cost basis in the 3%, 2-5/8%, or 2-1/2% bonds surrendered for exchange increased by the amount of the premium.

8. (c) Gain or loss, if any, upon the 3%, 2-5/8%, or 2-1/2% bonds surrendered in exchange will be taken into account upon the disposition or redemption of the 4% or 3-1/2% bonds issued in exchange.

9. Federal estate tax option on the additional bonds -- the 4% Treasury bonds of 1980, and the 3-1/2% Treasury bonds of 1990 and 1998 will be redeemable at par and accrued interest prior to maturity for the purpose of using the proceeds in payment of Federal estate taxes but only if they are owned by the decedent at the time of his death and thereupon constitute part of his estate. Accordingly, estates of decedents to which the similar option in the 2-1/2% Treasury bonds of 1967-72 has accrued at the date of exchange cannot make the exchange with the expectation of using the proceeds of redemption of the 4% bonds of 1980 or the 3-1/2% bonds of 1990 and 1998 prior to maturity in payment of estate taxes because such bonds were not owned by the decedent at the time of his death.

10. Book value of new bonds to banking institutions -- the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation have indicated to the Treasury that banks under their supervision may place the new or additional bonds received in exchange on their books at an amount not greater than the amount at which the eligible bonds surrendered by them are carried on their books plus the amount of premium, if any, paid on the new bonds. They will so advise their examiners.

11. Computation of reinvestment rate for the extension of maturity -- a holder of the outstanding eligible 3%, 2-5/8%, or 2-1/2% bonds has the option of accepting the Treasury's exchange offer or of holding the bonds to maturity. Consequently, he can compare the interest he will receive resulting from exchanging now with the interest that he might obtain by reinvesting the proceeds of the 3%, 2-5/8%, or 2-1/2% bonds at maturity.

The interest income before tax for making the extension now through exchange will be the coupon rates on the new issues. If a holder of the eligible bonds does not make the exchange, he would receive only the 3%, 2-5/8%, or 2-1/2% rates to their maturity and would have to reinvest at that time at a rate equal to that indicated in paragraph 12 below for the remaining terms of the issues now offered, in order to equal the interest he would receive by accepting the exchange offer. For example, if the 2-1/2% bonds of 6/15/67-72 are exchanged for the 3-1/2% bonds of 1990, the rate for the entire twenty-seven years and eleven and one-half months will be 3-1/2%. If the exchange is not made, a 2-1/2% rate will be received until June 15, 1972, requiring reinvestment of the proceeds of the 2-1/2's at that time at a rate of at least 4.37% for the remaining seventeen years and eight months, all at compound interest, to average out to a 3-1/2% rate for twenty-seven years and eleven and one-half months. This minimum reinvestment rate for the extension period is shown in the table under paragraph 12. The minimum reinvestment rates for the other issues included in the exchange are also shown in the table under paragraph 12.

12. Investment rates on the new or additional bonds offered in exchange to holders of the eligible 3%, 2-5/8%, or 2-1/2% bonds:

| Eligible bonds | 3% Feb. 15, 1964 | 2-5/8% Feb. 15, 1965 | | 2-1/2% June 15, 1972 | | 2-1/2% Sept. 15, 1972 | | 2-1/2% Dec. 15, 1972 | |
|---|---|---|---|---|---|---|---|---|---|
| Bonds offered in exchange ------ | 4% Aug. 15, 1971 | 4% Aug. 15, 1971 | 4% Feb. 15, 1980 | 3-1/2% Feb. 15, 1990 | 3-1/2% Nov. 15, 1998 | 3-1/2% Feb. 15, 1990 | 3-1/2% Nov. 15, 1998 | 3-1/2% Feb. 15, 1990 | 3-1/2% Nov. 15, 1998 |
| Payments on account of $100 issue price: | | | | | | | | | |
| By subscriber -------------- | -- | $2.00 | $0.25 | $1.25 | $ -- | $1.50 | $0.25 | $1.75 | $0.50 |
| To subscriber -------------- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Approximate investment yield from exchange date (3/1/62) to maturity of bonds offered in exchange based on price of bonds eligible for exchange 1/ -- | 4.11% | 4.10% | 4.20% | 4.21% | 4.19% | 4.21% | 4.19% | 4.19% | 4.17% |
| Approximate minimum reinvestment rate for the extension period 2/ --------------------------- | 4.32 | 4.36 | 4.36 | 4.37 | 4.30 | 4.38 | 4.30 | 4.38 | 4.30 |

1/ Yield to nontaxable holder or before tax. Based on mean of bid and ask prices (adjusted for payments on account of issue price) at noon on February 14, 1962.

2/ Rate for nontaxable holder or before tax. For explanation see paragraph 11 above.

# ADVANCE REFUNDING
# U.S. TREASURY DEPARTMENT

Offers during period from February 19 to February 21, 1962*

TO ISSUE 3-1/2% AND 4% TREASURY BONDS IN EXCHANGE FOR OUTSTANDING:

| | | | |
|---|---|---|---|
| $3,854,181,500 - | 3% | Treasury Bonds of 1964 | |
| 6,896,234,000 - | 2-5/8% | Treasury Bonds of 1965 | |
| 1,757,227,500 - | 2-1/2% | Treasury Bonds of June | 1967-72 (6-15-72) |
| 2,715,973,250 - | 2-1/2% | Treasury Bonds of September | 1967-72 (9-15-72) |
| 3,515,339,000 - | 2-1/2% | Treasury Bonds of December | 1967-72 (12-15-72) |

DESCRIPTION OF BONDS BEING OFFERED:

| | Date of Issue | Date of Maturity | Amount Outstanding |
|---|---|---|---|
| 4% Treasury Bonds of 1971 | Mar. 1, 1962 | Aug. 15, 1971 | $ (NEW ISSUE) |
| Additional issue of 4% Treasury Bonds of 1980 | Jan. 23, 1959 | Feb. 15, 1980 | 883,666,000 |
| Additional issue of 3-1/2% Treasury Bonds of 1990 | Feb. 14, 1958 | Feb. 15, 1990 | 4,015,596,000 |
| Additional issue of 3-1/2% Treasury Bonds of 1998 | Oct. 3, 1960 | Nov. 15, 1998 | 3,529,211,000 |

LIMITATIONS ON EXCHANGES:

| Eligible Issues | Exchangeable For |
|---|---|
| 3% Treasury Bonds of 1964 | 4% Treasury Bonds of 1971 |
| 2-5/8% Treasury Bonds of 1965 | 4% Treasury Bonds of 1971<br>4% Treasury Bonds of 1980 |
| 2-1/2% Treasury Bonds of 1967-72 (6-15-72)<br>2-1/2% Treasury Bonds of 1967-72 (9-15-72)<br>2-1/2% Treasury Bonds of 1967-72 (12-15-72) | 3-1/2% Treasury Bonds of 1990<br>3-1/2% Treasury Bonds of 1998 |

Exchanges to be made on the basis of par for par in multiples of $500 with cash payments due from or payable to subscribers per $100 face amount as follows:

| BONDS TO BE EXCHANGED | BONDS TO BE ISSUED | AMOUNT OF PURCHASE PRICE OF BONDS TO BE ISSUED | ACCRUED INTEREST | | NET AMOUNT | |
|---|---|---|---|---|---|---|
| | | To be collected from subscriber | To be paid to subscriber | To be collected from subscriber | To be paid to subscriber | To be collected from subscriber |
| 3% 1964 | 4% 1971 | — | $ .11602 | — | $ .11602 | — |
| 2-5/8% 1965 | 4% 1971 | $2.00 | .10152 | — | — | $1.89848 |
| | 4% 1980 | .25 | .10152 | $ .15470 | — | .30318 |
| 2-1/2% 1967-72 | 3-1/2% 1990 | 1.25 | .52198 | .13536 | — | .86338 |
| (6-15-72) | 3-1/2% 1998 | — | .52198 | 1.02486 | — | .50288 |
| 2-1/2% 1967-72 | 3-1/2% 1990 | 1.50 | 1.15331 | .13536 | — | .48205 |
| (9-15-72) | 3-1/2% 1998 | .25 | 1.15331 | 1.02486 | — | .12155 |
| 2-1/2% 1967-72 | 3-1/2% 1990 | 1.75 | .52198 | .13536 | — | 1.36338 |
| (12-15-72) | 3-1/2% 1998 | .50 | .52198 | 1.02486 | — | 1.00288 |

All subscriptions accepted will be allotted in full. Interest adjustments will be made as of March 1, 1962. The 4% bonds will be delivered on March 9, 1962, and the 3-1/2% bonds on March 16, 1962.

FULL INFORMATION CONCERNING TERMS OF THE EXCHANGE OFFERINGS AND TERMS OF NEW BONDS MAY BE OBTAINED FROM MOST COMMERCIAL BANKS, FEDERAL RESERVE BANKS AND BRANCHES, OR THE TREASURER OF THE UNITED STATES, WASHINGTON 25, D. C.

**Subscriptions from ALL classes of subscribers will be received from February 19 through February 21, 1962. In addition, subscriptions may be submitted by individuals through February 28, 1962. For this purpose, individuals are defined as natural persons in their own right.*

*Subscriptions placed in the mail by midnight of the respective closing dates, addressed to the Treasurer of the United States, Washington 25, D. C., or any Federal Reserve Bank or Branch, will be accepted. The use of registered mail is recommended for the protection of bondholders.*

THE SECRETARY OF THE TREASURY
WASHINGTON

February 16, 1962

Dear Mr. O'Connell:

Thank you for the very able report you and the other members of your "Citizens Task Force" made on United States Customs Service inspection procedures. I found it a valuable and timely contribution to the administration of our Customs laws.

I particularly appreciate the attention given to a subject which has for some time been of paramount importance to the Treasury Department: our international balance of payments. You have properly pointed out that a contributing factor to our present imbalance is the substantial excess of expenditures by United States tourists abroad over those by foreign tourists in the United States. Your recommendations are directed toward encouraging citizens of other countries to visit the United States where previously they may have been discouraged.

That you and the other members of the task force have traveled so many miles to study the Customs operations in this and other countries, and that you devoted so many arduous hours to your task without any compensation except the satisfaction of a job well done, reflects the highest credit on yourselves and on the professions to which you severally belong.

I am directing that your report be made public and I am appointing a steering committee of top Treasury officials to decide how best to use your findings and recommendations in securing the improvements you have in view.

Sincerely,

/s/ Douglas Dillon

Douglas Dillon

Mr. Joseph J. O'Connell
Chapman, Walsh, and O'Connell
1001 Connecticut Avenue, Northwest
Washington, D. C.

The Task Force proposed combining U. S. border forces engaged in the preliminary screening of incoming passengers, suggesting that officers of the four services now assigned to the ports of entry -- Customs, Immigration, Public Health, and the Department of Agriculture -- be authorized to perform each other's services under a system of coordinated supervision.

Secretary Dillon called the report "a valuable and timely contribution to the administration of our Customs laws" in letters thanking members of the task force, who served without compensation.

The Secretary said that the task force members had properly pointed out that a contributing factor to our present imbalance in international payments "is the substantial excess of expenditures by United States tourists abroad over those by foreign tourists in the United States." He added: "Your recommendations are directed toward encouraging citizens of other countries to visit the United States where previously they may have been discouraged."

Chairman Joseph J. O'Connell of the Washington law firm of Chapman, Walsh and O'Connell, a former General Counsel of the Treasury Department, expressed his appreciation to the U. S. Customs Service for facilitating the efforts of the task force. "The Customs Service indeed has a unique opportunity to serve the world and free nation in the months ahead. We know that it will respond to and meet this challenge," he said.

The Task Force requested the Secretary to appoint a committee to consider the 32 recommendations made in its report. It will be named shortly.

Other members of the Citizen's Task Force included: Wilbur H. Ziehl, Deputy Director, Office of International Administration, Department of State, and former Deputy Commissioner of Customs; Dr. Ivan C. Belknap, Head of the Department of Sociology, University of Texas; Richard S. Rosenbloom, Assistant Professor of Business Administration, Graduate School of Business Administration, Harvard University; and Robert V. Breen, Vice President, Carl Byoir and Associates, Inc., New York City.

A copy of Secretary Dillon's letter to members of the Citizen's Task Force is attached.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS
WEDNESDAY, FEBRUARY 21, 1962

## TASK FORCE REPORTS ON U. S. CUSTOMS PROCEDURES AS AID TO U. S. BALANCE OF PAYMENTS

Secretary of the Treasury Douglas Dillon, today made public a report by a Citizen's Task Force appointed last year to study ways of improving Customs procedures for incoming foreign tourists and returning U. S. citizens.

Secretary Dillon appointed the group to assist the U. S. Customs Service in its current efforts to modernize methods used in inspecting baggage and receiving inbound travelers.

The Task Force's recommendations include a broad informational program directed at informing travelers of Customs requirements and procedures. The group urged that travel agents and aircraft and ship personnel be indoctrinated in Customs requirements so that they may better assist travelers.

Also recommended were improvements in present methods of selecting, training, and review of effectiveness of Customs inspectors and the increased use of awards to improve their over-all performance. Customs officers were urged to learn more foreign languages.

The Task Force looked into the valuation for customs purposes of articles imported in travelers' baggage and concluded that the present system of applying separate and complex tariff rates is time consuming and requires training and experience of high technical order. It proposed that customs valuation be based upon the price paid by the traveler, and a flat rate of duty imposed.

Another source of confusion and delay is the "to follow" privilege, the Task Force reported, recommending that the privilege be eliminated. The privilege, unique in the United States, permits articles which are to follow the traveler to be declared at the time he returns to the United States, and later admitted duty free if they are within his exemption allowance.

The group proposed the preparation of a code of minimum standards for passenger facilities, and the addition to existing facilities of counters for baggage inspection, clearer signs and other conveniences. It was also suggested that visitors waiting to meet travelers be excluded from air and steamship piers.

TREASURY DEPARTMENT 328

WASHINGTON, D.C.

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That you and the other members of the task force have traveled so many miles to study the Customs operations in this and other countries, and that you devoted so many arduous hours to your task without any compensation except the satisfaction of a job well done, reflects the highest credit on yourselves and on the professions to which you severally belong.

I am directing that your report be made public and I am appointing a steering committee of top Treasury officials to decide how best to use your findings and recommendations in securing the improvements you have in view.

Sincerely,

/s/ Douglas Dillon

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Mr. Joseph J. O'Connell
Chapman, Walsh, and O'Connell
1001 Connecticut Avenue, Northwest
Washington, D. C.

# UNITED STATES CUSTOMS SERVICE

# INSPECTION OF PASSENGERS AND THEIR BAGGAGE

## A CITIZEN'S TASK FORCE

## STUDY AND REPORT

JANUARY 1962

January 31, 1962

The Honorable Douglas Dillon
Secretary of the Treasury
Washington 25, D. C.

Dear Mr. Secretary:

Transmitted herewith is the report of the Task Force you appointed last Spring to study Customs inspection of passengers' baggage at Customs ports of entry.

Consonant with your wishes, the study was made independently by our citizens' task force: the conclusions and recommendations are our own. We did, however, consult with and receive the utmost cooperation from the entire United States Customs Service, from Commissioner Nichols on down; from Customs officials of Canada, Bermuda, Nassau, England and France; from transportation and travel companies; from civic associations; from port and municipal authorities; from other Federal agencies concerned with inspectional, travel, or facilities matters; from representatives of the several Customs employees associations; and from the traveling public. We would be happy to have further meetings with the Commissioner and any interested groups if it will assist in taking action on this report to achieve benefits for the traveling public, the Customs Service, and our Nation.

Our mission has been to determine whether existing procedures discourage foreign tourists from travel to the United States, whether these procedures unnecessarily harass travelers and, if so, what can be done to correct the situation. We did not conclude that existing procedures do in fact result in any significant reduction in travel to the United States. We do believe, however, that some unnecessary harassment is present in our total U. S. attitude and procedures toward both the foreign and domestic traveler. Our conclusions and recommendations suggest some of the things within the jurisdiction of Customs that need to be done.

Many of the "customs clearance" aspects which might tend to discourage travel are quite outside Customs control. Moreover, many of the real deterrents to visits to the United States appear to involve such things as domestic prices, our predominantly uni-lingual U. S. society, and entrenched tourist competition from countries to which transportation costs are less.

You will find that we make few distinctions in the report between the procedures to be applied and treatment to be accorded visitors and returning Americans. However, several of our principal recommendations do stress the critical need for improved language skills, improved attitudes toward visitors, and opportunities for institutional and personal diplomacy. We feel certain that Customs inspectors and their employee organizations will join forces with management in a unified approach to these problems. The National, Service, association and individual objectives are -- we believe from our field discussions -- in harmony. Employee sources of support should do much to help produce the best result.

The places visited by one or more members of the Task Force in making this study were: New York City, Boston, Montreal, Ottawa, Champlain, Buffalo-Niagara Falls, Toronto, Chicago, Pembina, Pine Creek, Roseau, Warroad, Baudette, International Falls, Detroit, Seattle, Vancouver, Victoria, San Francisco, Honolulu, Los Angeles, San Diego-San Ysidro, Tucson, Nogales, El Paso, Houston, Brownsville, New Orleans, Bermuda, Nassau, Puerto Rico, Miami, Paris, Cherbourg, Southampton, and London. We believe this sample was representative of the sea, air and land frontiers, as well as of foreign customs and U. S. flight pre-clearance operations in foreign countries.

The Customs Service indeed has a unique opportunity to serve the Nation and the free world in the months and years ahead. We know that it will respond to and meet this challenge. The four other Task Force members, Mr. Wilbur H. Ziehl, Dr. Ivan C. Belknap, Dr. Richard S. Rosenbloom, and Mr. Robert V. Breen, join with me in expressing our appreciation for the opportunity to participate in this challenging assignment.

We also wish to express our thanks through you to Mr. Edward J. McGlynn, who was assigned by the Commissioner of Customs to facilitate our Task Force efforts. He gave unstintingly of his time and counsel, which was of great help to us. As the occasion permits, will you also pass on to the Customs Service and to the many others who cooperated with us our best wishes and debt of gratitude for their courteous assistance.

Sincerely yours,

Joseph J. O'Connell Jr

Joseph J. O'Connell, Jr.
Task Force Chairman

UNITED STATES CUSTOMS SERVICE

INSPECTION OF PASSENGERS AND THEIR BAGGAGE

A Study and Report by a Citizens' Task Force, Appointed by the Secretary of the Treasury, to Study Customs Inspection of Passengers' Baggage at Customs Ports of Entry

Study Conducted July - October, 1961.

Report Submitted - January, 1962.

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UNITED STATES CUSTOMS SERVICE
INSPECTION OF PASSENGERS AND THEIR BAGGAGE

## INTRODUCTION

We have had the opportunity to study the activities of the U. S. Customs Service in the inspection of passengers' baggage at ports of entry. This facet of Customs' activities has grown both in volume and in significance in recent years. The challenge of the moment is one of change, and of adapting an efficient and competent Service to meet the changed needs of the present and the likely demands of the future.

It is instructive to consider how great the changes in travel patterns have been. In 1819, the USS Savannah, first steamship to cross the Atlantic, made her maiden crossing in 25 days. One hundred years later travel from New York to Europe required nearly one-third as much time. Yet the present-day traveler can choose between a "leisurely" four and one-half day steamer voyage or direct 6-hour crossing by jet aircraft.

The rate of change in technology is itself changing. A modern steamship can reach speeds approximately twice that of the Clipper ships which sailed 100 years ago. In contrast, a modern jet plane can travel more than twice as fast as the best passenger aircraft of only 10 years ago. Looking to the near future, consideration is being given to the development of a Mach 3 air transport which would triple aircraft speeds in the coming decade.

The revolution in transportation technology is only one of the rapidly-changing influences on international passenger traffic. Customs is an old service, but it must live in a world made new by radical change, not only in transportation, but also in living standards, communications technology, politics, and international trade. The prospect of change is not a new one, but at this juncture we must face up not just to change, but to change at an ever-increasing pace.

There have also been changes in Customs' role in relation to the Nation's objectives. In the first place, the importance of foreign public opinion has increased greatly. Efforts have been made to develop and foster the idea that The United States is expected to provide world leadership. Such leadership demands that the United States show that other nationalities and ethnic groups are regarded with respect. In many cases, foreign visitors to the United States represent groups decisive in their own countries in the formation of opinion. Ultimately the opinions of such travelers may be vital in developing favorable world opinion and action in support of this country.

The second change in Customs' role stems from the program to encourage foreign travel to and within the United States. The treatment of such travelers by the U. S. border control agencies should affect their willingness to visit the United States. A significant increase in their travel will affect the flow of U. S. dollars, will result in profit to U. S. business and may have desirable effects on the attitudes of U. S.

citizens toward the nationalities and groups represented by the visitors.

In its passenger operations Customs is associated with other governmental agencies, principally Immigration and Naturalization, Public Health, and the Department of Agriculture. These agencies are the face which the United States presents both to the foreign visitor and to its own traveling citizens. This face does not, of course, represent the full effect of the United States on the world, but is part of it. The traveler encounters several of the border control agencies at entrance and departure. For the foreign visitor their courtesy and efficiency may symbolize the attitude of the United States government and its people toward him, his country, and his particular ethnic or linguistic group.

The present role of Customs and the other United States border control agencies in the light of our present national objectives is a relatively new one. Neither the agencies, nor U. S. citizens in general, have had much occasion to develop the traditions and practices of a tourist country during most of our past history. Only in the past ten years has this country felt any general continuing concern with its popularity in foreign countries.

The Customs' function, however, is an ancient one. It is as old as civilized government itself. The U. S. Customs Service, while perhaps young relative to comparable agencies of some of the Western

Democracies, was one of the first substantial arms of our Federal government. Recognition of the deep-rooted traditional public image of the Customs officer and of the traditions and time-honored practices of the U. S. Customs Service is important, we believe, in understanding the present-day practices in Customs inspection and the modern traveler's feelings in approaching an inspector.

With these factors in view, we turn now to Chapter I, which will trace, in turn, the history, legal basis, and purposes of inspection of passenger baggage; and the scope, complexity, and variety of present-day practice in inspection.

CHAPTER I

## INSPECTION OBJECTIVES AND PRACTICES

Most of our recommendations are operational in nature; that is they pertain to the activities of the Service in many lines: information, personnel, facilities, procedures, and organization responsibilities. The character of the present operations, however, has been shaped by the prevailing objectives and philosophies of Customs; to try to change only the activities while leaving their underlying causes unchanged would be fruitless. We begin, therefore, with these first principles, as they now exist and as they must be modified to respond to the demands of the future.

U. S. Customs historically has been charged with the dual responsibility of collection of revenue and enforcement of the law. These functions include the collection of duties and taxes prescribed by law; the detection and prevention of attempts to avoid the payment of lawful duties and taxes; and the prevention of the introduction into the United States of articles which are prohibited or restricted by the Customs laws and regulations, or the laws and regulations of other Government agencies. Inspection of passengers' baggage is one of the many activities by which Customs carries out these functions.

What should be the future objectives of baggage inspection, and what philosophies and operational methods are best suited to the achievement of these future goals?

The twin enforcement objectives of Customs are, of course, its "raison d'etre"; without them the inspection of baggage has no meaning and no function. We do not propose any less emphasis on collection of revenue and law enforcement. We do propose that a coordinate goal now implicit in many Customs' activities be stated explicitly as an objective of passenger baggage inspection. That objective is the pursuit of means of inspection which will place a minimum burden on the expeditious flow of passenger traffic and, more positively, will impress on all travelers, and especially those from other lands, a desirable image of the United States, its government, and its peoples.

What does this mean for Customs? First, it does not mean that law enforcement need be sacrificed for the sake of passenger convenience and a "desirable image". On the contrary, obviously ineffective enforcement procedures would detract from the public esteem for Customs, and would remove the justification for the inconvenience to travel which even the mildest inspection necessarily imposes. It does mean that new approaches must be found to permit continued effectiveness in performance of the historic functions of the Service while giving effect to the additional responsibilities that must be assumed.

## Customs Functions

The Customs' functions of collecting revenue and preventing the smuggling of such items as narcotics and jewelry (especially diamonds) are familiar to most travelers. Relatively few are aware, however, of the importance of enforcing the prohibitions and restrictions contained in the laws and regulations of Customs and other agencies against the importation of articles which might be harmful physically, economically, or otherwise, to the people of the United States.

For example, the tariff act prohibits the importation of certain trademarked articles without the consent of the United States owner of the registered trademark. The trademark owner is, of course, anxious that the trademark law be adequately enforced. But the passenger whose trademarked article is detained by Customs, or who is told he must remove the trademark from an article before he may import it, may be considerably annoyed with the Customs' officer or with the Customs' laws.

In addition to its own laws and regulations, Customs enforces the laws and regulations of a number of Federal agencies. These agencies, and their interests with respect to articles in the possession of persons arriving in the United States, include:

> The Department of Agriculture, which prohibits or restricts importations of domestic animals, plants, and their products (meats, fruits, vegetables, seeds, etc.) in order to protect our agriculture against foreign insect pests and diseases such as the Mediterranean fruit fly and hoof and mouth disease.
>
> The Public Health Service, which restricts importations of dogs, cats, monkeys, and psittacine birds (parrots, parakeets, etc.), to prevent the introduction, or control

the spread of, diseases such as rabies, yellow fever, and psittacosis ("parrot fever").

The Fish and Wildlife Service, which, for conservation purposes, prohibits or restricts importations of wild animals and birds, their dead bodies, and the plumage and eggs of wild birds.

The Food and Drug Administration, which prohibits importations of candy containing any alcohol or non-nutritive substance, because such candy is often found to be adulterated.

The Foreign Assets Control Commission, which prohibits importations from Communist China and North Korea, and requires licenses or certificates of origin for articles which have been located in or transported through Hong Kong, Macao, or any Soviet-bloc country, if such articles have been historically the produce or manufacture of Communist China or North Korea.

In addition to its responsibility for enforcing the laws and regulations of these and other Federal agencies, Customs enforces the laws of a number of states which limit the amount of alcoholic beverages which may be brought into a state by a person arriving from abroad.

The inspection of baggage has a well-established legal foundation. In 1789, the Congress of the United States first granted the authority for Customs' officers to inspect the baggage of persons arriving from abroad (Act of March 2, 1789). This authority has been continued in subsequent legislation, and is currently contained in sections 467, 496, and 582 of the Tariff Act of 1930, and in section 23.1(3) of the Customs Regulations. From time to time over the years, the authority of a Customs' officer to inspect baggage has been challenged as being in violation of the fourth amendment to the Constitution, which provides that "the right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated." However, the Supreme Court has ruled, and it is now well established, that Customs' officers may search the persons and baggage of persons entering the United States without a search warrant, and may seize articles which are found to be illegally imported.

## Present Practices in Baggage Inspection

People cross the borders of the United States at a current annual rate of approximately 160 million. They come by land, sea, and air; from north, south, east, and west; and by practically every known means of conveyance, as well as on foot. Everyone of these people must be cleared through Customs. To get the job done, Customs officers are assigned at ports of entry in the continental United States; in Alaska and Hawaii; in Puerto Rico and the Virgin Islands; and at pre-clearance points in Canada, Bermuda and Nassau. Included in these ports of entry are road crossings, bridges and tunnels, and ferry, steamship, air, and railroad terminals. Many Customs ports have within their limits two or more of these arrival installations. For instance, at Detroit large numbers of people enter the United States by bridge and tunnel, and a lesser number enter by air and rail.

The intensity of Customs inspection for these millions of people necessarily must vary with the circumstances of their entry. Compromises have been made between the practical aspects of handling such a large number of people and the desire for effective law enforcement. The factors which are decisive in determining the degree or intensity of Customs inspection include the volume of traffic; the number of Customs personnel available; the length of stay abroad; the amount and type of baggage carried; the places visited while abroad; and the personal judgment of the Customs officer.

A person arriving from overseas can generally expect that all of his baggage will be opened and inspected by Customs. This policy is in effect principally because of the U. S. Department of Agriculture's concern that other procedures for the inspection of baggage would increase the danger of introduction into the United States of foreign insect pests and diseases injurious to domestic plants and livestock. Nevertheless, during peak periods when Customs personnel are spread rather thin, a spot-check of overseas baggage is instituted in order to avoid unreasonable delays. The 100% inspection is reinstated in such cases as soon as possible.

In Customs clearance of passengers traveling by air to the United States from Canada or Mexico, the type of baggage inspection is generally left to the judgment of the Customs officer, although the volume of traffic may be a determining factor. Based on his evaluation of the passenger, the Customs officer may decide to inspect all of a passenger's baggage or somewhat less than all.

At bridges, tunnels, ferries and roads on the Canadian and Mexican

SUMMARY OF CUSTOMS TRANSACTIONS
RELATING TO PASSENGERS AND THEIR BAGGAGE
FISCAL YEAR 1961
(July 1, 1960 - June 30, 1961)

| | New York District | Florida & Puerto Rico Districts | West Coast & Hawaii Dists. (Excl. Wash. & San Diego) | Other East Coast Districts | Interior Districts (Incl. Ohio) | Gulf Coast Districts (Excl. Florida) | Pre-inspections in Foreign Countries | Mexican Border Districts | Canadian Border Districts (Incl. Alaska Excl. Ohio) | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| ERSONS ARRIVING: | | | | | | | | | | |
| By Vehicle .................... | - | - | - | - | - | - | - | 75,219,820 | 48,468,129 | 123,687,940 |
| By Commercial Aircraft ....... | 1,189,630 | 603,664 | 337,163 | 136,322 | 128,136 | 71,956 | 931,226 | 48,663 | 537,107 | 3,983,867 |
| By Vessel: | | | | | | | | | | |
| Ships ...................... | 477,018 | 138,240 | 66,797 | 132,105 | 10,473 | 11,840 | - | 3,806 | 192,869 | 1,033,148 |
| Ferries .................... | - | 7,365 | - | - | - | - | - | 178,729 | 1,457,351 | 1,643,445 |
| By Foot ...................... | - | - | - | - | - | - | - | 25,855,388 | 1,176,228 | 27,031,616 |
| All other (Military and Private Aircraft, Trains) ...... | 5,626 | 61,397 | 79,905 | 304,735 | 18,402 | 4,766 | - | 53,903 | 973,939 | 1,502,673 |
| Total Persons Arriving ...... | 1,672,274 | 810,666 | 483,865 | 573,162 | 157,011 | 88,562 | 931,226 | 101,360,309 | 52,805,614 | 158,882,689 |
| umber of written baggage declarations .................. | 1,691,044 | 591,747 | 514,862 | 545,309 | 98,015 | 103,927 | 170,377 | 53,863 | 139,592 | 3,908,736 |
| ess crew declarations (est.) ... | -341,223 | -168,828 | -82,212 | -76,128 | -18,024 | -32,268 | -43,152 | -8,412 | -29,604 | -799,851 |
| Total Passenger Baggage Declarations ............... | 1,349,821 | 422,919 | 432,650 | 469,181 | 79,991 | 71,659 | 127,225 | 45,451 | 109,988 | 3,108,885 |
| umber of Inspectors 6/30/61: | | | | | | | | | | |
| Customs (including supervisors) ..................... | 603 | 166 | 231 | 329 | 93 | 149 | 43 | 267 | 663 | 2,544 |
| Immigration (dual inspection only) ..................... | - | - | - | - | - | - | 10 | 130 | 310 | 450 |
| Total .................... | 603 | 166 | 231 | 329 | 93 | 149 | 53 | 397 | 973 | 2,994 |
| umber of Carriers: | | | | | | | | | | |
| Vehicles ..................... | - | - | - | - | 927 | - | - | 25,069,384 | 17,861,587 | 42,931,898 |
| Commercial Aircraft .......... | 21,089 | 39,251 | 10,140 | 9,462 | 7,542 | 2,484 | - | 1,855 | 10,808 | 102,631 |
| Vessels: | | | | | | | | | | |
| Ships ..................... | 5,682 | 11,494 | 5,743 | 7,618 | 2,897 | 5,567 | - | 1,776 | 47,516 | 88,293 |
| Ferries ................... | - | 27 | - | - | - | - | - | 31,440 | 76,416 | 107,883 |
| All Others ................... | 1,143 | 12,446 | 4,712 | 14,219 | 4,046 | 447 | - | 110,635 | 1,816,482 | 1,964,130 |
| Total Carriers ........... | 27,914 | 63,218 | 20,595 | 31,299 | 15,412 | 8,498 | - | 25,215,090 | 19,812,809 | 45,194,835 |

## CHAPTER II

## PRESENT PROBLEMS AND OPPORTUNITIES

We believe that the strengths of the Customs Service are many: it has done a generally effective and responsive job. We have described the important new role that Customs must play in our country's international affairs. We propose to draw on Customs' established strengths, reinforce them, and adapt the further potentials of the Service to meet the challenges of the present and the future.

The demands of the changing role of the Customs Service will be substantial and its functions increasingly significant. Old responsibilities cannot be slighted when new ones are superimposed upon them. Additional stature, dignity, and resources will be needed. Moreover, personnel must by temperament, training, and sincere recognition of the significance of their actions be able and willing to carry out the mission.

### Customs Philosophy and Public Response

What effects do present Customs practice and attitudes have on the traveler's response to Customs and to the United States?

To the traveler the world over, any Customs activity is shrouded borders, the type of installation, the number of officers on duty, and the volume of traffic, will determine to a large extent the intensity of inspection. At the larger installations there are primary and secondary inspection areas. The officer at the primary or "screening" point will decide, on the basis of the answers to a few brief questions and a cursory inspection of a vehicle, whether the arriving persons can be cleared immediately or whether they must be referred to the secondary area for further processing. The cursory inspection of the vehicle usually involves a visual inspection of the interior, the glove compartment, or the trunk. In many instances the volume of traffic will permit only a glance at the interior of the vehicle while questions are being asked, but officers are expected to make an effort to inspect other compartments of 10% of the vehicles.

At smaller Canadian and Mexican border ports, where there is no secondary area or where there is only one officer on duty, the same basic inspection policy is followed as at the larger installations, except that the officer on duty performs both the primary and secondary functions. If he must take a person into the office to make out a Customs declaration or for other reasons, traffic must wait until he finishes with the office work. However, traffic at these smaller installations is usually light enough to permit the officer to perform his secondary functions without delaying waiting persons and vehicles beyond a reasonable time.

At certain points on the Canadian and Mexican borders, a large number of persons arrive on foot or by local transportation, i.e., in buses or streetcars. The vast majority of these people carry no baggage except for an occasional small paper sack, and present no particular problem to Customs except that because of sheer numbers it may take some time to pass them through the check point during peak periods.

It may be noted that in speaking of Canadian and Mexican border personnel the term "officer" is used instead of "Customs officer." This is because of the dual inspection procedure whereby the Customs officer is authorized and trained to perform some or all of the duties of an Immigration officer, and vice versa. At the larger installations, a Customs or an Immigration officer does the preliminary screening for both services. When necessary, he refers the arriving person to either the Customs or the Immigration secondary area. At the smaller installations, where there is only one officer on duty, this officer will perform both the primary and the secondary Customs and Immigration functions, as circumstances require.

One of the principal Customs' problems at all points of entry stems from the fluctuation in the rates of arrival at various times. Peak-loads occur daily, weekly, and seasonally, and there are peak-loads within peak-loads. For example, at Idlewild Airport at New York there are daily peaks during the morning and the late afternoon and early evening hours, and seasonal peaks during July, August, and part of September. If personnel are assigned to give adequate service during the peak-load periods, it is very difficult to find work for all the personnel on duty during the intervening slack periods. At Idlewild, this peak-load problem has been partially solved by designating a certain number of men as inspectors-liquidators. During peak periods these men inspect passengers' baggage; during slack periods they do Customs liquidating work. At other places, inspectors are "borrowed" from cargo work for passenger work during peak-load periods. This is unsatisfactory, however, because it delays the release of cargo. Unfortunately, the Idlewild solution to the peak-load problem is not adaptable in other areas at the present time because of the scarcity of office space at most international airports.

## Recent Improvements

The present practices in baggage inspection are the result of traditional procedures modified in recent years by a number of significant improvements. The Customs baggage declaration draws attention to what it euphemistically terms "certain formalities attendant to your clearance through Customs." The "certain formalities", i.e., baggage inspection, represent an inconvenience for the traveling public. The continuing problem facing Customs has been one of devising new ways to reduce this inconvenience without significantly impairing the performance of the necessary Customs functions. This task has received the careful attention of Customs personnel and other parties over the years. Some of the more significant improvements include:

> The adoption of dual screening, or inspection, by Customs and the Immigration Service, whereby a person entering the United States at a land border point may be processed for Customs and for Immigration purposes by one officer of either service;
>
> The preparation of pamphlets for distribution to travelers, telling them of conditions relating to Customs exemptions, trademark restrictions, prohibitions and restrictions against plant and meat importations, etc;
>
> The simplification of written baggage declarations;
>
> The printing of baggage declarations in foreign languages;
>
> Pre-clearance of passengers to the United States at the foreign point of departure;
>
> Elimination of touring certificates for non-residents entering the United States with their automobiles;
>
> The arrangement of facilities at airports in the so-called "super-market" type of check-out counter;
>
> The designation of inspectors as classifying and appraising officers for articles imported in baggage which the inspector found were dutiable (formerly, dutiable articles in baggage had to be appraised and classified by appraiser's personnel which took additional time).
>
> The granting of an exemption from duty for articles valued at not more than $10, to persons not otherwise entitled to an exemption from duty on imported articles.
>
> The improvement of procedures for handling the baggage of persons arriving by air and traveling in transit through the United States to a foreign destination. Formerly, this baggage was examined by Customs at the United States port of arrival. Under the improved procedures this baggage may be checked through the United States without Customs examination.

The $10 exemption mentioned above had, for some time, been considered inadequate for non-residents. On October 20, 1961, a new law became effective which grants to non-residents arriving in the United States an exemption from duty and tax on up to $100 worth of articles (including one gallon of liquor) which they are bringing in as gifts. This change is a significant step in the simplification of requirements imposed on foreign visitors to the United States.

## Volume of Activity

The following table, entitled "Summary of Customs Transactions," may convey some idea of the magnitude and variety of the passenger baggage activities of U. S. Customs. While the total number of persons arriving is listed as 159 million, it should be noted that more than 150 million of these arrived by vehicle or on foot along the land borders, where inspection is typically least intense. Putting aside the huge volume of land border crossings, the importance of New York City becomes evident. This one port received more than one-quarter of the nearly four million passengers arriving by air, and almost one-half of the one million arriving by ship in 1961. The importance of the recently introduced pre-clearance facilities at foreign airports is also evident from the nearly one million passengers cleared through those stations.

in mystery. Its processes and the laws and attitudes behind them are largely unknown (and considered unknowable). Thus an element of fear naturally haunts even the most honest passenger about to encounter Customs. Moreover, the prospect of a stranger pawing through one's most intimate possessions, in itself repugnant, is made worse by the implicit challenge to one's honesty. Thus, passengers frequently react with uneasiness, suspicion, or hostility. U. S. Customs reinforces these emotions by requiring a written declaration and then opening every bag wherever circumstances permit. The visitor often receives a bad first impression, one that may vitally affect his attitudes toward the United States. The returning resident may also leave the Customs barrier with an image of bureaucratic highhandedness, heightened by feelings of indignation and even disgust. It is important for Customs to try not only to minimize this reaction but also to turn the traveler's encounter with Customs into an affirmative experience.

Two basic groundrules of U. S. Customs make it difficult to change the image of Customs. They are: (1) our emphasis on examination of the <u>baggage</u>, as distinguished from the <u>passenger</u>; (2) our insistence "for agricultural reasons" on opening <u>every</u> bag and container whenever feasible. These groundrules are interrelated. The time required to give even a superficial visual inspection to each piece of baggage frequently results in an overload on the inspection force. The natural result of this pressure is that most of the inspector's time, energy, and attention is devoted to repetitive, identical, and somewhat superficial examination of baggage. We have, in a sense, a 5% inspection of 100% of the baggage. From the standpoint of better enforcement as well as public response, a more intensive examination more selectively applied would seem desirable. In a subsequent section on procedures, we will suggest that the burden of agricultural enforcement be shifted to an educational and deterrent program, thus permitting selective baggage examination.

Let's look for a moment at the guidelines followed by the Customs of other nations. Neither Canada, Bermuda, Nassau, France, nor England believe it necessary to open every bag. The British, who are also concerned with the threat to agriculture, believe that interrogating the passenger, observing his reactions, and checking bags only where suspicion warrants it, produces a better, faster result. They maintain that their job is to examine the passenger, not his baggage. They leave to the discretion of the "Preventive Officer" (inspector) the judgment of how far in depth to pursue the examination of an individual traveler. If judgment dictates opening and searching of every bag, the officer is not only free to but expected to do so. If circumstances warrant, personal search is made, with the approval of the Chief Preventive Officer.

We did find, however, a common belief on the part of travelers of all nationalities that their own Customs Service gives them a harder time than foreign Customs. The plaint of a typical returning American is: "We travelled through ten countries, were treated courteously, and never had a bag opened. Only to return home, where we are TAX-PAYERS, and have them treat us like criminals. Why they even looked in my wife's overnight bag!"

There seems to be a basis in both logic and attitude for a distinction in practice between residents and visitors. The visitor usually purchases items in foreign countries to bring home with him later. As a returning resident, he is more likely to conceal prohibited or dutiable items, with the exception of foodstuffs. This is reflected in the attitudes of Customs officers we talked with:

Canadian -- Visitors, we whisk through, but we have to shake down returning Canadians.

Nassau -- We are more or less concerned with the returning resident.

French -- If it's a French citizen, we may pounce on him.

We found that U. S. Customs steadfastly defends its practice of identical treatment for all. We feel, however, that the distinction employed by Customs of the other nations we visited is more logical for inspection purposes.

In summary, the procedures followed by Customs must take into consideration the realities of travel. This Nation finances educational exchange, cultural relations, and information programs. This year, the

U. S. Travel Service was created. A principal purpose of all of these is the creation of understanding and friendship for our country. At this time in our Nation's history it is necessary for border inspectional agencies also to help create goodwill while performing their enforcement functions.

Some will say that it is not possible to create goodwill while conducting an examination. This idea we reject. We believe that this can be done while achieving equal or stronger enforcement and an improved National and Customs image. In other sections of this report we shall recommend specific interrelated actions to achieve this end. The importance of realizing this goal, we believe, is best expressed by the following statement, which was addressed to us by a Professor of Sociology at a large University:

> "It would be easy to underestimate the psychological influence of a cordial reception to this country. From culture to culture, from one period of history to another, a cordial greeting is one of the most universal and accepted traditions."

## Public Information and Education

The phenomenal growth in the numbers of travelers entering the United States constitutes a clear directive to the Bureau of Customs to carry out an information and education program, both at home and abroad. This growth emphasizes both the magnitude of the Customs baggage inspection task and the dimensions of the traveling public with whom Customs must now attempt to communicate effectively.

In the days when international travel was restricted to immigrants and a relatively few affluent persons, communication with them was a simpler task. Today, international travelers come from every domestic class and geographic area and from virtually every country of the world. Only through mass communications can such vast numbers of people be reached.

To fail to reach them is to risk the reputation of the Customs Service and, indeed, of the United States itself, to imperil the current program to attract foreign visitors to our shores, and to lessen the efficiency and effectiveness of the passenger baggage inspection procedure.

Although it will always be difficult to measure precisely the results of an informational-educational program, there surely can be no question that having travelers better informed on the laws and procedures of U. S. Customs will make for a speedier, more efficient Customs clearance operation. They will better understand the reasons for baggage inspection, display greater respect for the Customs Service, and cooperate more fully.

The two chief purposes of such a program should be (1) to disseminate information about Customs clearance that will help the international traveler understand his rights and responsibilities, and (2) indoctrinate the personnel of travel agencies, international carriers, and other government agencies (particularly information agencies abroad) in Customs regulations and practices.

To this end, we recommend that an Information Office be established within the Bureau of Customs headed by and staffed with professionals in the field of public relations and information. Only professionally trained people can be expected to successfully administer and carry out this program.

Although the Task Force made no formal survey of the existing knowledge of or attitude toward the Customs Service and its enforcement procedures, we found considerable informal evidence to indicate that the public is not only meagerly informed but, perhaps more significant, almost wholly unsympathetic to the problems and aims of the Customs Service.

Many observations contributed to this impression: the numerous travelers unaware of the need to file a Customs declaration form; the many with almost no awareness of the procedures of clearing through Customs; the lack of understanding of the reasons for baggage inspection; the lack of distinction in the traveler's mind between Immigration, Public Health, and Customs personnel; the surprising number of ill-informed personnel of the travel agencies and carriers; the almost total absence of signs, literature, or posters at terminals and piers; the relatively few instances where the Customs Service is written about in newspapers, magazines, travel books, and pamphlets, and fewer still in which the Service and its procedures were favorably appraised.

There exists today a multitude of means whereby the international traveler and the potential traveler can be reached and impressed with messages from the Customs Service: pamphlets, newspaper releases, speeches, form letters, posters, signs, films, slides, displays, radio and TV public service announcements, travel books and folders, and many other such media and channels. The Information Office should study and evaluate the forms and literature presently in use by the Bureau in order to bring about simplification and clarification. It should, from time to time, sample the opinion of travelers with respect to Customs facilities and procedures.

An Information Office can be of great value in improving employee morale within the Customs Service. As a result of the public relations measures noted above, the inspection task should be made easier. Moreover the esprit de corps should be raised because of a more favorable public response to Customs activities.

In the table of organization of the Bureau of Customs, the Director of the Information Office should be made responsible to a Deputy Commissioner.

Some of the major duties and activities that the Information Office should be made responsible for are listed below.

A. Publications. It would seem desirable that at least the following pieces of literature should be produced and widely distributed:

1. A Customs reference manual should be made available to all carriers, to be on file on each plane and ship carrying international passengers to the United States. It should be concise, indexed, and should serve to answer all the most common questions that passengers might ask of carrier personnel.

2. A vest-pocket size pamphlet, a throw-away, to be given to every U. S. passenger going abroad, outlining as briefly as possible the things he will need to know about U. S. Customs on his return.

3. A similar pamphlet, in various languages, made available to U. S. Embassies and Consulates abroad, foreign and domestic travel agencies, the U. S. Travel Service, etc., containing information for foreign travelers planning a visit to the United States.

B. Posters. Posters should be produced and distributed to travel agencies, airports and piers, consulates abroad, etc., to call attention to such things as the need for filing a declaration, the exemption permitted U. S. tourists, liquor import regulations, and other common problems faced by travelers.

C. Signs. Every area in which Customs examines passengers' baggage or conducts secondary operations pursuant to the baggage examination should be marked by signs which (a) identify the area as a U. S. Customs operation, and (b) give the passenger sufficient information to facilitate his progress through Customs. The signs should be legible at a distance appropriate to the type of installation (e.g., airport or vehicles) and should be in languages which will be comprehensible to 98% of the transient passengers. Precise standards should be established and enforced, respectively, by the proposed Information Officer and the Deputy Commissioner.

No Customs station visited made sufficient use of signs. In many instances, the Customs area itself was not identified. In very few instances were multiple language signs employed, even where a large portion of the travelers had a common foreign language.

D. Personnel Training. Aircraft and ship personnel can be immensely helpful to passengers in preparing them for clearing Customs, provided the personnel themselves are familiar with Customs regulations. One duty of the Customs Information Office should be to work with U. S. and foreign international carriers to indoctrinate their people in Customs procedure and laws. The cooperation of the airlines schools should also be sought in this respect.

There also appears to be a need to give a greater amount of information to travel agents, not only to make literature available to them but also to gain cooperation from them in properly briefing their clients and customers in Customs' matters. In this connection, it would be advisable for the Information Office to seek speaking engagements at meetings and conventions of travel agents, to plan exhibitions and displays that bring Customs' matters to their attention, and to use the publications that reach them for appropriate messages.

E. Publicity. Greater publicity should be given to activities of the Customs Service. Architectural and engineering data and renderings of new or improved terminal and pier facilities created for the Customs should be disseminated widely. Innovations in personnel training should be publicized. Awards to employees should be made known. These represent only a few of the many constructive publicity activities that such an office might undertake.

Not all of the functions of public information and education can be carried out at the Bureau level. Some of the more important functions must continue to be the responsibility of field officers. For example, we believe that, where practical, there would be benefits from having a Customs officer -- male or female -- meet travelers as they enter the Customs area. His function would be to extend friendly greetings, answer questions, and assist in expediting the flow of passengers.

## Personnel and Training

We have indicated the importance of a philosophy and attitude which will help improve the public response to the U. S. and its border operations. We have also emphasized the need for an informed and educated public. The U. S. Customs inspector, or rather, the 2500 U. S. Customs inspectors, must loom large in any study of the inspection of passengers and their baggage. In this task the inspector must inevitably encounter, and be concerned with, the passenger, and not just his things. This interpersonal element distinguishes passenger operations from all other Customs activities. Historically, and with good reason, Customs has had to be more concerned with things than with people. The requirements of the present day, however, throw new emphasis on the person-to-person contact in this branch of Customs' endeavors. This section presents recommendations on the vital subject of personnel and their training: the selection and training needed to maintain effective law enforcement while also striving to create goodwill.

A. Selection. The selection of inspectors is now based on merit examinations. Its opponents claim that this examination, the Federal Service Entrance Examination (FSEE), is not appropriate because it puts a premium on education, rather than experience, and thus discourages appointments from within the Service. This may be true in part. The FSEE is essentially an intelligence test, although it also has certain features which evaluate other personal qualities of the candidate. But Customs must go beyond this to determine the additional qualities needed in its inspectional personnel. Selection interviews and other techniques must screen out those who may be certified from the FSEE register but who nevertheless do not meet Customs requirements.

Effective selection requires the development of Customs suitability standards and their use in selection practice. Assuming that the FSEE adequately tests intelligence, what kind of a man is the applicant? Does he have the temperament needed? What are his prejudices? Does he have a desirable outlook toward people, especially those of different racial and ethnic origin? Is he likely to mis-use his position and uniform to display a bored, contemptuous, or arrogant attitude? Does he have a basic knowledge of a second language?

Appropriate questions and interview techniques will flow from suitability standards. Self-analysis of needs and its application to recruitment can markedly improve selection.

B. Training. Training is expensive, but it is also indispensable to meet the present problems in inspection. Reliance in the past has been placed mainly on on-the-job training. In learning the technical aspects of border enforcement, there is no full substitute for studying the regulations, working with an experienced associate, and checking out questions as they arise. But even here much can be done by more formal training and instructional materials.

1. General Training. To improve Customs relations with travelers formal pre-assignment training appears very important. The precise type of image the Service desires an inspector to project, the techniques of achieving it, and the procedure to be followed if difficulties arise can all be taught.

Pre-assignment and on-the-job training should also be concerned with enforcement techniques. Inspectors who are especially effective in detecting violations should be encouraged to help new men develop comparable abilities. More formal training techniques can be used to help inspectors to identify and evaluate merchandise of foreign origin.

Refresher courses oriented to changed conditions are equally important. Many of the proposals made in this report will create a need for reorientation and training. At certain airports, well designed courses could be taught during the periods between scheduled air arrivals. More difficult problems exist for the most of the rest of Customs operations. Attendance once each 3 to 5 years for each inspector would appear to be a necessary and reasonable objective.

There are special needs for training (or transfer) in certain ports and areas. For example, New York City has the reputation nationwide and abroad for being brusque and generally lacking the proper attitude toward travelers. Its size and importance perhaps requires special comment. Individual inspectors, caught up in the pressure and whirl of big city living, often do not recognize traveler resentment of what the inspector considers fully fair and excellent treatment. Visitors and returning Americans alike are often from cultures where a greater premium is placed on the amenities. Admittedly, a friendly smile, a courteous gesture, and a pleasant attitude are difficult to accomplish under production-line passenger flows in a metropolitan environment which generally neither gives nor expects them. (In this respect, Customs employees are far ahead of the City as a whole). Further, everything from sheer numbers, to language barriers, to lack of personalized porter services, to decibels, to defects in the facilities _per se_ add to the adverse impact. 100% baggage examination is perhaps the proverbial straw which triggers and focuses the blame on employee attitudes.

Similar problems exist at other ports, expecially where community attitudes toward national or ethnic groups are not good.

It would appear profitable to bring to these (if not all) inspectional forces recognized sociologists and other authorities to point up the insecurities, frustrations, hopes and aspirations, and customs of travelers entering through these ports. Through broader knowledge, our inspectional forces should be assisted in dealing more effectively with the traveler. The task of contributing to the creation of goodwill can, we believe, be made to constitute a challenge to each conscientious inspector.

2. _Supervisory Training_. Supervisor selection and training appears to be an equally important link to successful operations. In few U. S. operations did we find supervisors directly assisting in problem cases by spotting trouble as it was arising, by helping to smooth over a difficult situation, or by giving a lift to a

beleagured inspector. Moreover, this would have helped rather than hindered enforcement and had a significant effect on public relations.

Supervisors too would profit from a positive knowledge of precisely what is expected. The type of instruction most likely to succeed would be the conference-participation type used with considerable success in middle management training courses.

3. Language Training. What result would be likely to occur if an inspector with no knowledge of Spanish tried to examine a planeload of refugees from Cuba? Or if the principal language of 40% of passengers from an adjacent country was French, with perhaps 10% speaking no English, and the inspector spoke no French? Or if airlines personnel had to be relied upon 80% of the time to communicate with Japanese and Chinese speaking travelers? This happens now. Neither enforcement nor public relations are well served by it.

Yet we heard inspectors state: "You don't have to know the travelers' language to communicate with them and do the examination job." And, in another port, "These Frenchmen just don't want to admit they speak English. If you keep after them long enough they come around."

Emphasis should be placed on systematically building a well-balanced force for the principal languages encountered at each port. This goal was strongly endorsed by representatives of employees' associations with whom we met. Not only should selection requirements demand good basic training in a foreign language, but proficiency might well be required before promotion to the journeyman grade. Retention in the service beyond a reasonable maximum period, e.g., 3 years, might also be contingent on attaining proficiency. For present personnel, special approaches to developing multi-lingual capacities should be adopted. Procedures for routing passengers to inspectors who speak the traveler's language must, of course, also be devised.

As a consultant to the Task Force put it, there is nothing so flattering to the visitor nor likely to put him at ease as being addressed in his own language.

4. Customs Service Academy. The mission of the Task Force did not include the study of the total training needs of the Customs Service. However, it did appear to us incidentally as we studied baggage operations that the need for continuous training exists in many Customs operations: cargo operations, investigative and enforcement activities, in the skills of appraising merchandise, and in liquidating and various administrative duties to name a few.

We are of the opinion that the training needs described in the foregoing paragraphs of this section on inspectional training might alone fully justify the establishment of an adequate central training school. We doubt that Customs will be well advised to face the problems of the future without giving serious consideration to the creation of such a facility to meet its inspectional training needs. Certainly if these needs are evaluated, together with those of the other parts of the Service, the conclusion seems inescapable that a modern and effective Customs Service Academy would have merit.

C. Responsibility. Consistent with improved selection methods and a well trained force, additional responsibility and discretion should be given individual inspectors in the examination of passengers and their baggage. This recommendation should be considered in the light of other discussions and recommendations contained in this report.

D. Employee Associations. We believe that the several Customs employee associations can be a positive force in the training activities suggested. In particular, they might well sponsor a series of lectures by national figures on international relations subjects. Similarly, programs increasing the knowledge of their members through sociological studies of various regions of the world should prove extremely interesting and useful. They might even find a way to assist their members in becoming bi-lingual.

E. Rewards and Sanctions. As stated, consideration should be given to requiring language proficiency as prerequisite to promotions to journeyman grades for new personnel and to supervisor positions for present personnel. The Federal Employees Training Act should be used to authorize the expenses of language training for individual employees who are willing to learn new major languages needed at their port on their own time. We found instances where employees had requested permission to take languages at their own expense but where rotating work schedules were not adjusted to make regular class attendance possible.

Beyond the needed special language emphasis, we believe that the Treasury and Customs system of special recognitions for employees doing outstanding jobs should be fully utilized. Awards should be based on the inspector's total effectiveness and not on any single aspect of it, such as public relations, or seizures. The full range of honor and service awards, with attendant institutional and public recognition, can, we believe, be more effectively employed to motivate and reward inspectional personnel.

Sanctions effectively applied are equally needed. Employees who do not measure up to the full requirements of the job should be encouraged to do so, should be counseled, should not be promoted, should be moved from passenger operations, if possible, and as a last resort should be disciplined or removed from the Service. We encountered inspectors who had the reputation for being "difficult." But we also found that having a few of them around was accepted as a way of life unless enforcement suffered. Fortunately, the number of them may be relatively small. Nevertheless, they may process hundreds of travelers each day. A systematic review of the effectiveness of all inspector personnel is needed.

## Facilities

One problem we encountered very early and very frequently was that of facilities. Interestingly, while there is wide agreement that a facilities problem does exist, there is substantial disagreement over the feasibility of doing anything about it and over the extent of Customs' responsibilities in the matter. Furthermore, at the local level, the problem is widely varied. Thus, while we may speak in general of a "facilities problem", in particular that problem varies according to the location and type of terminal facility.

There are two aspects to the subject of facilities. In part this is a question involving tangible things -- buildings and equipment -- and is a matter of original design and selection. But in large part it is also a matter of the uses to which these tangible elements are put. The character of Customs' facilities and the way they are used are very important not only to enforcement but also to public reaction.

Terminal facilities are commonly conceived, constructed, and operated as a whole. Customs operations occupy only one part of the whole. Customs is, of course, not unique in its relation to the terminal operation. Facilities at most international passenger terminals are shared not only by the several Federal border agencies but also by several carriers. Superimposed on the variety of users there is a terminal operator. While each of these "partners" tends to be concerned primarily with his own part of the operation, the passenger experiences the whole, and frequently fails to perceive the lines which so sharply separate the responsibilities of the carrier, Immigration, Public Health, Customs, the terminal operator, etc. Each partner in this enterprise, thus, should be concerned not only with his own activities, but also with the system as a whole.

Historically, the role of Customs has been narrowly defined and passively exercised. Customs has required that the carriers accept responsibility for "presenting the passenger for inspection" and for maintaining and financing the facilities. In recent years, however, this has begun to change, as both Bureau and local officials have taken an active interest in terminal design.

We have employed two sets of criteria to evaluate facilities. Efficiency is one: the available facilities should expedite the presentation of the passenger and his baggage for inspection. Speed, of course, must be balanced against cost in any measure of over-all efficiency. The carriers, directly or indirectly, pay the bill and their concern with cost must be recognized in any scheme for improvement. The second criterion concerns the human environment provided by the facility. The passenger should move through an environment that will minimize the natural confusions and anxieties of an arrival on a foreign shore. Facilities should be safe, offer personal comforts and conveniences, and give the impression of orderly and efficient movement. In other words, they should be suited to the physical and emotional needs of the passenger. Furthermore, the facilities should contribute to the effectiveness of the Customs inspection. The first step in this direction is to give the inspector a decent environment in which to do his job. He should have space and light, and should be free of unnecessary fatigue and pressures which detract from his effectiveness.

In our opinion, few of the important facilities for Customs inspection are satisfactory when evaluated on these criteria. In many cases this stems from a disregard for Customs requirements during the original planning of the facility. In others, a once-satisfactory facility is now inadequate because expanding passenger volume has overtaxed its capacity. Whatever the cause, these conditions are reason for serious concern. It is not enough to resolve to do better in the construction of future terminals.

A. Efficiency in Baggage Operations. Whether the passenger arrives by air or by sea, it is likely that his first activity upon reaching the Customs area will be to wait for his baggage. At the airports, this seems to be no more of a problem for international passengers than it is for domestic passengers. In our judgment, the airlines seem to be doing this job as well as can be expected, taking into account the limitations imposed by the design of existing terminals and aircraft, and the problems in managing carrier personnel on this job.

Aircraft and terminal design are important. We understand that weight and space restrictions may continue to prevent the international carriers from adopting the newer containerized baggage equipment now in use on domestic jet flights. If the new international terminal at Los Angeles is indicative of current thought in terminal design, speed of baggage movement has been given a low ranking among the criteria considered by those responsible for such design work.

The activity in which the problem of wait for baggage reaches its unhappy extreme occurs on New York's Hudson River Piers. The problem there is a difficult one. From one to two thousand passengers arrive on one vessel with three to eight thousand pieces of baggage, some stowed in the ship's hold. Furthermore, the operations in New York are hampered by the design of piers and by rigid union rules, both of which seem to prevent, for the moment, use of more efficient handling equipment and methods, such as those in use in Honolulu or Southampton. Nevertheless, it is our considered opinion that through better methods the unloading and sorting of passengers' baggage in New York could be performed far more efficiently (i.e., faster, with no increase in personnel) with the facilities now available.

Customs, of course, is not responsible for more efficient baggage handling. Nevertheless, in the interest of the efficiency of its own operations and passenger satisfaction, Customs should take advantage of every opportunity to help improve the carriers' operations in moving baggage. For example, at New York, Customs could remove a substantial hindrance (overcrowding) to the porters' work by delaying admission of vessel passengers to the piers. Thus the job of unloading could be more rapidly completed.

B. Passenger Convenience. The opportunities for reducing passenger waiting time are necessarily limited. We should be more concerned with making the necessary wait as pleasant as possible. The facilities we visited ranged from wholly inadequate to quite good in respect to passenger convenience, depending apparnetly in large part on when they were constructed. As a first step toward improvement, the Bureau of Customs should prepare a code of minimum standards for passenger facilities and should evaluate the Customs areas of all terminals in which it operates. Having done this Customs can take steps to encourage the improvement of sub-standard facilities.

What are some of the things which should go into this code? First, it should concentrate on the pre-inspection portion of the Customs area, that is where the passenger waits for his baggage and then waits for inspection. Objective standards can and should be set for such factors as the amount of space deemed adequate for various types of terminals and volumes of traffic, the number and kinds of chairs available for the use of waiting passengers (in some terminals there are none at all), the levels of noise and temperature, the general appearance of the area, the availability of telephones, toilets, and other necessities, and the availability of signs in several languages clearly marking the way to toilets, etc. We saw no facility which seemed likely to satisfy every part of such a minimum code; we saw more than one that would likely fail on all counts. District officers have been relatively powerless to achieve improvements of this sort in the past. Some seem to have been indifferent as well. Promulgation of a uniform national code will not, in itself, be sufficient to achieve substantial improvement; but it may well be necessary. It certainly would give a vital boost to any local improvement program, and would exert a unifying force while also affirming the Bureau's own interest in such achievements.

It may well be argued that this is not the responsibility of the Customs Service. Several arguments convince us that it is and should be. First, the national interest now demands more satisfactory reception of visitors from other lands. Customs should bear the responsibility for articulating this facet of the national interest, rather than assuming, incorrectly, that it will be considered by carriers and terminal operators who are guided by self-interest. Secondly, the public already burdens Customs with responsibility for its facilities, despite the fact that Customs has seldom admitted this responsibility. The returning citizen "blames" Customs for the defects and "praises" it for the virtues of the facilities in which it operates. In summary, logic, the pressure of national needs, and the sanction of common belief already dictate that Customs accept responsibility for the convenience of passengers using its facilities.

It may be argued that little can be done with facilities already in being. We reject this idea completely. Even the most outmoded of our Customs areas can be significantly improved by such simple expedients as fresh paint, comfortable chairs, counters for baggage inspection, toilets that are usable, visible and intelligible signs, and better management practices. We recommend the exclusion of visitors from steamship piers, many of which are inadequate to hold even the passengers in comfort and safety. (The safety factor on the piers has been conveniently overlooked - what would be the consequences of a fire? Who is responsible? Wouldn't nine of ten passengers say "Customs"?) Customs should not abdicate control of the movement of passengers to the carrier. In some efficient air terminals here and abroad, passengers are held outside customs in a waiting room until their baggage is ready. This is also the practice at Southampton's Ocean Terminal. Might we use it fruitfully in more cases here?

C. A Proposal for New York. Although we cannot offer specific plans for change in local facilities, we do want to direct further attention to the problem of steamship arrivals at New York. Few informed persons would argue that the present procedures at New York for disembarkation and border clearance of vessel passengers and their baggage are at all satisfactory. Whether they are the best possible is a disputed point. We believe that they are so unsatisfactory from the passengers' standpoint and affect so many passengers that a serious attempt to find a better system is well justified.

This situation must be treated as a whole, not bit by bit. At present it is entirely possible that each party -- the several Federal agencies, the carriers, the pier owners -- is doing the very best that can be done <u>in view of what the others</u> are doing and can do. The sum of all these separate programs, however, remains less than is desirable. The separate functions involved -- Immigration release of passengers for disembarkation, management of the porter gangs, stowage of the baggage aboard ship, Customs procedures, even the availability of taxicabs -- are so closely intertwined that improvement will come only through joint action.

This problem has been studied and restudied without notable success by many able individuals and groups. What qualifications should distinguish a group that might actually find a better answer to the problem? Clearly, it should represent the views of all the organizations directly involved. It should be able to draw on men with a depth and breadth of experience in passenger operations at New York, but it also should be free of any affinity for the traditional methods of operation and should be strongly motivated to start from first principles and search imaginatively for new approaches. It should be free to explore ways to finance any program proposed and should be able to draw on capable technical assistance in dealing with the logistic aspects of the problem. Finally, it should be deeply concerned with the passengers' viewpoint.

We recommend that the necessary initiative come from the Federal government at a high level. Neither the city, nor the carriers, nor the active local interests seem able or inclined to initiate a fundamental reappraisal of sufficient scope. Customs and the Treasury Department should attempt to enlist the support in a joint initiative of Immigration, Public Health, Agriculture, and the U. S. Travel Service. We propose the formation of a group to investigate alternative methods of handling passenger arrivals at New York, and to propose an improved system. The representative of the Federal Government should be at the Commissioner level. The group should also include officials of the principal carriers, an official of the Department of Marine and Aviation of the City of New York, and several qualified "outsiders". Preferably, one outsider should be versed in the travel industry and another competent to deal with the technical problems of pier facilities and baggage handling.

This core group should have access to staff support in the Government and in carrier organizations, and to other parties such as the longshoreman's union, West Side Chamber of Commerce, and National Customs Service Association. It should have unrestricted franchise to examine the problem in all its aspects. It should be directed to consider such diverse matters as pier facilities, inspection procedures, baggage handling methods, the handling of visitors, methods of financing proposed changes, the union problem, and the timing of vessel arrivals. We are sure that there are good "reasons" why every one of the current practices should be continued. Perhaps it will be possible to overcome these barriers in a purposeful search for a better overall system.

D. Organizational Implications. Because Customs inspection is an integral part of the system of baggage movement at an international terminal, and because such systems are best planned as wholes and not part by part, the Service should develop a staff to give technical support to local activities. A distinguished career in the Customs Service is not a sufficient qualification for the design of man-machine systems such as those used to move baggage at modern terminals. The participation of experienced Customs personnel is necessary and desirable, but so is the availability of a technically qualified group. Such a staff, centrally available, would offer a means for pooling the best ideas and experiences of Customs districts nation-wide, and would furnish a national viewpoint in facilities design now wholly lacking among the carriers and operators.

E. Design of New Facilities. We have emphasized Customs' contributions to the improvement and better management of existing facilities, which will continue to handle the majority of the passengers.

Customs must also pay attention to improved techniques of design for new facilities, for eventually they will determine the shape of the future. The effectiveness of Customs participation in new design has been varied. Some forceful Collectors have had great personal influence in their own bailiwicks. The Assistant Commissioner has brought his influence and imagination to bear at strategic moments in design of important terminals. But, in our opinion, more attention is necessary to specific problems in sufficient depth to produce optimum solutions. Custom's executive personnel need backstopping by qualified technical support. Frequently what has been done has been carried out without the active participation or even knowledge of officials at the local level.

The technical staff already proposed should bear an important responsibility in the design of new Customs facilities. In a subsequent section on organizational recommendations, we will suggest creation of an office in the Bureau to manage this staff, among others. Full-time attention at the Bureau level, backed by this technical capability, armed with a uniform code of standards for facilities, and working closely with responsible local officials should greatly enhance the effectiveness of Customs influence on facility design. The responsibility for this aspect of the facilities problem is clear and has already been accepted. What remains is the development of a better instrument for carrying it out.

## Paperwork and Procedures

The paperwork and procedures required of the public ought to facilitate the Customs examining process and provide adequate documentation for accounting and import statistics. Beyond this, the inspector should not be burdened with paperwork but be free to concentrate on his examination of the traveler. The traveler should be free to enjoy his trip.

Because the unceasing flow of autos and pedestrians forces it, these criteria are fairly well adhered to at land borders and on ferries. Unnecessary paperwork is required for air arrivals and excessive paperwork and special procedures apply to vessel arrivals.

A. The Written Declaration. The general philosophy in U. S. Customs is to require a written declaration whenever physical conditions render this possible. Because there is time and space to complete the declaration on a vessel and because there is (or has been) time on flights from foreign countries, written declarations are required. The rationale are (a) that it speeds up the traveler's clearance through Customs; (b) that it is necessary documentation if a traveler has "articles to follow"; (c) that it provides a legal basis for the assessment of forfeitures and penalties for violations, and (d) that the traveler hasn't anything better to do anyway.

We do not believe that the reasons (c) and (d) reflect a desirable approach to enforcement and public relations. If a change in regulations or law is required to penalize the culpably negligent or dishonest, it should be sought. Moreover, requiring a written declaration interrupts the traveler early and unnecessarily. In many cases it may cause an anti-Customs attitude, when one might otherwise not develop.

With respect to reason (a), the required written declaration may well slow down, in total effect, Custom clearance of passengers. In operation after operation, we found the ratio of passengers with dutiable items -- exclusive of special limitation items (liquor or tobacco and tobacco products) -- to be less than one in twenty. If written declarations were eliminated, or made optional, clearance for the 19 passengers would be less onerous, and would therefore seem faster. The elimination should be combined with a publicity campaign which encourages passengers to have their receipts for purchases available for inspection. We predict that better public relations and better enforcement would follow. Total passenger processing might actually be speeded up. The inspector could concentrate on examining the passenger, rather than a declaration form. Where there were dutiable items, a simple pre-carboned set of forms could be written up by an inspector and duty collected.

The complete elimination of the mandatory written declaration is recommended. As an absolute minimum, written declarations should not be required where the value of items acquired abroad is less than the allowable exemption.

B. Price Paid Valuation Basis. Few travelers know that the valuation basis for the items they acquire abroad is "wholesale value." The current declaration form states "You must state the price YOU ACTUALLY PAID for the article." Nowhere on the form is it mentioned that anything other than price paid will determine whether the $100 exemption has been exceeded. As general practice, Inspectors deduct 25% from the declared value before assessing duty. Because traveler purchases (within the exemption limits) are usually not in wholesale quantities, because these computations take time at a critical point in the process, and because the exemption is a special privilege extended the traveler, the price paid is more logical and understandable. Moreover, it is simpler for traveler and Customs alike. We, therefore, recommend a change to a price paid valuation basis for passengers' baggage.

C. Articles to Follow. Permitting articles to follow to be included within a passenger's baggage exemption is one of the important sources of confusion and delay in Customs clearance operations. Whether a traveler has articles to follow must be determined. If so, even though he otherwise would not have to complete a written declaration, e.g., land border crossers and Canadian pre-cleared air passengers, he now must do so. This requires pulling out of line and visiting Customs secondary inspection. The intricacies of the procedure must be explained. Moreover, not only those steps necessary at the time of re-entry into the U. S., but also those required to obtain the articles free of duty when they arrive at a later date must be explained. When the article arrives (often at a Postoffice), notice of arrival is sent. The traveler must send proof that the article was entitled to free entry. The package is delivered. Customs internally verifies that the article was to be accorded free entry.

There is no question that the elimination of the articles to follow privilege would make it possible to speed travelers through Customs. The privilege is unique to the United States. We recommend revision of the law at an early date.

If the law is not changed, we believe the present procedure should be. We believe that the traveler should be given completed forms which list the exact articles and value of items which are to follow. Further, the forms should show whether or the extent to which they fall within his exemption. At present, forms showing the port of entry are given the traveler. But they are otherwise blank, and to be filled in by the traveler later. While agreeing that the traveler may be uncertain of the number of shipments he will receive, we nevertheless believe that a system with more positive elements of control can and should be developed. Where duty is collected by an informal entry procedure as suggested in "A" above, the to follow forms could be produced and certified as a byproduct.

D. <u>Flat Rate of Duty</u>. It would greatly speed Customs clearance if a special provision were enacted to permit assessing passengers' baggage at a flat rate of duty. Classifying, grouping, and assessing duty on passenger baggage at the many separate and complex rates of the Tariff Act is very time consuming and requires training and experience of a high technical order. Unless a traveler is in fact making commercial importations (broadly construed) or is entering perhaps a high dollar value of goods, it would appear that a single rate of duty for all articles would adequately protect both U. S. industry and the revenue and be equitable to the traveler.

What the flat rate of duty should be or the upper limit for use of the flat rate can best be determined by a special study. Similarly, the language to circumscribe commercial importations without Customs procedural complexity must be carefully weighed.

E. Change in Duty Exemption. We recommend that the change to "price paid" valuation, and the elimination of exemption of articles "to follow", and the provision of a "flat rate" of duty be combined with a change in the basic exemption. It would be logical to offset these reductions in privilege by an increase in exemption and a simplification of the duty calculation to a basis more readily understood by travelers. We suggest that an exemption of $200.00 for returning residents would be reasonable if enacted in combination with these other changes.

F. "Every bag" inspection. As stated earlier, it will be difficult to improve the Customs image if the groundrules continue to be to open every bag and give it an essentially identical inspection. Further, we are convinced that enforcement suffers under this approach. When the emphasis on paperwork is coupled with the sheer pressures of numbers, the theoretical 100% inspection becomes one of going through the motions -- fast motions -- and results in an inspection which is from 5% to 10% effective.

One further comment: everyone agrees that nowhere near 100% inspection takes place on our land borders; that spot check must be resorted to at peak periods at our airports; and that gaps exist on vessel passenger operations. And yet, working out an effective system of baggage examination has been rejected.

The core of the problem seems to be the agricultural pests. The Department of Agriculture believes that every bag should be opened. The statistics on interceptions and potential dollar damage are convincing. The lack of outbreaks of the Mediterranean fruit fly in the U. S. are generally attributed to our present inspection policy. And yet, this assumes that our system is 100% effective: that none of these pests are getting through. We sincerely doubt this based on our observations and for the reasons given above.

We noted the widespread educational program being put on by Agriculture. We found evidence of it in Canada, Hawaii, many U. S. ports, Bermuda, Nassau, and England. The information materials and cooperation by carriers appeared to be very good. These efforts will certainly pay dividends throughout the years. Yet on matters of this kind, it will continue to be a matter of degree rather than a 100% attainable goal.

Our dilemma is that we believe in the true significance of the agricultural problem, but also believe that a more effective, faster, and modern system of baggage inspection must be found.

We suggest that in addition to the educational campaign the approach lies in deciding by law that bringing prohibited (or controlled) agricultural items into the United States is a serious offense. For the most part, the host plants or meats are prohibited or subject to agricultural inspection before release.[1/] But at the present time, the "penalty" for failure to declare prohibited (or controlled) agricultural items -- an orange, a mango, a root, meat products, etc. -- is simple forfeiture of the item. There is no "incentive" for the traveler to tell the truth: he can only "win" by non-cooperation. If he loses, the loss of the orange is of little significance to him. Carelessness is encouraged, rather than discouraged.

We believe that in addition to forfeiture of the prohibited (or controlled) item, the summary power to assess and collect a penalty of $5.00 should be given to Customs. The penalty should be collected for

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1/ In many cases, for a traveler to arrange for the required inspection is not possible and the effect is prohibition.

prohibited (or controlled) fruit, flowers, plant material, or meat or meat products which are not declared orally or in writing. One of the key questions asked of all passengers should be: Do you have any fruit, flowers, plant material, meat or meat products? A false answer should invoke the mandatory penalty.

This kind of a law can successfully deter willful or negligent violation. It could be the key to adopting a controlled plan over the next few years for a more realistic and effective type of baggage inspection, the plan could benefit both general and agricultural enforcement. Agriculture's educational program by that time may also have reached peak effectiveness.

We have not commented on maximum limits of the penalty but, in general, envisioned limiting the maximum summary penalty to $25.00. Its amount would vary with the price paid (or retail market price) of the prohibited (or controlled) items. Provision for controlling quantities beyond this value should perhaps be similar to seizure, forfeiture, and penalty provisions on other undeclared importations.

There may be those who feel that this proposal is too tough for "innocently" landing an orange off the Captain's table in one's handbag. But it isn't the orange. It's a 1/2 billion dollar citrus crop. Moreover, it is the key to major improvement in our system of baggage inspection.

G. Miscellaneous Duties of Inspectors. In this section, we have concentrated principally on major recommendations requiring changes in Customs policies or laws. If they are adopted, new procedures must, of course, be developed. Their focus should be to reduce the paperwork load on the Inspectors to a minimum. The paperwork required of an Inspector while on the line should (a) facilitate his own interrogation of the traveler, or (b) accomplish documentation which the passenger would otherwise be required to complete. Computations, additions, compiling statistics, citing authorities, etc., should, to the degree possible, be performed later or by other means. To the maximum extent possible the Inspector should be free to examine the passenger and given the responsibility and direct supervisory assistance necessary to do it as expeditiously or thoroughly as the passenger merits.

Excellent suggestions to improve details of present practices were received from Customs' employees and supervisors. Copies of documented suggestions have already been turned over to Bureau personnel.

## Organization and Working Relationships

This section deals with the organization of departmental and field personnel needed to implement the proposals we have made and to face the problems and opportunities to be anticipated during the 1960's. Organization changes will be necessary to bring about the improvements in the processing of travelers and their baggage discussed in other sections of this report.

A. Washington. We believe that a more positive and continuous role must be exercised by the Bureau of Customs in Washington, if the passenger baggage operations are to be effectively managed.

It appears that nearly everything done by Washington on facilities, procedures, and personnel has been done out of the "hip pocket" of the Assistant Commissioner of Customs. Important progress has been made on many fronts and the available types of skills well utilized. For example, pre-flight inspection was both brilliant in concept and execution. However, despite the fact that the number two position in the Customs Service is, admittedly, an effective spot from which to provide impetus and decisions, that position has too many other duties to devote the detailed attention and follow-through needed on these operations. As indicated elsewhere, we believe that for the future that position and its executive and management aides will need backstopping by engineering, architectural, and other technically qualified personnel.

1. Deputy Commissioner for Travel Operations. We believe that a position, with the rank of Deputy Commissioner (or the equivalent), should be created for travel operations. He should devote full time to these duties. The rank recommended will be

necessary to command the staff services needed; to deal effectively with other Government agencies, private organizations, municipalities, and carriers; and to direct the field forces carrying out the job. Preferably the individual selected should have broad experience in Government, should be action-oriented, should be forward looking, and should be willing to spend a considerable amount of his time in the field and in public appearances.

2. Public Information Activities. Public information and education activities relating to travel operations should be under the Deputy Commissioner for Travel Operations. The types of duties and activities envisioned were spelled out earlier in this chapter. The individual selected to head the unit should be both trained and experienced in this field. We further believe that it will require several staff assistants trained in information, public relations, and graphic arts to make the necessary impact.

3. Staff Services. In addition to access to traditional legal, budgetary, and management services, and having a small personal and secretarial staff, the Deputy Commissioner must be able to command the following types of services:

a. Personnel selection. A key to getting the examination of travelers done right is to select personnel suited to the task. Personnel assistance of a high order to develop the required standards will be needed.

b. Training activities. Training of non-Government personnel (travel agencies, carriers, etc.), general training in travel operations for inspectors and supervisors, and language training for the inspectional personnel will be required. Staff to organize and assist in this work will be needed.

c. Procedures revision and development. Critical reanalysis of procedures as well as the development of new ones based on major changes will be required. The present management inspection staff does some work along this line. However, we doubt that it will be possible for the present staff (engaged mainly on management audits) to provide the needed service. As a minimum it would have to be reorganized and reoriented to make it more responsive to the need for speed in operations.

d. Technical advice. The preceding section on facilities proposed formation of a technical staff to handle facilities problems.

e. Field appraisals. The need here is for a small staff, completely attuned to the philosophy of the Deputy Commissioner and to developments. The members of this staff should be empowered to test field operations and, as needed, initiate changes.

Whether these staff services should be under the line supervision of the Deputy Commissioner is a matter for the decision of the Commissioner of Customs. The recital of staff services needed does not indicate Task Force opinion that large additional numbers of employees will be required. Some expansion, however, is inescapable if the required job is to be done.

B. Field. It is apparent that much of the personnel selection, training activities, procedures revision and development, technical work, and appraisal of operations will have an important field component. It is not possible or necessary to prescribe these now. This should be one of the first and important jobs of the new Deputy Commissioner working in close collaboration with the Commissioner, key field officials, and employee groups.

C. Coordinating Councils. During visits to the ports we talked with various air, sea, railroad, bus, civic and governmental associations, committees, and councils. We heard of many others. However, there was no common pattern in their organization, powers, or use in resolving mutual problems. Nor would we expect to find common patterns under the American system of free enterprise in business and local autonomy in government.

We do believe that at the national level there is a special need for coordinating mechanisms. For example, in the field of air travel, the government border inspection agencies, the air carriers, and the airport operators have mutual problems incapable of independent solution.

We also believe that more uniform use should be made of existing committees, councils, and associations in the field; that forums for coordinating and resolving mutual problems are a necessary part of, for example, planning and running a modern airport. We found several instances of nearly total lack of coordination and communication in the planning of new airports or in airport expansion. Because Customs and its space is an integral part of the completed facility, this can cause bizarre results, and results in ill-will and inconvenience to the traveling public.

Review of the appropriate role and uses of such coordinating mechanisms should be made by the new Deputy Commissioner. More frequent participation of Washington officials in field councils may also be advisable.

D. Joint Performances of Border Functions. We reviewed the history of the dual-inspection operations performed by Customs and Immigration officers. In general, the system appears to be working out well, where it is in use on the Canadian and Mexican borders. This does not mean, however, that the present system with its independent administrative and supervisory channels will necessarily meet the test of the longer-run future.

We are convinced from our field visits that the time has now arrived for further combination of the roles of U. S. border forces engaged in preliminary inspection work. The simplification or elimination of procedures which complicate operations should pave the way for additional joint performance duties.

There is a need for specialists, to be sure, in the separate fields of Customs, Immigration, Public Health, and Agriculture. But there are many border operations where the job could be combined. The job could be performed more effectively and manpower availability increased if the officers of the four services were authorized to perform the services of the sister agencies in the joint preliminary screening operations. The job might also be less boring to the uniformed personnel. It appears that all that would be required would be to give present employees the requisite training and the authority to perform these additional roles. This plus the will of the agencies to enter into a joint performance program and agreement to coordinated supervision of the officers of the several services.

As a matter of fact, at a number of ports Agriculture personnel were assisting on the line; at another port, Public Health personnel were assisting; at one port, the spirit was "its our job collectively" and all hands pitched in. However, at other ports one Service would sit on its hands while its overburdened sister Service was tying up traffic because it was shorthanded.

Lest it be said that the Public Health or Agriculture duties on preliminary inspection are too difficult for the Customs and Immigration officers to learn, or vice versa, we must state that we carefully considered this. The facts, we believe speak for themselves and are to the contrary.

## CHAPTER III

## SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

In the preceding Chapters, the Task Force has attempted to identify strengths and weaknesses of the U. S. Customs Service. We have also stated some of our conclusions and made recommendations to effect needed improvements. A summary of the principal conclusions and recommendations are listed below. In general, they are arranged in the order in which they occur in the report.

### Introduction

Conclusion: The importance of foreign public opinion has increased greatly since the end of World War II and a program to encourage foreign travel to and within the United States is now a part of our national policy.

### Inspection Objectives and Practices

Conclusion: The philosophies and operational methods of the U. S. Customs Service with respect to the inspection of a passenger and his baggage must keep abreast of and be attuned to national policy changes. This does not mean less emphasis on Customs traditional enforcement activities, but rather that new approaches must be found to permit continued and improved effectiveness.

Conclusion: The responsibilities of the U. S. Customs Service are not well understood nor sympathetically supported by the traveling public, although the authority for the performance of these duties is well established.

Conclusion: Significant improvements in baggage inspection practices have been made by Customs and a generally effective job has been done. But the changing role of the Customs Service will require new responses.

Conclusion: The volume of traffic across our borders has reached staggering proportions and will continue to rise: 159 million persons arrived in fiscal year 1961. The patterns of travel are also changing with significant volume of arrivals by fast transportation which has resulted in the demand for faster entry into the United States.

## Present Problems and Opportunities

Conclusion: At this time in our Nation's history it is necessary for border inspectional agencies to help create goodwill for the United States. We believe that much can be done to create an improved National and Customs image while achieving equal or stronger enforcement.

Conclusion: Two basic groundrules of U. S. Customs must be changed if Customs and the image of Customs is to be improved. They are: (1) our examination of baggage, as distinguished from the passenger; (2) our insistence "for agricultural reasons" on opening every bag and container whenever feasible.

### A. Public Information and Education:

Conclusion: Having travelers better informed on the laws and procedures of U. S. Customs will make for speedier, more efficient Customs clearance operations. Greater respect for the Customs Service and cooperation will also result.

Recommendation No. 1 - That an Information Office be established within the Bureau of Customs headed by and staffed with professionals in the field of public relations and information.

Recommendation No. 2 - That an attempt be made to reach the potential traveler by pamphlets, newspaper releases, speeches, form letters, posters, signs, films, displays, radio and television public service announcements, travel books and folders, and many other such media and channels.

Recommendation No. 3 - That the Information Office study and evaluate the forms and literature presently in use by the Bureau in order to bring about simplification and clarification.

Recommendation No. 4 - That aircraft and ship personnel as well as travel agents be given training and training materials to indoctrinate their people in Customs procedure and laws.

Recommendation No. 5 - That a Customs Officer, where practical, meet travelers as they enter the Customs area to extend friendly greetings, answer questions, and assist in expediting the flow of passengers.

B. Personnel and Training:

Conclusion: The interpersonal element distinguishes passenger operations from all other Customs activities and present requirements throw new emphasis on the person-to-person contact aspects of Customs endeavors.

Conclusion: Effective personnel selection standards and procedures are essential to effective Customs passenger and baggage operations.

Recommendation No. 6 - That Customs must go beyond its present methods of selecting Inspectors and develop suitability standards and techniques to insure the selection of personnel well suited to its needs.

Conclusion: Improved methods of training need to be developed and additional emphasis must be given to the training, retraining, and skills of inspectors.

Recommendation No. 7 - That additional training be given new inspectors and that refresher courses oriented to changed and changing conditions be given at regular intervals to all inspectors.

Recommendation No. 8 - That supervisor selection and training practices be improved, perhaps using the conference-participation type of instruction.

Recommendation No. 9 - That emphasis be placed on systematically building a well-balanced force well trained in the principal languages encountered at each port. Retention, promotion and supervisor selection should be contingent on attaining proficiency in foreign languages needed at the respective ports.

Recommendation No. 10 - That, consistent with improved selection methods and a well trained force, additional responsibility and discretion be given individual inspectors in the examination of passengers and their baggage.

Recommendation No. 11 - That the several Customs employee associations be encouraged to participate in training activities geared to increasing the knowledge and stature of the inspection forces of Customs.

Recommendation No. 12 - That a full range of awards, including medals, certificates, presentation mementos, within-grade promotions, and public recognition, be employed to reward employees for outstanding performance. Awards should be based on the inspector's total effectiveness rather than on any single aspect of the job.

Recommendation No. 13 - That sanctions be effectively applied to employees who do not measure up to the full requirements of the job.

C. Facilities.

Conclusion: There is a facilities problem, although substantial disagreement exists over the extent of Customs responsibilities in the matter and the feasibility of doing anything about it. The adequacy of the facility directly affects the effectiveness of the Customs inspection and the frame of mind of the traveler. Facilities should be safe, offer personal comforts and conveniences, and give the impression of orderly and efficient movement. Few of the important facilities are satisfactory from the standpoint of Customs clearance.

Conclusion: Airport and pier design place limits on efficient baggage operations. But notable improvements are possible within existing facilities. Moreover, the efficiency of its operations and passenger satisfaction requires that Customs assume responsibility for seeing that passenger waiting periods occur in as pleasant an environment as possible.

Recommendation No. 14 - That the Bureau of Customs prepare a code of minimum standards for passenger facilities for all terminals in which it operates. All facilities should be evaluated on the basis of this code.

Recommendation No. 15 - That efforts be made to improve existing facilities; simple expedients such as fresh paint, comfortable chairs, counters for baggage inspection, usable toilets, visible and intelligible signs, and better management practices would help.

Recommendation No. 16 - That careful attention be given by Customs to exerting its influence to improve the techniques of design for new facilities.

Recommendation No. 17 - That visitors coming to meet travelers on arrival be excluded from Customs areas of air terminals and steamship piers.

Conclusion: Especially at New York, joint action by the pier owners, the carriers, and the several Federal agencies is needed. The failure of past studies to provide a solution has been noted.

Recommendation No. 18 - That a group experienced in passenger operations in New York investigate alternative methods of handling passenger arrivals and propose an improved system. Those selected should be free of prejudices and motivated to search imaginatively for new approaches. The Federal Government should take the leadership in creating the group. The group should include high level representatives of the Federal Government, the carriers, the Department of Marine and Aviation, and several qualified "outsiders."

Conclusion: A central staff of technically qualified individuals is necessary to furnish a national viewpoint in facilities design.

Recommendation No. 19 - That the Bureau of Customs develop a central staff to give technical support to local activities.

D. Paperwork and Procedures.

Conclusion: The paperwork and procedures ought to facilitate the Customs examining process and provide adequate documentation for accounting and import statistics. Paperwork and procedures which do not serve these purposes should be eliminated.

Recommendation No. 20 - That the mandatory written baggage declaration be eliminated. (As an absolute minimum written declarations should not be required where the value of items acquired abroad is less than the allowable exemption).

Conclusion: The price paid for an import purchased by a traveler should be the basis of its Customs valuation.

Recommendation No. 21 - That legislation be obtained to change the valuation basis of imports in passenger baggage to the price paid.

Conclusion: That the privilege, which is unique to the United States, of permitting articles "to follow" to be declared at the time the traveler returns to the United States and later admitted free of duty if within his exemption is one of the important sources of confusion and delay in Customs clearance operations.

Recommendation No. 22 - That the "to follow" privilege be eliminated.

Conclusion: Applying the many separate and complex rates of the Tariff Act to passengers' baggage is very time consuming, requires training and experience of a high technical order, is not warranted, and cannot be calculated by the average traveler.

Recommendation No. 23 - That legislation be obtained authorizing a flat rate of duty for items imported in passengers' baggage.

Conclusion: Improvement of baggage inspection procedures, to permit better enforcement with increased speed and better passenger relations, will be difficult unless the present groundrule of opening every bag and giving it an identical inspection is altered. The problem of agricultural pests is largely responsible for present adherence to this policy. The policy is not, however, being carried out 100%, nor is the present system a sufficient deterrent to willful or negligent importation of agricultural pests.

Recommendation No. 24 - That legislation be obtained authorizing a $200 exemption for returning residents, in lieu of the present $100 exemption, which would be reasonable if enacted in combination with the change to "price paid" valuation at a "flat rate" of duty and the elimination of the articles "to follow" privilege, which are proposed in Recommendations 21, 22, and 23 above.

Recommendation No. 25 - That legislation be obtained to authorize the imposition of a summary penalty for the importation of prohibited (or controlled) fruit, flowers, plant material, or meat or meat products which are not declared orally or in writing.

Conclusion: Inspectors should be freed of miscellaneous duties and paperwork to the greatest extent possible so that they can concentrate on the examination of the passenger.

Recommendation No. 26 - That as changes in laws and policies are effected, procedures be reviewed and developed which will reduce the paperwork load on the inspectors to a minimum.

E. Organization and Working Relationships:

Conclusion: Based on the observations of the Task Force and the discussions and conclusions reached, organization changes will be necessary to bring about the needed improvements in the processing of passengers and their baggage.

Recommendation No. 27 - That a more positive and continuous role be exercised by the Bureau of Customs in Washington on passenger baggage operations through the appointment of a Deputy Commissioner for Travel Operations.

Recommendation No. 28 - That public information and education activities relating to travel operations be under the Deputy Commissioner for Travel Operations.

Recommendation No. 29 - That the new Deputy Commissioner be able to command necessary staff services relating to passenger baggage operations, such as those for personnel selection, training activities, procedures revision and development, technical advice, and field appraisals.

Recommendation No. 30 - That the new Deputy Commissioner identify field components complementary to Washington staff, which are needed to get the job done.

Recommendation No. 31 - That because there is a special need for coordinating mechanisms in baggage operations, both in Washington and in the field, the new Deputy Commissioner work out appropriate roles and uses for such coordinating mechanisms.

Conclusion: The time has now arrived for further combinations of the roles of U. S. border forces engaged in preliminary inspection work. The job could be performed more effectively and manpower availability increased if this action is taken.

Recommendation No. 32 - Officers of the four services -- Customs, Immigration, Public Health, and Agriculture -- should be authorized to perform the services of the sister agencies in joint preliminary screening operations. Coordinated supervision of the officers of the several services would, of course, also be required.

The individual conclusions and recommendations summarized above are, necessarily, only partially documented because of limitations of time and space. Moreover, the specific recommendations in themselves may be only one of several acceptable ways to improve Customs operations. It is rather the combination and interrelationship of all of the items and the context in which they are found that may prove to be of importance to

Customs, her sister border enforcement agencies, and the Nation in the 1960's. The philosophy we adopt and the service we perform; the image we project and the attitude of an educated public; the facilities we build and the way we organize to do the job: all of these will be affected by our concept of the problems, our willingness and ability to take a fresh forward look at them, and the diligence with which we take necessary actions.

We are certain that the United States Customs Service will meet the challenge.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

IMMEDIATE RELEASE February 19, 1962

## EXTENSION OF SUBSCRIPTION PRIVILEGES FOR TRUSTEES IN TREASURY ADVANCE REFUNDING

The Treasury Department announced today that it has received information from banking institutions and other sources that they hold in custody for trustees, or are trustees in their own right, for large amounts of the securities eligible for exchange in the current advance refunding offer, and they will not be able to complete all of the detailed requirements necessary to file their subscriptions by February 21, 1962. In many cases it is necessary for holders of the issues eligible for exchange to obtain signatures of trustees or to await decisions by meetings of trustees or committees before the exchange can be consummated.

In view of this situation, the Treasury will permit trustees to file with Federal Reserve Banks or Branches, or the Treasurer of the United States, or place in the mail before midnight February 21, 1962, a letter of intent stating that they propose to enter or are considering submission of exchange subscriptions and giving the reasons which account for their inability to complete their subscriptions by that date. In such cases the subscribers will have until the close of business February 28, 1962, to complete their subscriptions.

D-400

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS OF JOSEPH W. BARR, ASSISTANT TO THE SECRETARY OF THE TREASURY, AT THE MIDWESTERN MORTGAGE CONFERENCE, CHASE-PARK PLAZA HOTEL, ST. LOUIS, MISSOURI, MONDAY, FEBRUARY 19, 1962

THE PROBLEMS POSED BY THE NATION'S DEFICITS IN INTERNATIONAL PAYMENTS

One year ago today if I had been asked to deliver a speech on some of the problems of our international balance of payments, I would have politely declined. I seriously doubt that anyone with a responsible position in the United States Treasury would have undertaken this engagement and for very good reasons. This nation was just emerging from a trying and difficult 4-months' period in which our gold reserves had declined about $1.2 billion. We had lost $900 million of these reserves in the last three months of 1960 -- October, November and December. In the first three weeks of January 1961, the drain continued at the rate of about $80 million a week. In the three weeks coming right after Inauguration Day, we cut this outflow in half to about $40 million a week. At just about this time, in February of last year, the outflow dried up and gave us a breathing spell. This marked the end of the most dramatic financial episode in our recent history.

While it would have been imprudent almost to the point of rashness to have discussed the implications of this situation a year ago, today such a discussion is highly appropriate.

Two weeks ago in New York, the Honorable Robert V. Roosa, Under Secretary of the Treasury for Monetary Affairs, had this to say:

> "The essence of all these new developments is understanding, but there must all along be an intermixture of hard negotiations and determined actions. For both, the United States is not yet adequately prepared. It is not enough for a few representatives of government to eat, sleep, and dream the balance of payments and its implications for the American economy; there must be a spreading, permeating consciousness of the balance of payments and its significance throughout the business and labor communities.
>
> "The buffeting which the United States has undergone over the last few years has led to many good results. Everyone who travels from Washington out through the country returns with a sense that the country as a whole is indeed aware of our balance of payments position and senses its significance. That is the essential beginning. But we will not have reached the stage in which we can, in the best, responsible democratic manner, adequately discharge our responsibilities as first among the leading countries until the typical labor leader, or the typical business executive in this country can analyze the main lines of economic development in balance of payments terms in the same taken-for-granted manner that characterizes his counterpart in the other industrial countries with whom our contacts must now be so much closer, in our convertible currency world."

It is my hope that this Association, as a vital part of the banking community in our country, will take it upon itself to understand these problems thoroughly and to help us explain their significance to the country. This is no easy assignment. For generations we have been able to turn our economic thinking inwards toward our domestic problems. In this nation, we simply do not have the reservoir of expertise in the areas of export markets, foreign trade finance, or the effects of capital flows that have been developed in the European countries. This is a vacuum that cannot persist. No President and no Secretary of the

Treasury can lead effectively in our democracy unless their action and their goals are understood and supported.

Today, I am here to assist you in arriving at an understanding of the problems involved and to explain some of the actions we have taken. We need your support -- and the support of all segments of the American community -- if we are to come out on top of the problem, as we must.

All too often in discussions of our balance of payments we, in the Treasury, assume that everyone in the audience is completely up-to-date on our figures. I am not at all sure that this is a valid assumption, and at the risk of offending those of you who are completely informed, I have placed at your seat our figures for the years 1958, 1959, and 1960, plus the first three quarters of 1961. These are the latest figures available for publication. As I move through this discussion, I will give you the line numbers that relate to the figures I am using.

Now that we are all working from the same figures, let us approach this area of understanding by reviewing our recent history. We can start with the developments beginning in February of last year. As I mentioned earlier, the crisis had blown over and we had time to start corrective actions and to take a hard look at what went wrong. What did go wrong? Basically we believe there are three answers to this question.

If you will take a quick look at the figures, you will see that we have divided our balance of payments statement into two sections. The first section (lines 1 through 16) describes the factors entering what we call the "basic" balance, and the second section (lines 17 through 19) is concerned with short-term flows of United States capital. Line number 20 sets out the over-all balance.

You can see from these figures that in 1958, 1959 and 1960, we fell far short of covering the expenditure items in our basic balance. To put it another way, this nation's export surplus of goods and services (line 10 adjusted plus line 11) (minus line 2 plus 3) was not large enough to cover our governmental expenditures on troops and on foreign aid, plus the net out-flow of long-term private capital. In 1960 these three items totaled about $6.7 billion -- about $3 billion for troops (line 3), about $1.2 billion for foreign aid not immediately spent on U. S. goods and services (line 6 minus line 7), and about $2.5 billion to meet the private needs of American industry moving long-term capital overseas for investment (line 5). The basic deficits (line 16) as you can see totaled $3.6 billion for 1958, $4.3 billion for 1959, and $1.9 billion for 1960.

These basic deficits provide the first answer to our original question "What went wrong?" For answers two and three, we must look at the short-term capital flows as pictured in lines 17 through 19.

In 1960 the short-term situation aggravated an improving basic picture and added to the basic deficit of $1.9 billion an additional sum of $2.0 billion (totals of lines 17, 18 and 19). This short-term outflow, a large part of which represented increased bank financing of foreign trade, was aggravated by two factors -- an interest rate variation and a certain loss of confidence. These are our second and third answers.

In the fall of 1960, as you will remember, most European nations were attempting to restrain a boom by raising interest rates. We were attempting to meet the onset of a recessionary period -- if not by driving rates downward -- at least by holding them steady. The resulting spread unquestionably siphoned large amounts of short-term funds from this country into European financial centers.

Lastly, I would be less than candid if I did not admit that at this time there was a certain loss of confidence in our ability to hold and to maintain the value of the dollar. This was demonstrated in the clamor to shift from dollars to gold -- a clamor that temporarily shot the price of gold on the London market to $40 an ounce in October 1960.

It did not take long to discover the above three reasons for our predicament but getting out of it was another question. We moved first in the short-term area (lines 17 through 19). The President announced bluntly last February that we did not intend to devalue the dollar and stated just as bluntly that we intended to get moving at once in an attack on our payments deficit. This blunt statement, coupled with a realization abroad and at home that it was rather absurd to countenance speculative theories concerning the political and financial stability of this nation, brought the speculative flows to an end, and indeed in the second quarter triggered a back-flow into this country.

We realized, however, that we could not sit idly back and congratulate ourselves. The year 1961 was obviously the time to prepare ourselves to meet further short-term speculative shocks while we kept hammering away at correcting the basic imbalance in our accounts. If we had been foolish enough to lapse into complacency, the events of March of last year would have shocked us out of this attitude at once. In March, the German mark and the Dutch guilder were revalued, in effect appreciated, and rumors began flying concerning other possible currency movements. The speculative impact of these rumors passed us by, but hit with great force on the pound sterling. Under this impetus, we began the first of a series of four innovations.

The first innovation has been described as the "Basle Agreements," and for a description of this arrangement I am going to refer once more to Bob Roosa who said:

> "The governors of the various leading European central banks attend each month in Basle the meetings of the Bank for International Settlements (meetings to which senior representatives of our own Federal Reserve System have always been invited and which, for nearly two years now, they have attended regularly). It was at such a meeting last March, when massive money flows around Europe had been set off by the German and Dutch currency revaluations, that the governors of the central banks receiving large inflows undertook to lend them back to the Bank of England, from which most of the drains were flowing. Thus the potentiality of a currency crisis was avoided and time gained for the orderly development of measures to strengthen the British balance of payments and attract a return flow of funds to the United Kingdom."

These Basle Agreements provided the first tangible results in the mutual attempts to infuse a new sense of mutual responsibility into the financial affairs of the Western World.

Secondly, the United States for the first time in a generation began to conduct operations in foreign currencies. We seized the opportunity afforded by a German debt prepayment to take Deutsche marks as a portion of the total payment and then to use these marks to smooth out speculative unsettlements in the exchange markets. Later these operations were expanded to include the use of Swiss francs and now we can look forward to the entry of the Federal Reserve System into these foreign exchange operations.

Thirdly, we began negotiations with nine other member nations of the International Monetary Fund to increase the resources of the Fund by agreement to make available through loans amounts up to $6 billion. The negotiations have been completed and the agreement is now before the Congress for approval. This agreement will give meaning to our $4 billion investment in the Monetary Fund. For the first time since the Fund's beginning in 1946, if the dollar comes under pressure the currencies we may need will be available in the Fund for a United States drawing.

And fourthly, through the working parties of the Organization for Economic Cooperation and Development, we have a regular forum in which we can discuss frequently with the leading nations of Western Europe our mutual problems of growth, monetary policy, and balance of payments position. In the final analysis, this attempt at understanding and cooperation which runs through the Basle Agreements, the new IMF agreement, and the OECD can well constitute our most effective weapon in our attempts to cushion and contain further short-term speculative shocks to the dollar and the international payments system.

While we were hard at work fending off short-term developments, we were equally preoccupied with attacking the problem presented by the basic deficit (line 16). The answers to curing these deficits run in two directions -- first we can increase our export surplus to cover the exchange we need for troops, foreign aid and the movement of private long-term capital. Secondly, we can attempt to reduce the impact of these three expenditure items on our payments total. There is a third alternative. We could pull back troops; eliminate foreign aid, and restrict the outflow of private capital by exchange controls. In our opinion this is really no alternative at all.

We did move ahead briskly in export promotion. The Commerce Department has greatly intensified its efforts to make more American businesses aware of the opportunities in world trade, while at the same time familiarizing overseas markets with American products. The Export-Import Bank has just launched a new program of export credit insurance in cooperation with 57 private insurance companies. For the first time, American exporters will have available to them credit insurance that will enable them to meet the credit terms of our overseas competitors. And lastly, the President has recently sent to the Congress a new Trade Expansion Act designed to enable us to compete in the European Common Market by a reciprocal lowering of tariffs for broad groups of products.

There is little doubt that increasing our export surplus is by far the most effective means of attacking our basic payments deficit. We are not, however, neglecting the expenditure side. We will this year cut the drain for military purposes by roughly a third. We have currently cut the impact of foreign aid expenditures on our payments position to one-third of the total program, and we are moving forward with vigor to reduce this fraction to one-fifth.

The two prongs of our problem -- the basic deficit and the short-term capital flows have both been recognized and corrective actions initiated. What success did we have?

As you look across line 16 you can observe that our basic position began to improve in 1960 and this improvement continued through 1961. The figures for the fourth quarter are tentative but for the year as a whole, the total basic deficit should decline from 1960's total of $1.9 billion to about $1.2 billion in 1961. If we included the foreign debt prepayments to the U. S. Government, this figure would drop further to $600 or $700 million.

In the short-term area the capital outflow (line 17 plus 18 plus 19) will probably be roughly equal to the 1960 figures. There is, however, one vitally important difference. This outflow of short-term capital does not reflect a loss of confidence. On the contrary, there was a gain in the world-wide acceptance of the dollar. There was no rush to get out of dollars and into gold. Central banks overseas added to their holdings of dollars by amounts roughly equal to the gold they purchased from us, while foreign private investors added well over a billion to their short-term dollar assets held in the United States.

The most potent force behind the short-term flow that occurred in 1961 was loans for the financing of foreign trade. The increased commercial loans to Japan alone amounted to more than two-fifths of our total recorded short-term outflow during 1961. To us there is a vast difference between the financing of our export trade and a flow that stems from speculative motives.

On balance, I would rate last year's performance as most encouraging. We weathered the January crisis; rode out the German and Dutch revaluation, held our ground during the Berlin developments, and still managed to conduct the fiscal and monetary affairs of the nation in such a manner as to stimulate a satisfactory economic recovery with almost no price increase and with no violent fluctuation in the money markets. I might also add that we ended the year 1961 with a marketable debt of four years and seven months average maturity -- at exactly the place we inherited it from Secretary Anderson and Julian Baird.

Treasury-Federal Reserve efforts to prevent short-term interest rates in the U. S. from falling to levels that would stimulate capital outflows, while at the same time ensuring ample money availability, were quite successful. As you know, short-term rates on three months' Treasury bills have fluctuated in a narrow range from 2.42 percent in February 1961 to 2.67 percent in January 1962. Long-term Treasury bonds have moved from 3.81 to 4.08 over the same period, while corporates and municipals have moved within an even narrower range. Keeping that short rate high enough to stem short-term capital outflows while supplying long-term money at reasonable rates was a technical achievement of great significance. In all these areas we in the Treasury owe a debt to Chairman Martin and his colleagues on the Federal Reserve System for their advice and for their help.

The year 1961 is behind us and we are moving forward now into a new year and new problems. There is no air of crisis prevailing but I would be less than frank if I were to say that the prospects look easy. They do not. As our economic activity accelerates, there will be a natural tendency for imports to rise. The boom in Western Europe has had a long run, and it would be unrealistic to expect it to continue indefinitely at the rates of the past few years. This can mean a lowered demand for our exports. All that we can safely predict is that this

Government must continue its twin policies of vigor and restraint. We must continue and step up the vigor with which we pursue our export promotion efforts. On the other hand, we must continue the restraint we have initiated in our scrutiny of overseas expenditures for troops and for foreign aid. I might add that the balanced budget which we have submitted to the Congress for FY 1963 is a form of restraint that is appropriate at this time.

By taking you on this conducted tour of our tussles with the problems of our balance of payments in the past year, I hope that I have given you some insight into the issues involved, and I can also hope that with further reflection you can support our announced goals and the methods by which we hope to attain them.

Let me give you one word of warning. Be very careful how you use the statistics and the issues involved in this international area. They can be distorted to serve almost any purpose. The figures have been used by some to attack our prevailing wage rates. Others have turned the figures around to point to our export surpluses to justify these same wage rates. Some who are opposed to foreign aid use the figures to support their arguments. But the figures have been used with equal force by those opposed to our overseas military expenditures. In some quarters there is strong opposition to overseas investment. The figures are hauled in to support these arguments. And so it goes through the whole gamut of national issues. I have even heard balance of payments dragged into the debates on aid to education.

Possibly there is validity in all these arguments. But we must remember that this is a national issue of the gravest importance. Don't be tempted to use the figures or the issues to advance selfish positions. Try to use them to advance the best interests of the United States. If we understand the problem and meet it honestly, we can help this nation and the free world hold on to the priceless advantage of an international payments system of freely convertible currencies that can finance an expanding volume of trade in a free world. This is the real issue that confronts us.

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# UNITED STATES BALANCE OF PAYMENTS, 1958-1961

(In billions of dollars)

| | 1958 | 1959 1/ | 1960 | 1961 Jan.-Mar. | 1961 Apr.-June | 1961 1st half | 1961 July-Sept. |
|---|---|---|---|---|---|---|---|
| | | | | (Seasonally adjusted) | | | |
| BASIC COMPONENTS | | | | | | | |
| 1. U.S. Payments - total | 27.4 | 29.7 | 30.1 | 7.2 | 7.2 | 14.4 | 7.8 |
| 2. Merchandise Imports | 13.0 | 15.3 | 14.7 | 3.4 | 3.4 | 6.8 | 3.9 |
| 3. Non-military Services | 4.7 | 5.1 | 5.6 | 1.4 | 1.4 | 2.7 | 1.5 |
| 4. Military Expenditures Abroad | 3.4 | 3.1 | 3.0 | .8 | .8 | 1.5 | .7 |
| 5. U.S. Direct & Portfolio Investment Abroad | 2.5 | 2.3 | 2.5 | .5 | .7 | 1.1 | .6 |
| 6. U.S. Gov't. Grants & Credits (Gross) | 3.1 | 3.0 | 3.4 | 1.0 | .8 | 1.8 | 1.0 |
| 7. (Of which used for direct procurement of U.S. goods & services) | (2.3)2/ | (2.0)2/ | (2.2) | (.7) | (.5) | (1.2) | (.7) |
| 8. Pensions and Remittances | .7 | .8 | .8 | .2 | .2 | .4 | .2 |
| 9. U.S. Receipts - total | 23.9 | 25.3 | 28.2 | 7.4 | 7.9 | 15.3 | 7.1 |
| 10. Merchandise Exports | 16.3 | 16.3 | 19.4 | 5.1 | 4.8 | 9.8 | 4.9 |
| (Of which financed by U.S. Gov't. Grants & Credits) | (2.0)2/ | (1.7)2/ | (1.8) | (.6) | (.5) | (1.0) | (.6) |
| Non-military Services: | | | | | | | |
| 11. Income on investments | 2.9 | 3.0 | 3.2 | .9 | .9 | 1.8 | .8 |
| 12. Other | 3.8 | 4.1 | 4.4 | 1.1 | 1.1 | 2.2 | 1.1 |
| 13. Military Sales | .3 | .3 | .3 | .1 | .1 | .2 | .1 |
| 14. Foreign Direct & Portfolio Investment in U.S. | * | .6 | .3 | .1 | .2 | .3 | * |
| 15. Repayments to U.S. Government | .5 | 1.1 | .6 | .1 | .8 | 1.0 | .1 |
| 16. BASIC BALANCE (Deficit - ) | -3.6 | -4.3 | -1.9 | +.2 | +.7 | +.9 | -.7 |
| OTHER COMPONENTS | | | | | | | |
| 17. U.S. Private Short-term Assets Abroad (increase - ) | -.3 | -.1 | -1.3 | -.6 | -.1 | -.7 | -.2 |
| 18. Foreign Commercial Credits to U.S. (increase + ) | -.1 | +.2 | -.1 | +.1 | +.1 | +.2 | -* |
| 19. Unrecorded Inflow (+) or Outflow (-) | +.4 | +.5 | -.6 | -* | -.4 | -.4 | +.1 |
| 20. OVER-ALL BALANCE (Deficit - ) | -3.5 | -3.7 | -3.9 | -.3 | +.2 | -.1 | -.9 |

Note: Includes all transactions except military grants; for data excluding debt prepayments, see attached table. Detail may not add to totals because of rounding.

* Less than $50 million.

1/ Excludes U.S. subscription of $1.4 billion to IMF.

2/ Preliminary estimate.

December 13, 1961

# U. S. BALANCE OF PAYMENTS 1958-1961

## Entries Explaining the Difference between the Basic and Overall Balances

(In millions of dollars)

| | 1958 | 1959 1/ | 1960 | 1961 Jan-Mar. | 1961 Apr-June | 1961 1st half | 1961 July-Sept. |
|---|---|---|---|---|---|---|---|
| | | | | (Seasonally | | Adjusted) | |
| Basic balance (Excl. debt prepayment factor) 2/ | -3,551 | -4,348 | -1,872 | +163 | +688 (-36) | +851 (+127) | -744 (-669) |
| U.S. private short-term assets abroad (increase (-)) .................... | -306 | -77 | -1,312 | -559 | -115 | -674 | -229 |
| Foreign commercial credits to U.S. (increase (+)) .................... | -51 | +154 | -97 | +75 | +84 | +159 | -11 |
| Errors and omissions .............. | +380 | +528 | -648 | -25 | -409 | -434 | +125 |
| Overall balance .................... (Excl. debt prepayment factor) 2/ | -3,528 | -3,743 | -3,929 | -346 | +248 (-476) | -98 (-822) | -859 (-784) |

1/ Excludes U.S. subscription of $1.4 billion to IMF.
2/ Results in exclusion of $724 million in foreign debt service repayments to the U.S. Government during the April-June quarter and inclusion of $75 million of these repayments in the July-September quarter.

December 13, 1961

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 19, 1962

OR RELEASE A. M. NEWSPAPERS, Tuesday, February 20, 1962.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of reasury bills, one series to be an additional issue of the bills dated November 24, 1961, nd the other series to be dated February 23, 1962, which were offered on February 14, wer pened at the Federal Reserve Banks on February 19. Tenders were invited for $1,200,000,0 r thereabouts, of 90-day bills and for $600,000,000, or thereabouts, of 181-day bills. he details of the two series are as follows:

| ANGE OF ACCEPTED OMPETITIVE BIDS: | 90-day Treasury bills maturing May 24, 1962 | | : | 181-day Treasury bills maturing August 23, 1962 | |
|---|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | : | Price | Approx. Equiv. Annual Rate |
| High | 99.293 a/ | 2.828% | : | 98.480 b/ | 3.023% |
| Low | 99.286 | 2.856% | : | 98.472 | 3.039% |
| Average | 99.288 | 2.849% 1/ | : | 98.476 | 3.031% 1/ |

a/ Excepting one tender of $300,000; b/ Excepting four tenders totaling $450,000
77 percent of the amount of 90-day bills bid for at the low price was accepted
30 percent of the amount of 181-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | : | Applied For | Accepted |
|---|---|---|---|---|---|
| Boston | $ 23,901,000 | $ 12,408,000 | : | $ 11,974,000 | $ 7,739,000 |
| New York | 1,844,685,000 | 879,460,000 | : | 1,030,915,000 | 461,265,000 |
| Philadelphia | 37,919,000 | 22,389,000 | : | 7,894,000 | 2,084,000 |
| Cleveland | 58,816,000 | 29,131,000 | : | 30,596,000 | 9,206,000 |
| Richmond | 12,209,000 | 11,276,000 | : | 6,981,000 | 1,874,000 |
| Atlanta | 23,650,000 | 19,950,000 | : | 5,374,000 | 4,075,000 |
| Chicago | 243,402,000 | 120,051,000 | : | 122,937,000 | 73,267,000 |
| St. Louis | 31,362,000 | 20,762,000 | : | 6,176,000 | 3,826,000 |
| Minneapolis | 21,605,000 | 12,505,000 | : | 6,970,000 | 4,270,000 |
| Kansas City | 36,541,000 | 24,407,000 | : | 8,168,000 | 7,034,000 |
| Dallas | 16,557,000 | 15,088,000 | : | 4,003,000 | 4,003,000 |
| San Francisco | 73,206,000 | 34,106,000 | : | 41,856,000 | 21,865,000 |
| TOTALS | $2,423,853,000 | $1,201,533,000 c/ | | $1,283,844,000 | $600,508,000 d/ |

/ Includes $218,267,000 noncompetitive tenders accepted at the average price of 99.288
/ Includes $52,544,000 noncompetitive tenders accepted at the average price of 98.476
/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.91% for the 90-day bills, and 3.12%, for the 181-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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February 19, 1962

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| Average | 99.288 | 2.849% 1/ | 98.476 | 3.031% 1/ |

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30 percent of the amount of 181-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

| District | Applied For | Accepted | Applied For | Accepted |
|---|---|---|---|---|
| Boston | $ 23,901,000 | $ 12,408,000 | $ 11,974,000 | $ 7,739,000 |
| New York | 1,844,685,000 | 879,460,000 | 1,030,915,000 | 461,265,000 |
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# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 19, 1962

FOR IMMEDIATE RELEASE

COMPTROLLER OF THE CURRENCY PLACES FIRST NATIONAL BANK OF EXETER, EXETER, PENNSYLVANIA, IN CONSERVATORSHIP

Comptroller of the Currency James J. Saxon today placed The First National Bank of Exeter, Exeter, Pennsylvania, in Conservatorship. A defalcation in excess of $400,000 was disclosed in the bank on January 29, 1962 and a complete audit of the bank is now in process. Mr. Saxon stated that today's action was taken due to lack of progress on the part of the bank's directors in effecting a reorganization of the bank, an increase in the amount of the known defalcation and the denial of liability by company carrying a part of the bank's fidelity insurance coverage. Mr. Saxon further stated that insolvency is not indicated at this time and expressed the hope that an acceptable plan of reorganization could be worked out speedily so as to cause as little inconvenience as possible to the bank's customers. The Conservator named by the Comptroller is Russell E. Gardner, a Wilkes-Barre banker.

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took office were still in effect. As a result of the modernization program he organized and directed, the number of regional disbursing offices have been reduced from 21 to 15. More than 300 employees were affected in the closing of these offices, but under Mr. Cannon's ~~direction~~ leadership all of the employees were retrained for other work or shifted into other positions ~~with~~ without loss of employment,

Mr. Cannon entered the government service in 1920 and for the next fifteen years was engaged in accounting and disbursing work with the Post Office, Agriculture and Interior Departments. In 1935 he was appointed Disbursing Officer in charge of the Treasury State Disbursing Office in Atlanta, Georgia. In 1941 he joined the central office staff of the Division of Disbursement in Washington and was made Assistant Chief Disbursing Officer in 1947. In 1954 he was named Chief Disbursing Officer of the Treasury Department.

Heffelfinger



JULIAN F. CANNON TREASURY'S CHIEF DISBURSING OFFICER GIVEN EXCEPTIONAL CIVILIAN SERVICE AWARD

The Treasury Department's Exceptional Civilian Service Award was presented today to Julian F. Cannon, Chief Disbursing Officer of the Treasury for outstanding executive ability in management of the Division of Disbursement during a " seven year period of impressive progress."

The presentation was made by William T. Heffelfinger, Fiscal Assistant Secretary of the Treasury at ceremonies attended by Treasury officials, friends and associates of Mr. Cannon.

The award, symbolized by a gold medal, a lapel device and an inscribed certificate signed by the Secretary of the Treasury, is conferred only upon those Treasury employees who distinguish themselves by exceptionally valuable service within or beyond their required duties.

As Chief Disbursing Officer, Mr. Cannon supervises the issuance each year of more that 330 million United States Government checks. During the seven years he has been in charge of these operations the number of checks issued has increased from 204 million, with a workload increase of about 63 percent. Under his direction this has been accomplished with a reduction of 17 per cent in personnel. The annual disbursing costs would be about $4 million more a year if the organization and methods existing at the time Mr. Cannon

# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 20, 1962

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coordination of private business interest with the national interest requires vigorous mutual pursuit. It is particularly important for government and business to put aside the antagonisms engendered in the adjustment of the Thirties and shoulder together, wisely and proudly, with labor as a third and equal partner, the enormous responsibilities the Sixties present for free men and free nations, and most of all for the United States.

The clear and unmistakable existence of this attitude on the part of this government is the most important message I can bring you today concerning the fiscal and monetary policies of the government and their effect on business.

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opened by an expanding technology, but it does not fail to insist upon public investment in programs such as education and health that spur our growth and fortify our strength — or the maintenance of an adequate national security and effective foreign policy.

Unlike the Thirties, much of the threat to our national welfare arises from sources outside our borders. Of course, the great venture of increasing opportunity and meeting unsatisfied needs at home is never ending in a nation dedication to the dignity of the individual and the pursuit of happiness. But, looming large in the Sixties is the external threat to life and liberty. In a hot war, government and business are drawn naturally together by the obvious peril. In the cold war to which we have been challenged,

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inflation or a steady diet of unbalanced budgets or excessive price and wage increases exacted from the economy without regard to our position in world markets.

The President's program seeks to rediscover normal, vigorous, but not easily attainable, incentives for productivity, efficiency and growth that are in keeping with our free enterprise system. Its goal is to have the Nation accept the competitive challenges with which we are confronted overseas in a manner that will repulse our enemies and conjoin us more firmly with our friends. The program would provide financial conditions and tax incentives that would encourage private business to seize the investment opportunities of the Union Message and Economic Report, has been designed to provide a groundwork for meeting the challenges of the years ahead in the context of a free market and competitive system, with voluntary action by management and labor, and the vigorous discharge by government of its responsibilities for well-coordinated monetary and fiscal policies.

Analysis will show that the President's program is based squarely on the premise that the achievement of growth and our related economic goals in the Sixties must come primarily from private market forces bolstered by investment in increased capacity, productivity and efficiency. These are preferred to the artificial responses to war-induced shortages, enlarge opportunities for U. S. exports in the rapidly expanding European Common Market, by actions to reduce, offset or restrain our overseas expenditures, by monetary measures to prevent "hot money" flows seeking advantageous short-term interest rates, by the working out of new arrangements for Free World consultation and cooperation in strengthening its trade and payments system.

Perhaps more important to men and women engaged in private business than any one government policy or related series, is the spirit and attitude on which the entire program is grounded. On this, may I be permitted a bit of personal testimony?

It is my observation and conviction that the program contained in the President's Budget, State

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simplification of our tax structure, equal treatment of equally situated persons, and the strengthening of incentives for individual effort and for productive investment."

These few illustrative fiscal and monetary policies developed to promote the economic goals announced by the President leave unexplored many recently announced economic programs which fill out a grand design — for example, an entire battery of measures and disciplines to deal with our imbalance of payments — by striving for increase in the U. S. commercial trade surplus, by staying competitive, by vigorously promoting exports and reducing credit risks, by enacting a trade program to retain and

But this depreciation reform program alone may not be the ultimate answer to growth through tax policy. Certainly, it does not exhaust the possibilities of utilizing changes in the present tax structure to encourage a higher rate of capital formation through the private incentives which will translate our expanding technology into new or improved products and services at a much more rapid rate than has characterized the economy in recent years.

In announcing his submission to Congress later this year of a major program of tax reform, President Kennedy said in his Economic Report:

"This broad program will examine tax rates and the definition of the income tax base. It will be aimed at the about a higher investment level, but is absolutely necessary if the Nation is to grow at a more rapid rate and correct the imbalance of our international payments.

Let me make it clear that these are not proposed as temporary measures. They are long-term in their outlook and consequences. Their sponsors hope and intend for them to become a permanent part of the economic structure for attaining over the long pull a higher rate of economic growth in the U. S. fed by an expanding technology. Through their effects on cash flows, higher rates of return, and shortened period of capital risk, they are expected to stimulate investment — and the need to stimulate investment is a long-term need in our society.

modification of an earlier proposal he made in his first Tax Message in April 1961. That proposal is the main thrust of the tax bill presently pending before the House Ways and Means Committee.

One of the most important policy goals of this Administration is to complete this two-phased depreciation reform and thereby encourage the increase in productive private investment, for both growth and balance of payments reasons. We need to make sure that our tax laws are fostering a strong flow of funds into investment in new productive facilities. We believe that this depreciation reform, including both the administrative revision of depreciation guidelines and the legislated investment credit, is not only the best way to bring advances. On January 18, 1962, Secretary Dillon informed the Joint Committee on Internal Revenue Taxation that "It is my firm intention to announce new guidelines for depreciation during the course of the spring of this year. These guidelines will cover all major assets for all industries." It is planned to provide for subsequent changes to keep this process up to date with technological change.

That step, helpful though it will be, will not put American producers on a fair footing with their European competitors. To achieve that goal and accelerate economic growth, the President, in his State of the Union Message, requested the enactment of an eight per cent tax credit for investment in machinery and equipment which represented a competitiveness in the export and import industries in aid of our balance of payments. For these reasons, the Treasury Department, supported by the President, is giving a first priority in its tax policy to a tax depreciation reform program consisting of two steps.

The first is the issuance of a realistic and modernized set of depreciation schedules for productive equipment, along the lines of those already announced for the textile industry, taking into account economic life and recent and prospective technological provision of the new fiscal tools stipulated in the President's program, particularly in a period, such as the present one, when an imbalance of our international payments places additional constraints on the use of monetary policy to effect recovery from recession or promote growth. Therefore, it is particularly important at this time to provide the tools for more effective fiscal action which the President has recommended.

A third significant policy designed to relate fiscal activity to the President's economic goals is represented in the effort to develop a tax policy to encourage investment in productive machinery and equipment. There is a fundamental relationship between increasing investment levels in machinery and equipment and sustaining economic growth and providing more productive efficiency and effective

Of course, these tools of fiscal policy do not stand alone. Monetary and credit policy play an important role in assuring that degree of utilization of existing supplies of manpower and capacity which invites further increases in output potential. The powers and responsibilities inherent in the Federal Government, exercised through the Federal Reserve control of the volume of bank reserves, the Treasury management of the public debt, and the administration of a variety of lending and credit guarantee programs have and will continue to affect significantly the adequacy of demand on a rising scale. The effective utilization of these monetary powers in coordination with Federal fiscal activity is the very essence of any program for sustained prosperity.

This coordination can be effectively enhanced by the

Federal and State system of unemployment insurance to include an extension of unemployment benefit periods, give wider coverage, and provide increased benefit amounts.

The enactment of these three measures will enable Federal fiscal policy to respond firmly, flexibly and swiftly to oncoming recessions. They parallel similar recommendations of the Commission on Money and Credit, a private group of leading citizens representing diverse economic interests and viewpoints, which presented a report last summer under the auspices of the Committee for Economic Development and the Ford Foundation. These measures constitute a far-reaching innovation in discretionary fiscal policy, but they are moderate proposals carefully defined and limiting increases in authority.

The basic elements of this new program of fiscal policy for waging an effective attack on any new or threatened recession are:

1. Presidential stand-by authority for prompt temporary income tax reductions to combat a recession, subject to a legislative veto should Congress not concur in the temporary act by the President;

2. Stand-by authority to the President to accelerate and initiate up to $2 billion of appropriately timed capital improvements when unemployment is rising at a rate to be stipulated by Congress; and

3. A permanent strengthening of our

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or built-in stabilizers. These existing tools have moderated the severity of cyclical swings in the economy since World War II, giving a better opportunity to the basic recuperative powers in the private economy to produce a recovery.

But, recent experience proves beyond a doubt that they need to be reinforced. The President's proposals will be prudent additions to the tools of fiscal policy. If they are provided by the Congress and carefully used by the Executive Branch along with the existing stabilizers, the Nation can do a more effective job in combatting recession, sustaining prosperity and high employment and promoting an increase in our long-term rate of economic growth.

short of expenditures, giving an added demand from the excess of public spending.

Of equal significance to the budget proposals in the fiscal area is the President's request for additional tools to strengthen our defenses against recession. With three recessions in the past seven years, we cannot assume that there is some magic in the current expansion movement that assures its permanence. There will always be economic fluctuations and changes in rhythm and pace of advance.

Already built into the Federal fiscal system are several automatic defenses against recession and inflation. As has been implied, the tax revenues change proportionately more than gross national product on both the up and down side. Certain Federal expenditures such as unemployment compensation payments serve as automatic excessively large swing from deficit to surplus in a short span of time drained the vigor of the private economy, which many believed contributed to halting its progress.

Budget outlays will rise by $3-1/2 billion from fiscal 1962 to fiscal 1963, with more than three-fourths of the increase accounted for by national security and space activities, and the bulk of the remainder by fixed interest charges. The budget fell by more than that amount from fiscal 1959 to fiscal 1960. In short, the 1963 budget starts from a much smaller deficit and, accompanied by a moderate increase in expenditures, should move to a moderate surplus as the recovery strengthens.

If private demand for goods and services should prove weaker in 1962 than now anticipated, less private purchasing power will flow into taxes and the budget revenues will fall or a surplus in times of prosperity, the government is seeking to help American industry take advantage of any opportunities so provided by establishing new incentives to investment through such measures as the 8 per cent investment tax credit and revision of depreciation guidelines, to be discussed later.

Therefore, if the economy expands, the budget, through a diminishing excess of Federal expenditures over tax receipts, will give less stimulus to business activity as private demand for goods and services increases, thereby allowing fiscal policy to assume some share of the burden of forestalling inflationary excesses in demand. But the shift will be moderate and gradual in order to avoid the disappointing 1959-60 experience when an abrupt and during fiscal year 1963, whether calculated on the traditional administrative budget basis or as a national income accounts budget -- a budget specially constructed to measure the direct impact of Federal expenditures on the flow of total spending.

This surplus, should it occur with private demand showing anticipated strength, provides a challenge and an opportunity to private business. A government surplus is a form of saving -- an excess of income over expenditure. Like other forms of saving, it releases labor and productive resources which can be used to create new investment goods. If the necessary investment demand is present, the surplus will make possible the acceleration of economic growth.

Related to this policy of budgeting for a balance to the Congress, appropriately paced to the expected rate of economic expansion, which will balance in fiscal 1963 as our present prosperity and expansion generates sharply rising tax revenues.

It is estimated that budget revenues will rise 13 per cent between the fiscal years 1962 and 1963. The rise in revenues of 14-1/2 percent between 1959 and 1960 in the previous up-swing lends support to this estimate, which would see our gross national product rising to $570 billion for calendar 1962 as a whole, compared with approximately $520 billion for calendar 1961.

Several aspects of this budget are of particular interest because of their effect on business. Should economic expansion follow its estimated pattern, the budget will provide a surplus of revenues over expenditures

Against this factual background of our national economic goals, let us review briefly some of the newer and more important fiscal and monetary policies of direct interest to business which are designed to serve these goals.

Perhaps, the dominant feature of new policies in this area is the determination they embody to utilize more effectively fiscal measures to achieve full employment and growth without inflation -- to coordinate a vigorous fiscal policy with monetary and credit policies, avoiding a dependence solely on monetary policy -- thereby permitting monetary policy to play a much needed role in minimizing short-term capital outflows that could seriously impair our balance of payments.

A major step this year was the submission of a budget with which rates of growth in the U.S.S.R. (about twice those prevailing in the United States in the last decade) may enable them to carry out their hostile intentions — these elements now sharply focus the connection between the vigor and character of the U. S. economy and our national security, particularly as it involves our ability to continue to discharge our military, economic and financial commitments at home and abroad.

It is most important for American business to appreciate that the President's economic goals serve more than our internal material and financial interests -- they also undergird our freedom and security.

Indeed, the compelling fact is not one related to materialism, social welfare or "keeping up with Western Europe" financially and economically. The primary underlying fact for U. S. economic and financial policy of the Sixties is the Soviet challenge and its threat to our security and freedom.

The hostility of leaders of the Sino-Soviet Bloc to our way of life, the growing technological resources at their command, the options of hot or cold war, brushfires or penetration, and the increasing capability

(d) there has been a startling rise in the proportion of our machinery and equipment which is over ten years old. 379

(e) since 1954 there has been a sharp decline in the rate of increase of productivity per worker and per hour from that of the postwar period.

Yet, a sharply contrasting pattern and trend has prevailed in Western Europe and Japan during the last decade, as marked in the last few years as in the early years of replacement of war damage.

Added to these factors are the following facts concerning our national plant and equipment stocks upon which our productivity, efficiency, and competitiveness largely depend~~s~~:

(a) a diminishing percentage of our gross national product has been devoted to business fixed investment and, particularly important, producers' durable equipment.

(b) increases in our stock of plant and equipment have proceeded at a substantially receding rate in recent years in relation to other factors.

(c) the rate of increase in the production of business equipment has fallen far behind the rate of increase in industrial production.

(5) The decline of the U. S. trade surplus, from $6 billion in 1957 to a postwar low of $1 billion in 1959, despite improvements in the last two years, has focused attention on the long-run improvement in the competitive position of Western European countries and Japan relative to the United States -- an improvement caused mainly by remarkable advances in output and productivity in those countries.

(6) In addition, a sharp rise in certain key prices in the United States relative to those of major competitors has weakened the competitiveness of some U. S. products in world markets.

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tariff-free internal market of the United States, with no current assurance concerning external barriers to those outside it.

(3) Intercontinental ballistic missiles and restoration of political stability in Western Europe have reduced the special attractions of the United States as a haven for funds and as a location for capital investment.

(4) The large overseas military expenditures and extensive foreign aid programs of the United States have come to be clearly recognized as long-term requirements for an effective national security and foreign policy.

(2) The establishment of the European Economic Community has provided a large, rapidly growing, tariff-free market to those associated with it, holding out much the same investment opportunities as the

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deficit in the United States' balance of payments averaged \$3.7 billion annually. Preliminary estimates for 1961 show a decline to \$2.5 billion. Gold reserves declined \$1.7 billion in 1960 and just under \$900 million in 1961 -- some improvement but not enough.

These dry figures on balance of payments take on added meaning in view of the role of the dollar as the key reserve currency for the Free World trade and payments system and the following long-term factors:

(1) The establishment of external currency convertibility by most of the European countries at the end of 1958 removed an important barrier to international capital flows.

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families and individuals had personal incomes lower than two thousand dollars.

During the Fifties, while the United States -- in gross national product -- was growing at less than three and one-half per cent per annum, Free Continental Europe was growing at nearly five per cent, the Soviet Union at nearly seven per cent, and West Germany and Japan at between seven and nine per cent.

During this same period, the U. S. economy became subject to persistent deficits in our international balance of payments and gold outflows, resulting finally in 1960 in an over-all accumulation of short-term dollar liabilities to foreigners in excess of gold reserves. In the three years 1958-60, the over-all cent of all families and unrelated persons have less than one thousand dollars of money income per person. In 1960, seven million period, four per cent or more of those able, willing and seeking to work have been unable to find jobs. The peak of each of the last three recoveries has been marked by a higher rate of unemployment than the previous one. Twenty-six million young people will enter the labor force in the Sixties, representing a net addition in excess of thirteen million, at a rate far in excess of that of the Fifties. In addition to the current unemployed, large numbers of the existing labor force may lose both their employment and opportunities for reemployment with existing skills through automation or technological or other forms of competition.

The highest standard of living and the wide sharing of prosperity provided by our national economy has not adequately extended equality of opportunity. Thirty per

(2) The acceleration of economic growth,

(3) The extension of equality of opportunity, and

(4) The restoration of balance of payments equilibrium.

There are many detailed facts bespeaking support for these goals. I shall cite a few basic ones.

In the past fifteen years four recessions have arrested growth in the U. S. economy -- in a period when the economies of other major industrial countries in the West have moved steadily ahead - with only an occasional pause. Approximately fourteen quarterly periods, or twenty-three per cent of the total, have been periods of recession. The economy has spent a total of seven years (out of the fifteen) regaining previous peaks of industrial production.

In two months out of three during this fifteen year some of the more significant underlying facts giving rise to these goals; and, second, a brief description of a few of the more important fiscal and monetary policies of especial interest to business and how they are designed to serve those goals.

I take time to underscore the goals of economic policy and a few of the facts to which they are responsive because, in these years of change, challenge and danger, it is important for business to know not only what the government is doing, but why.

The goals of economic policy as described in the President's Economic Report are four:

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REMARKS OF THE HONORABLE HENRY H. FOWLER, UNDER SECRETARY OF THE TREASURY, AT THE BUSINESS OUTLOOK LUNCHEON, METROPOLITAN WASHINGTON BOARD OF TRADE, MAYFLOWER HOTEL, WASHINGTON, D.C., TUESDAY, FEBRUARY 20, 1962, 12:15 P.M., EST

In Washington, where news reporting and analysis is a leading industry and prophecy everyman's prerogative, a government official, speaking to an already well informed business audience on the same program with Austin Kiplinger, can only hope to bring to the subject his own personal point of view.

This is particularly so when time is short, as today, and the subject is a broad one, such as that assigned, namely, the government's policies in the fiscal and monetary area, and their effect on business.

My comments will be divided into two parts: First, an identification of the broad economic goals current fiscal and monetary policies are designed to serve and

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TREASURY DEPARTMENT
Washington

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Perhaps, the dominant feature of new policies in this area is the determination they embody to utilize more effectively fiscal measures to achieve full employment and growth without inflation -- to coordinate a vigorous fiscal policy with monetary and credit policies, avoiding a dependence solely on monetary policy -- thereby permitting monetary policy to play a much needed role in minimizing short-term capital outflows that could seriously impair our balance of payments.

A major step this year was the submission of a budget to the Congress, appropriately paced to the expected rate of economic expansion, which will balance in fiscal 1963 as our present prosperity and expansion generates sharply rising tax revenues.

It is estimated that budget revenues will rise 13 per cent between the fiscal years 1962 and 1963. The rise in revenues of 14-1/2 per cent between 1959 and 1960 in the previous up-swing lends support to this estimate, which would see our gross national product rising to $570 billion for calendar 1962 as a whole, compared with approximately $520 billion for calendar 1961.

Several aspects of this budget are of particular interest because of their effect on business. Should economic expansion follow its estimated pattern, the budget will provide a surplus of revenues over expenditures during fiscal 1963, whether calculated on the traditional administrative budget basis or as a national income accounts budget -- a budget specially constructed to measure the direct impact of Federal expenditures on the flow of total spending.

This surplus, should it occur with private demand showing anticipated strength, provides a challenge and an opportunity to private business. A government surplus is a form of saving -- an excess of income over expenditure. Like other forms of saving, it releases labor and productive resources which can be used to create new investment goods. If the necessary investment demand is present, the surplus will make possible the acceleration of economic growth.

Related to this policy of budgeting for a balance or a surplus in times of prosperity, the government is seeking to help American industry take advantage of any opportunities so provided by establishing new incentives to investment through such measures as the 8 per cent investment tax credit and revision of depreciation guidelines, to be discussed later.

Therefore, if the economy expands, the budget, through a diminishing excess of Federal expenditures over tax receipts, will give less stimulus to business activity as private demand for goods and services increases, thereby allowing fiscal policy to assume some share of the burden of forestalling inflationary excesses in demand. But the shift will be moderate and gradual in order to avoid the disappointing 1959-60 experience when an abrupt and excessively large swing from deficit to surplus in a short span of time drained the vigor of the private economy, which many believed contributed to halting its progress.

Budget outlays will rise by $3-1/2 billion from fiscal 1962 to fiscal 1963, with more than three-fourths of the increase accounted for by national security and space activities, and the bulk of the remainder by fixed interest charges. The budget fell by more than that amount from fiscal 1959 to fiscal 1960. In short, the 1963 budget starts from a much smaller deficit and, accompanied by a moderate increase in expenditures, should move to a moderate surplus as the recovery strengthens.

If private demand for goods and services should prove weaker in 1962 than now anticipated, less private purchasing power will flow into taxes and the budget revenues will fall short of expenditures, giving an added demand from the excess of public spending.

Of equal significance to the budget proposals in the fiscal area is the President's request for additional tools to strengthen our defenses against recession. With three recessions in the past seven years, we cannot assume that there is some magic in the current expansion movement that assures its permanence. There will always be economic fluctuations and changes in rhythm and pace of advance.

Already built into the Federal fiscal system are several automatic defenses against recession and inflation. As has been implied, the tax revenues change proportionately more than gross national product on both the up and down side. Certain Federal expenditures such as unemployment compensation payments serve as automatic or built-in stabilizers. These existing tools have moderated the severity of cyclical swings in the economy since World War II, giving a better opportunity to the basic recuperative powers in the private economy to produce a recovery.

But, recent experience proves beyond a doubt that they need to be reinforced. The President's proposals will be prudent additions to the tools of fiscal policy. If they are provided by the Congress and carefully used by the Executive Branch along with the existing stabilizers, the Nation can do a more effective job in combatting recession, sustaining prosperity and high employment and promoting an increase in our long-term rate of economic growth.

The basic elements of this new program of fiscal policy for waging an effective attack on any new or threatened recession are:

1. Presidential stand-by authority for prompt temporary income tax reductions to combat a recession, subject to a legislative veto should Congress not concur in the temporary act by the President;

2. Stand-by authority to the President to accelerate and initiate up to $2 billion of appropriately timed capital improvements when unemployment is rising at a rate to be stipulated by Congress; and

3. A permanent strengthening of our Federal and State system of unemployment insurance to include an extension of unemployment benefit periods, give wider coverage, and provide increased benefit amounts.

The enactment of these three measures will enable Federal fiscal policy to respond firmly, flexibly and swiftly to oncoming recessions. They parallel similar recommendations of the Commission on Money and Credit, a private group of leading citizens representing diverse economic interests and viewpoints, which presented a report last summer under the auspices of the Committee for Economic Development and the Ford Foundation. These measures constitute a far-reaching innovation in discretionary fiscal policy, but they are moderate proposals carefully defined and limiting increases in authority.

Of course, these tools of fiscal policy do not stand alone. Monetary and credit policy play an important role in assuring that degree of utilization of existing supplies of manpower and capacity which invites further increases in output potential. The powers and responsibilities inherent in the Federal Government, exercised through the Federal Reserve control of the volume of bank reserves, the Treasury management of the public debt, and the administration of a variety of lending and credit guarantee programs have and will continue to affect significantly the adequacy of demand on a rising scale. The effective utilization of these monetary powers in coordination with Federal fiscal activity is the very essence of any program for sustained prosperity.

This coordination can be effectively enhanced by the provision of the new fiscal tools stipulated in the President's program, particularly in a period, such as the present one, when an imbalance of our international payments places additional constraints on the use of monetary policy to effect recovery from recession or promote growth. Therefore, it is particularly important at this time to provide the tools for more effective fiscal action which the President has recommended.

A third significant policy designed to relate fiscal activity to the President's economic goals is represented in the effort to develop a tax policy to encourage investment in productive machinery and equipment. There is a fundamental relationship between increasing investment levels in machinery and equipment and sustaining economic growth and providing more productive efficiency and effective competitiveness in the export and import industries in aid of our balance of payments. For these reasons, the Treasury Department, supported by the President, is giving a first priority in its tax policy to a tax depreciation reform program consisting of two steps.

The first is the issuance of a realistic and modernized set of depreciation schedules for productive equipment, along the lines of those already announced for the textile industry, taking into account economic life and recent and prospective technological advances. On January 18, 1962, Secretary Dillon informed the Joint Committee on Internal Revenue Taxation that "It is my firm intention to announce new guidelines for depreciation during the course of the spring of this year. These guidelines will cover all major assets for all industries." It is planned to provide for subsequent changes to keep this process up to date with technological change.

That step, helpful though it will be, will not put American producers on a fair footing with their European competitors. To achieve that goal and accelerate economic growth, the President, in his State of the Union Message, requested the enactment of an eight per cent tax credit for investment in machinery and equipment which represented a modification of an earlier proposal he made in his first Tax Message in April 1961. That proposal is the main thrust of the tax bill presently pending before the House Ways and Means Committee.

One of the most important policy goals of this Administration is to complete this two-phased depreciation reform and thereby encourage the increase in productive private investment, for both growth and balance of payments reasons. We need to make sure that our tax laws are fostering a strong flow of funds into investment in new productive facilities. We believe that this depreciation reform, including both the administrative revision of depreciation guidelines and the legislated investment credit, is not only the best way to bring about a higher investment level, but is absolutely necessary if the Nation is to grow at a more rapid rate and correct the imbalance of our international payments.

Let me make it clear that these are not proposed as temporary measures. They are long-term in their outlook and consequences. Their sponsors hope and intend for them to become a permanent part of the economic structure for attaining over the long pull a higher rate of economic growth in the U. S. fed by an expanding technology. Through their effects on cash flows, higher rates of return, and shortened period of capital risk, they are expected to stimulate investment -- and the need to stimulate investment is a long-term need in our society.

But this depreciation reform program alone may not be the ultimate answer to growth through tax policy. Certainly, it does not exhaust the possibilities of utilizing changes in the present tax structure to encourage a higher rate of capital formation through the private incentives which will translate our expanding technology into new or improved products and services at a much more rapid rate than has characterized the economy in recent years.

In announcing his submission to Congress later this year of a major program of tax reform, President Kennedy said in his Economic Report:

> "This broad program will examine tax rates and the definition of the income tax base. It will be aimed at the simplification of our tax structure, equal treatment of equally situated persons, and the strengthening of incentives for individual effort and for productive investment."

These few illustrative fiscal and monetary policies developed to promote the economic goals announced by the President leave unexplored many recently announced economic programs which fill out a grand design -- for example, an entire battery of measures and disciplines to deal with our imbalance of payments -- by striving for increase in the U. S. commercial trade surplus, by staying competitive, by vigorously promoting exports and reducing credit risks, by enacting a trade program to retain and enlarge opportunities for U. S. exports in the rapidly expanding European Common Market, by actions to reduce, offset or restrain our overseas expenditures, by monetary measures to prevent "hot money" flows seeking advantageous short-term interest rates, by the working out of new arrangements for Free World consultation and cooperation in strengthening its trade and payments system.

Perhaps more important to men and women engaged in private business than any one government policy or related series, is the spirit and attitude on which the entire program is grounded. On this, may I be permitted a bit of personal testimony?

It is my observation and conviction that the program contained in the President's Budget, State of the Union Message and Economic Report, has been designed to provide a groundwork for meeting the challenges of the years ahead in the context of a free market and competitive system, with voluntary action by management and labor, and the vigorous discharge by government of its responsibilities for well-coordinated monetary and fiscal policies.

Analysis will show that the President's program is based squarely on the premise that the achievement of growth and our related economic goals in the Sixties must come primarily from private market forces bolstered by investment in increased capacity, productivity and efficiency. These are preferred to the artificial responses to war-induced shortages, inflation or a steady diet of unbalanced budgets or excessive price and wage increases exacted from the economy without regard to our position in world markets.

The President's program seeks to rediscover normal, vigorous, but not easily attainable, incentives for productivity, efficiency and growth that are in keeping with our free enterprise system. Its goal is to have the Nation accept the competitive challenges with which we are confronted overseas in a manner that will repulse our enemies and conjoin us more firmly with our friends. The program would provide financial conditions and tax incentives that would encourage private business to seize the investment opportunities opened by an expanding technology, but it does not fail to insist upon public investment in programs such as education and health that spur our growth and fortify our strength -- or the maintenance of an adequate national security and effective foreign policy.

Unlike the Thirties, much of the threat to our national welfare arises from sources outside our borders. Of course, the great venture of increasing opportunity and meeting unsatisfied needs at home is never ending in a nation dedicated to the dignity of the individual and the pursuit of happiness. But, looming large in the Sixties is the external threat to life and liberty. In a hot war, government and business are drawn naturally together by the obvious peril. In the cold war to which we have been challenged, coordination of private business interest with the national interest requires vigorous mutual pursuit. It is particularly important for government and business to put aside the antagonisms engendered in the adjustment of the Thirties and shoulder together, wisely and proudly, with labor as a third and equal partner, the enormous responsibilities the Sixties present for free men and free nations, and most of all for the United States.

The clear and unmistakable existence of this attitude on the part of this government is the most important message I can bring you today concerning the fiscal and monetary policies of the government and their effect on business.

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and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 (X16X) or less for the additional bills dated November 30, 1961 (X17X), ( 91 (X18X) days remaining until maturity date on May 31, 1962 (X19X)) and noncompetitive tenders for $100,000 (X20X) or less for the 182 (X21X) -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 1, 1962 (X22X), in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 1, 1962 (X23X). Cash

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,

February 21, 1962

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 1,800,000,000 , or thereabouts, for cash and in exchange for Treasury bills maturing March 1, 1962 , in the amount of $ 1,700,348,000 , as follows:

91 -day bills (to maturity date) to be issued March 1, 1962 , in the amount of $ 1,200,000,000 , or thereabouts, representing an additional amount of bills dated November 30, 1961 , and to mature May 31, 1962 , originally issued in the amount of $600,071,000 , the additional and original bills to be freely interchangeable.

182 -day bills, for $ 600,000,000 , or thereabouts, to be dated March 1, 1962 , and to mature August 30, 1962 .

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 26, 1962 . Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

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WASHINGTON, D.C.

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The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

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Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Departmment of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated November 30, 1961,(91-days remaining until maturity date on May 31, 1962) and noncompetitive tenders for $100,000 or less for the 182-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 1, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 1, 1962. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained fr any Federal Reserve Bank or Branch.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 26, 1962

FOR IMMEDIATE RELEASE

COMPTROLLER OF THE CURRENCY TERMINATES
CONSERVATORSHIP OF THE FIRST NATIONAL BANK
OF EXETER, EXETER, PENNSYLVANIA

Comptroller of the Currency James J. Saxon today terminated the Conservatorship of The First National Bank of Exeter, Exeter, Pennsylvania, its directors having voted to sell the bank's business to The Wyoming National Bank of Wilkes-Barre, Wilkes-Barre, Pennsylvania. That bank will purchase the assets and assume the liabilities of The First National Bank of Exeter effective at the close of business today and tomorrow morning will begin operating a branch in the present quarters of the Exeter bank so that full and unrestricted banking services may be restored and continued in the community. Mr. Saxon commented that this solution of a most difficult problem fully justified the Conservatorship restrictions which existed for a period of only seven days.

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February 26, 1962

FOR RELEASE A. M. NEWSPAPERS, Tuesday, February 27, 1962.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 30, 1961, and the other series to be dated March 1, 1962, which were offered on February 21, were opened at the Federal Reserve Banks on February 26. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $600,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

| RANGE OF ACCEPTED COMPETITIVE BIDS: | 91-day Treasury bills maturing May 31, 1962 | | : | 182-day Treasury bills maturing August 30, 1962 | |
|---|---|---|---|---|---|
| | Price | Approx. Equiv. Annual Rate | : | Price | Approx. Equiv. Annual Rate |
| High | 99.334 | 2.635% | : | 98.566 | 2.836% 2.836 |
| Low | 99.322 | 2.682% | : | 98.554 | 2.860% |
| Average | 99.326 | 2.664% 1/ | : | 98.561 | 2.847% 1/ |

26 percent of the amount of 91-day bills bid for at the low price was accepted
25 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICT:

| District | Applied For | Accepted | : | Applied For | Accepted |
|---|---|---|---|---|---|
| Boston | $ 28,778,000 | $ 14,662,000 | : | $ 14,266,000 | $ 8,166,000 |
| New York | 1,604,244,000 | 828,124,000 | : | 994,036,000 | 496,636,000 |
| Philadelphia | 23,323,000 | 8,323,000 | : | 9,346,000 | 2,296,000 |
| Cleveland | 22,963,000 | 22,741,000 | : | 11,062,000 | 10,562,000 |
| Richmond | 9,246,000 | 9,046,000 | : | 1,702,000 | 1,602,000 |
| Atlanta | 26,714,000 | 23,915,000 | : | 4,266,000 | 3,706,000 |
| Chicago | 238,524,000 | 171,604,000 | : | 106,288,000 | 33,688,000 |
| St. Louis | 29,453,000 | 22,453,000 | : | 8,292,000 | 5,292,000 |
| Minneapolis | 21,353,000 | 14,613,000 | : | 5,789,000 | 3,289,000 |
| Kansas City | 21,304,000 | 19,268,000 | : | 7,462,000 | 6,947,000 |
| Dallas | 16,160,000 | 16,160,000 | : | 3,375,000 | 3,325,000 |
| San Francisco | 58,415,000 | 49,8[illegible],000 | : | 32,265,000 | 22,720,000 |
| TOTALS | $2,100,477,000 | $1,200,714,000 a/ | | $1,198,149,000 | $600,231,000 b/ |

a/ Includes $198,920,000 noncompetitive tenders accepted at the average price of 99.326
b/ Includes $48,664,000 noncompetitive tenders accepted at the average price of 98.561
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.72%, for the 91-day bills, and 2.93%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.
February 26, 1962

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ourselves might some day need. It will provide significant assistance to the United States in dealing with the balance-of-payments problem.

The arrangement can be used by the Fund to assist any other participating countries as well. The other nine countries also have a stake in the maintenance of a stable international monetary structure in the free world, and this is why they are all now cooperating in this new arrangement. We should join with them in strengthening the International Monetary Fund by giving it authority to borrow, if needed, the currencies which are most essential to cope with an impairment of the monetary system of the free world.

up to the amount of our quota subscription, which is $4.1 billion. As of December 31, 1961, notes outstanding under this authority amounted to $2.4 billion. If the United States were now to make a drawing from the Fund in excess of the $1.7 billion balance of this authority, it is not clear, under existing legislation, that we could issue non-interest-bearing notes in the amount of this excess. The proposed legislation would make entirely clear the Treasury's authority on this matter.

In conclusion, Mr. Chairman, I should like to say that the present proposal before the Committee is one which is in the best interests of the United States and of the free world as a whole. It is essential to us and to other countries that the dollar be maintained as a sound and reliable currency at its present parity. If necessary to defend the dollar, as President Kennedy said in his Balance-of-Payments Message, we will use our drawing rights in the International Monetary Fund as a supplementary form of reserves. The bill before you will enable the United States to participate in arrangements which will provide the International Monetary Fund with an adequate supply of the currencies which we participants. The entire arrangement is contingent upon the participating countries having authority to take action promptly. The amount of each country's commitment is part of the arrangement, and any change in this amount would require a renegotiation. It is thus necessary to have the full authority to provide the necessary financing if we should be called upon, even though in practice we do not expect to have to use this authority in the foreseeable future.

A section of the legislation before you includes a technical amendment designed to clarify existing legislative authority, so as to permit the use of non-interest-bearing notes - and thus save us interest costs - in an amount of any United States drawings on the Fund. If the United States were to draw on the Fund, it would have to do so by purchasing foreign currencies from the Fund with dollars. The Fund's Articles of Agreement, however, permit these dollars to be paid to the Fund in the form of non-interest-bearing notes, without any use of cash from current receipts or any debt operations which would involve the United States in an interest cost. The Bretton Woods Agreements Act authorized the issuance of such non-interest-bearing notes to the Fund by the United States to the Fund without the specific approval of Congress, and grant the authority to lend up to $2 billion. The legislation would also authorize an appropriation of $2 billion, to remain available until expended, for the purpose of making loans to the International Monetary Fund. As I have pointed out, we will not be called upon to make a loan to the Fund under present conditions and, in any event, the question of a loan would not arise until the Fund's resources in dollars - currently about $2-1/2 billion - had been exhausted. This is to be a stand-by commitment to the Fund. There will not be an expenditure of the funds authorized until such time as we might actually make a loan to the Fund. In considering any request to lend under the commitment, we would of course take into consideration our balance-of-payments position at the time and the level of our reserves, as well as the special circumstances which led to the request to lend.

I should like to emphasize that the amount of the appropriation must be in the full amount of $2 billion, in order to bring into effect our agreement with the other nine it could not be modified within that period except with the consent of all the participants.

I wish to emphasize the great advantage to the United States of these borrowing arrangements. It may be that the Fund will never need to borrow. We hope this will be the case. But the commitments will stand as a reserve to be used if and when necessary, and they will provide the Fund with the currencies which would be needed by the United States if it were ever to draw on the Fund. Thus the very existence of this large supplementary pool of usable resources should act as a strong deterrent to speculation against the dollar or other currencies, since it will be well known that there are ample resources available to counteract serious disturbances of the international monetary system. The arrangements will benefit not only the participating countries, but all countries of the free world. The stability of the dollar and of the other major currencies are of vital importance to the smooth functioning of the international trade and payments system.

The legislation which is before you would amend the Bretton Woods Agreements Act, which now prohibits any loan

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Loans to the Fund by participating countries would carry a transfer charge of 1/2 of 1 percent, plus annual interest of 1-1/2 percent. Loans to the Fund would mature in five years, but would be repaid sooner if the drawing country repaid the Fund sooner. Also, if a lending country should itself encounter balance-of-payments difficulties, it may obtain prompt repayment from the Fund.

Drawings of the additional resources from the Fund would conform to the Fund's normal procedures: that is to say, the drawing member would purchase from the Fund currencies of other participating countries with its own currency, and would pay a service charge of 1/2 of 1 percent on the amount of the drawing, plus interest. The rate of interest would vary with the size of the drawing and the period for which it would be outstanding. The drawing member would usually have to repay the Fund by repurchasing its currency within three to five years, but would be expected to repay earlier if its payments situation improved.

The whole arrangement would be effective for an initial period of four years, subject to renewal by the Fund, but borrow, and the amounts which should be supplied by each participant in its own currency. The participants would try to reach unanimous agreement on their response to the Managing Director's proposal. If they could not reach unanimous agreement, the question of lending to the Fund would be decided by a vote of the participants. The country proposing to draw would not vote. A decision would require a two-thirds majority of the other voting participants and a three-fifths majority of their weighted votes.

Since the countries concerned are in constant close communication regarding their balance-of-payments positions not only in the Fund, but also through the Organization for Economic Cooperation and Development and bilaterally, a decision can be reached very rapidly. The procedure established balances the right of each country to safeguard its own interests with the collective judgment of the group as to the needs of the international monetary system. Such safeguards are appropriate and necessary since it is impossible to foresee what the situation of any particular country may be at an unspecified date in the future when a borrowing may be needed.

currencies which we could use. On the other hand, a country which itself faces serious balance-of-payments problems and whose reserves are declining would not be expected to lend to the Fund. This would mean that the United States, for example, would not be expected to lend dollars to the Fund under present circumstances. In any event, since the Fund still has available in dollars almost $2-1/2 billion from the regular United States quota, it is highly unlikely that a need for borrowing from the United States will arise.

The agreement set forth in the Paris letters establishes the international machinery necessary for the ten participating countries to meet and act upon requests for loans to the Fund.

If one of the ten participating countries wishes to draw from the Fund, or to enter into a stand-by arrangement with it, in order to forestall or cope with a situation that might lead to impairment of the international monetary system, that country would consult with the Managing Director and with the other participants.

The Managing Director would then propose to the participants the total amount which he believes the Fund should

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would be invoked only if and when the Fund needs the additional resources.

The proposed arrangement is intended to remedy the shortage of the Fund's current holdings of currencies of industrial countries, especially those of countries having surpluses in their balance of payments and increasing reserves. The participating European Common Market countries - Belgium, France, Germany, Italy, and the Netherlands - would commit an amount of their currencies almost equal to their present quotas in the Fund, while the commitments of the United States and the United Kingdom would be only about half of their present quotas. The effect of the new arrangement would be to increase by about 275 percent the present availability to the Fund of the currencies of the surplus countries of the European Economic Community.

The proposed arrangement is designed so that countries which are in a surplus position and which are gaining reserves may lend their own currencies to the Fund which in turn can supply them to other participating countries which might need additional resources. Thus, if the United States were to draw on the Fund, the Fund would be able to obtain the

It is clear, therefore, that the Fund now lacks the resources in gold and the currencies of industrial countries other than dollars and sterling which would be needed to meet a large drawing such as the United States would be entitled to request.

At their Vienna meeting last September, there was general agreement among Fund Governors that ways should be found to increase the resources available to the Fund. The arrangements finally worked out are embodied in the Fund Decision of January 5, 1962, and in the exchange of letters initiated in Paris in December 1961 at the conclusion of discussions among the ten governments concerned. The Fund Decision and the related Paris arrangements are reproduced in the Report of the National Advisory Council which is now before you.

The proposed new arrangements can be described very simply. The ten participating countries would lend stated amounts of their currencies to the Fund if required to permit drawings from the Fund by any one of the participant countries in order to "forestall or cope with an impairment of the international monetary system." These commitments to lend depending upon the seriousness of the situation and the measures which the United States was taking to cope with it.

However, the resources of the Fund to meet a United States request for a large drawing are not at present adequate. On December 31, 1961, the Fund had available to it $2.1 billion in gold and $11.5 billion in member currencies. But a large part of these currencies consisted of currencies of the less developed countries which for the time being are not suitable for use by the Fund. The Fund's holdings of the currencies of the major industrial countries amounted on that date to the equivalent of about $6.6 billion; however, of this amount $4.9 billion was in dollars and sterling and only $1.6 billion was in currencies of the other industrial countries. The currencies of the member countries of the European Economic Community accounted for only $890 million of this $1.6 billion. On the same date, the Fund's outstanding commitments under existing stand-by arrangements, with the United Kingdom and other members, amounted to the equivalent of $1.4 billion.

which we could call upon to maintain the strength of the dollar, in addition to our own holdings of gold and foreign currencies.

The United States quota in the Fund is $4,125 million, one-quarter of which the United States has paid to the Fund in gold and three-quarters in dollars. A member country is normally entitled to draw currencies freely from the Fund up to the amount of its gold payment, plus an amount equal to the outstanding amounts of the member's currency which have been drawn by other countries. As of December 31, 1961, these virtually automatic drawing rights of the United States amounted to $1.7 billion. In addition, the Fund treats liberally requests for additional drawings up to 25 percent of a member's quota, if the member itself is making reasonable efforts to solve its balance-of-payments problems. In the case of the United States, this would be the equivalent of another $1 billion. Larger drawings are permitted by the Fund if a member is undertaking programs of monetary stabilization and measures for rectifying balance-of-payments deficits.

The total amount, therefore, that the United States would have the right to draw from the Fund almost automatically would be $1.7 billion; another $1.0 billion could be drawn with relative ease; and additional amounts could be drawn short-term capital. In 1958, 1959, 1960 and 1961, our basic deficit (which is the net of all of our international transactions except short-term capital movements and unrecorded transactions) was $3.6, $4.3, $1.9 and $0.6 billion, respectively, while we incurred total deficits, including short-term capital movements and unrecorded transactions, of $3.5, $3.7, $3.9 and about $2.5 billion, respectively.

The stability of the dollar is essential not only to the economy of the United States but to that of the entire free world. The dollar is the major reserve currency of the free world. Much of world trade and other transactions is carried out in dollars, and settlements of payments surpluses or deficits between foreign countries to a large extent are made in dollars. It is for these reasons that other nations have a vital interest in these new Fund arrangements which will be so important as an added resource to deal with stresses in the international payments system.

In his Message of February 6, 1961, President Kennedy referred to the drawing rights of the United States on the International Monetary Fund as a secondary line of reserves

1957 through the end of 1961, the reserves in gold and foreign exchange (mostly dollars) of the major industrial countries other than the United States and the United Kingdom increased from $12.1 billion to about $20.1 billion.

As a result of the improvements in the payments positions of other industrial countries, chiefly in Western Europe, they were able to make their currencies freely convertible, with the consequence that movements of short-term capital from country to country were greatly increased. Wider investment opportunities, the attraction of interest rate differentials and, to some extent, speculation, all contributed to these movements of capital.

Increases in foreign monetary reserves were largely the counterpart of over-all deficits in the balance of payments of the United States. Our deficits totalled approximately $13.5 billion during the four-year period 1958-1961 and were financed by a gold outflow of $5.5 billion and an increase in United States dollar liabilities of $8 billion.

The basic part of our deficit has been made up of trade transactions, long-term investment and expenditure for military and economic aid programs. But since the middle of 1960 a large part has also resulted from movements of

States membership in the Fund was authorized by the Bretton Woods Agreements Act. The Fund's purpose is to promote exchange and monetary stability among its 75 member nations. It does so principally by providing short-term assistance to deal with temporary balance-of-payments difficulties, pending the results of longer-range corrective measures.

With the growth of world trade and the increase in the size of monetary reserves, the resources of the Fund have been called upon to a greater and greater extent. To keep pace with these requirements, the quotas of the Fund's members, including the United States, were increased in 1959.

Since that time new problems have arisen, largely as a result of the recent heavy strains placed upon the two principal world reserve currencies - the dollar and the pound sterling. The proposed legislation, which would authorize United States participation in the new Fund borrowing arrangements, is designed to help deal with these problems, which arose partly as a result of the restoration of currency convertibility among the industrialized countries. With the advent of full economic recovery in Europe, these countries have improved their trade and payments positions and have accumulated large monetary reserves. In the four-year period from the end of million each; while the Netherlands is participating with $200 million, and Belgium with $150 million. The United Kingdom is to lend up to $1.0 billion. Other participants are Japan, which is to lend up to $250 million, Canada, participating with $200 million, and Sweden, with $100 million. In all, the nine participating countries other than the United States will stand ready to lend their currencies to the Fund up to a total of $4 billion.

These additional resources have potentially great importance for the United States. The Fund has on hand today only a limited supply of currencies that could be used if the need for a drawing by the United States should ever arise. The lending commitments of the major countries other than the United States and the United Kingdom - which amount to $3 billion - are approximately twice as large as the Fund's current holdings of their currencies. These supplementary resources would greatly enhance the Fund's ability to assist us should it ever become necessary.

As you know, the International Monetary Fund was established in 1945, at the same time as the World Bank. United

Statement of the Honorable Douglas Dillon
Secretary of the Treasury
Before the
Committee on Banking and Currency
House of Representatives
on
SPECIAL BORROWING ARRANGEMENTS
OF THE INTERNATIONAL MONETARY FUND
Tuesday, February 27, 1962

Mister Chairman and Committee Members:

I am glad to appear before the Committee this morning in support of H.R. 10162. This legislation will enable the United States, in cooperation with nine other industrial countries of the free world, to take a major step in support of a strong international monetary system. An amendment to the Bretton Woods Agreements Act authorizing the United States to lend up to $2 billion to the International Monetary Fund is a prerequisite for United States participation in proposed arrangements which will make $6 billion of additional resources available to the Fund.

Five members of the European Common Market are participating in the special arrangements with an aggregate lending commitment of $2.45 billion. Germany's commitment is $1.0 billion; France and Italy have agreed to lend up to $550

TREASURY DEPARTMENT
Washington

FOR RELEASE UPON DELIVERY

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As you know, the International Monetary Fund was established in 1945, at the same time as the World Bank. United States membership in the Fund was authorized by the Bretton Woods Agreements Act. The Fund's purpose is to promote exchange and monetary stability among its 75 member nations. It does so principally by providing short-term assistance to deal with temporary balance-of-payments difficulties, pending the results of longer-range corrective measures.

With the growth of world trade and the increase in the size of monetary reserves, the resources of the Fund have been called upon to a greater and greater extent. To keep pace with these requirements, the quotas of the Fund's members, including the United States, were increased in 1959.

Since that time new problems have arisen, largely as a result of the recent heavy strains placed upon the two principal world reserve currencies -- the dollar and the pound sterling. The proposed legislation, which would authorize United States participating in the new Fund borrowing arrangements, is designed to help deal with these problems, which arose partly as a result of the restoration of currency convertibility among the industrialized countries. With the advent of full economic recovery in Europe, these countries have improved their trade and payments positions and have accumulated large monetary reserves. In the four-year period from the end of 1957 through the end of 1961, the reserves in gold and foreign exchange (mostly dollars) of the major industrial countries other than the United States and the United Kingdom increased from $12.1 billion to about $20.1 billion.

As a result of the improvements in the payments positions of other industrial countries, chiefly in Western Europe, they were able to make their currencies freely convertible, with the consequence that movements of short-term capital from country to country were greatly increased. Wider investment opportunities, the attraction of interest rate differentials and, to some extent, speculation, all contributed to these movements of capital.

Increases in foreign monetary reserves were largely the counterpart of over-all deficits in the balance of payments of the United States. Our deficits totalled approximately $13.5 billion during the four-year period 1958-1961 and were financed by a gold outflow of $5.5 billion and an increase in United States dollar liabilities of $8 billion.

The basic part of our deficit has been made up of trade transactions, long-term investment and expenditure for military and economic aid programs. But since the middle of 1960 a large part has also resulted from movements of short-term capital. In 1958, 1959, 1960 and 1961, our basic deficit (which is the net of all of our international transactions except short-term capital movements and unrecorded transactions) was $3.6, $4.3, $1.9 and $0.6 billion, respectively, while we incurred total deficits, including short-term capital movements and unrecorded transactions, of $3.5, $3.7, $3.9 and about $2.4 billion, respectively.

The stability of the dollar is essential not only to the economy of the United States but to that of the entire free world. The dollar is the major reserve currency of the free world. Much of world trade and other transactions is carried out in dollars, and settlements of payments surpluses or deficits between foreign countries to a large extent are made in dollars. It is for these reasons that other nations have a vital interest in these new Fund arrangements which will be so important as an added resource to deal with stresses in the international payments system.

In his Message of February 6, 1961, President Kennedy referred to the drawing rights of the United States on the International Monetary Fund as a secondary line of reserves which we could call upon to maintain the strength of the dollar, in addition to our own holdings of gold and foreign currencies.

The United States quota in the Fund is $4,125 million, one-quarter of which the United States has paid to the Fund in gold and three-quarters in dollars. A member country is normally entitled to draw currencies freely from the Fund up to the amount of its gold payment, plus an amount equal to the outstanding amounts of the member's currency which have been drawn by other countries. As of December 31, 1961, these virtually automatic drawing rights of the United States amounted to $1.7 billion. In addition, the Fund treats liberally requests for additional drawings up to 25 percent of a member's quota, if the member itself is making reasonable efforts to solve its balance-of-payments problems. In the case of the United States, this would be the equivalent of another $1 billion. Larger drawings are permitted by the Fund if a member is undertaking programs of monetary stabilization and measures for rectifying balance-of-payments deficits.

The total amount, therefore, that the United States would have the right to draw from the Fund almost automatically would be $1.7 billion; another $1.0 billion could be drawn with relative ease; and additional amounts could be drawn depending upon the seriousness of the situation and the measures which the United States was taking to cope with it.

However, the resources of the Fund to meet a United States request for a large drawing are not at present adequate. On December 31, 1961, the Fund had available to it $2.1 billion in gold and $11.5 billion in member currencies. But a large part of these currencies consisted of currencies of the less developed countries which for the time being are not suitable for use by the Fund. The Fund's holdings of the currencies of the major industrial countries amounted on that date to the equivalent of about $6.6 billion; however, of this amount $4.9 billion was in dollars and sterling and only $1.6 billion was in currencies of the other industrial countries. The currencies of the member countries of the European Economic Community accounted for only $890 million of this $1.6 billion. On the same date, the Fund's outstanding commitments under existing stand-by arrangements with the United Kingdom and other members, amounted to the equivalent of $1.4 billion.

It is clear, therefore, that the Fund now lacks the resources in gold and the currencies of industrial countries other than dollars and sterling which would be needed to meet a large drawing such as the United States would be entitled to request.

At their Vienna meeting last September, there was general agreement among Fund Governors that ways should be found to increase the resources available to the Fund. The arrangements finally worked out are embodied in the Fund Decision of January 5, 1962, and in the exchange of letters initiated in Paris in December 1961 at the conclusion of discussions among the ten governments concerned. The Fund Decision and the related Paris arrangements are reproduced in the Report of the National Advisory Council which is now before you.

The proposed new arrangements can be described very simply. The ten participating countries would lend stated amounts of their currencies to the Fund if required to permit drawings from the Fund by any one of the participant countries in order to "forestall or cope with an impairment of the international monetary system." These commitments to lend would be invoked only if and when the Fund needs the additional resources.

The proposed arrangement is intended to remedy the shortage of the Fund's current holdings of currencies of industrial countries, especially those of countries having surpluses in their balance of payments and increasing reserves. The participating European Common Market countries -- Belgium, France, Germany, Italy, and the Netherlands -- would commit an amount of their currencies almost equal to their present quotas in the Fund, while the commitments of the United States and the United Kingdom would be only about half of their present quotas. The effect of the new arrangement would be to increase by about 275 percent the present availability to the Fund of the currencies of the surplus countries of the European Economic Community.

The proposed arrangement is designed so that countries which are in a surplus position and which are gaining reserves may lend their own currencies to the Fund which in turn can supply them to other participating countries which might need additional resources. Thus, if the United States were to draw on the Fund, the Fund would be able to obtain the currencies which we could use. On the other hand, a country which itself faces serious balance-of-payments problems and whose reserves are declining would not be expected to lend to the Fund. This would mean that the United States, for example, would not be expected to lend dollars to the Fund under present circumstances. In any event, since the Fund still has available in dollars almost $2-1/2 billion from the regular United States quota, it is highly unlikely that a need for borrowing from the United States will arise.

The agreement set forth in the Paris letters establishes the international machinery necessary for the ten participating countries to meet and act upon requests for loans to the Fund.

If one of the ten participating countries wishes to draw from the Fund, or to enter into a stand-by arrangement with it, in order to forestall or cope with a situation that might lead to impairment of the international monetary system, that country would consult with the managing Director and with the other participants.

The Managing Director would then propose to the participants the total amount which he believes the Fund should borrow, and the amounts which should be supplied by each participant in its own currency. The participants would try to reach unanimous agreement on their response to the Managing Director's proposal. If they could not reach unanimous agreement, the question of lending to the Fund would be decided by a vote of the participants. The country proposing to draw would not vote. A decision would require a two-thirds majority of the other voting participants and a three-fifths majority of their weighted votes.

Since the countries concerned are in constant close communication regarding their balance-of-payments positions not only in the Fund, but also through the Organization for Economic Cooperation and Development and bilaterally, a decision can be reached very rapidly. The procedure established balances the right of each country to safeguard its own interests with the collective judgment of the group as to the needs of the international monetary system. Such safeguards are appropriate and necessary since it is impossible to foresee what the situation of any particular country may be at an unspecified date in the future when a borrowing may be needed.

Loans to the Fund by participating countries would carry a transfer charge of 1/2 of 1 percent, plus annual interest of 1-1/2 percent. Loans to the Fund would mature in five years, but would be repaid sooner if the drawing country repaid the Fund sooner. Also, if a lending country should itself encounter balance-of-payments difficulties, it may obtain prompt repayment from the Fund.

Drawings of the additional resources from the Fund would conform to the Fund's normal procedures: that is to say, the drawing member would purchase from the Fund currencies of other participating countries with its own currency, and would pay a service charge of 1/2 of 1 percent on the amount of the drawing, plus interest. The rate of interest would vary with the size of the drawing and the period for which it would be outstanding. The drawing member would usually have to repay the Fund by repurchasing its currency within three to five years, but would be expected to repay earlier if its payments situation improved.

The whole arrangement would be effective for an initial period of four years, subject to renewal by the Fund, but it could not be modified within that period except with the consent of all the participants.

I wish to emphasize the great advantage to the United States of these borrowing arrangements. It may be that the Fund will never need to borrow. We hope this will be the case. But the commitments will stand as a reserve to be used if and when necessary, and they will provide the Fund with the currencies which would be needed by the United States if it were ever to draw on the Fund. Thus the very existence of this large supplementary pool of usable resources should act as a strong deterrent to speculation against the dollar or other currencies, since it will be well known that there are ample resources available to counter-act serious disturbances of the international monetary system. The arrangements will benefit not only the participating countries, but all countries of the free world. The stability of the dollar and of the other major currencies are of vital importance to the smooth functioning of the international trade and payments system.

The legislation which is before you would amend the Bretton Woods Agreements Act, which now prohibits any loan by the United States to the Fund without the specific approval of Congress, and grant the authority to lend up to $2 billion. The legislation would also authorize an appropriation of $2 billion, to remain available until expended, for the purpose of making loans to the International Monetary Fund. As I have pointed out, we will not be called upon to make a loan to the Fund under present conditions and, in any event, the question of a loan would not arise until the Fund's resources in dollars -- currently about $2-1/2 billion -- had been exhausted. This is to be a stand-by commitment to the Fund. There will not be an expenditure of the funds authorized until such time as we might actually make a loan to the Fund. In considering any request to lend under the commitment, we would of course take into consideration our balance-of-payments position at the time and the level of our reserves, as well as the special circumstances which led to the request to lend.

I should like to emphasize that the amount of the appropriation must be in the full amount of $2 billion, in order to bring into effect our agreement with the other nine participants. The entire arrangement is contingent upon the participating countries having authority to take action promptly. The amount of each country's commitment is part of the arrangement, and any change in this amount would require a renegotiation. It is thus necessary to have the full authority to provide the necessary financing if we should be called upon, even though in practice we do not expect to have to use this authority in the foreseeable future.

A section of the legislation before you includes a technical amendment designed to clarify existing legislative authority, so as to permit the use of non-interest-bearing notes -- and thus save us interest costs -- in an amount of any United States drawings on the Fund. If the United States were to draw on the Fund, it would have to do so by purchasing foreign currencies from the Fund with dollars. The Fund's Articles of Agreement, however, permit these dollars to be paid to the Fund in the form of non-interest-bearing notes, without any use of cash from current receipts or any debt operations which would involve the United States in an interest cost. The Bretton Woods Agreements Act authorized the issuance of such non-interest-bearing notes to the Fund up to the amount of our quota subscription, which is $4.1 billion. As of December 31, 1961, notes outstanding under this authority amounted to $2.4 billion. If the United States were now to make a drawing from the Fund in excess of the $1.7 billion balance of this authority, it is not clear, under existing legislation, that we could issue non-interest-bearing notes in the amount of this excess. The proposed legislation would make entirely clear the Treasury's authority on this matter.

In conclusion, Mr. Chairman, I should like to say that the present proposal before the Committee is one which is in the best interests of the United States and of the free world as a whole. It is essential to us and to other countries that the dollar be maintained as a sound and reliable currency at its present parity. If necessary to defend the dollar, as President Kennedy said in his Balance-of-Payments Message, we will use our drawing rights in the International Monetary Fund as a supplementary form of reserves. The bill before you will enable the United States to participate in arrangements which will provide the International Monetary Fund with an adequate supply of the currencies which we ourselves might some day need. It will provide significant assistance to the United States in dealing with the balance-of-payments problem.

The arrangement can be used by the Fund to assist any other participating countries as well. The other nine countries also have a stake in the maintenance of a stable international monetary structure in the free world, and this is why they are all now cooperating in this new arrangement. We should join with them in strengthening the International Monetary Fund by giving it authority to borrow, if needed, the currencies which are most essential to cope with an impairment of the monetary system of the free world.

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Immediate Release

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DRAFT PRESS RELEASE

United States-Netherlands Income Tax Convention to Be Revised

Representatives of the Treasury Department and the State Department expect to hold discussions in the near future with representatives of the Government of the Netherlands to consider modifications in the existing income tax convention for the elimination of double taxation, The Treasury announced.

The modifications are expected to involve, among other provisions, the definition of permanent establishment, the withholding tax rates on dividends, and the applicability of the convention to the Netherlands Antilles.

Interested persons in the United States who desire to submit comments or suggestions with respect to the pending revision are invited to submit their views. Communications should be addressed to the Assistant Secretary of the Treasury, Mr. Stanley S. Surrey, Treasury Department, Washington 25, D. C.

Comments and suggestions should be submitted as promptly as possible but not later than March 31, 1962.

DRAFT - 2-26-62

FOR IMMEDIATE RELEASE

UNITED STATES-NETHERLANDS INCOME TAX
CONVENTION TO BE REVISED

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Comments and suggestions should be submitted as promptly as possible but not later than March 21, 1962.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 27, 1962

FOR IMMEDIATE RELEASE

## UNITED STATES-NETHERLANDS INCOME TAX CONVENTION TO BE REVISED

Representatives of the State and Treasury Departments will hold discussions in the near future with representatives of the Government of the Netherlands to consider modifications in the existing income tax convention for the elimination of double taxation, the Treasury announced.

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Comments and suggestions should be submitted as promptly as possible but not later than March 21, 1962.

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# TREASURY DEPARTMENT

WASHINGTON, D.C.

February 28, 1962

FOR IMMEDIATE RELEASE

COMPTROLLER OF THE CURRENCY TO HOLD PUBLIC HEARING ON APPLICATION OF SECURITY NATIONAL BANK OF KANSAS CITY, KANSAS CITY, KANSAS, AND THE RIVERVIEW STATE BANK, KANSAS CITY, KANSAS, TO CONSOLIDATE.

The Comptroller of the Currency announced today that he had ordered a public hearing on the application of the Security National Bank of Kansas City, Kansas City, Kansas, and The Riverview State Bank, Kansas City, Kansas, to consolidate.

The hearing is scheduled for 9:30 A. M., Wednesday, March 21, 1962, in Room 4119, Main Treasury Building, Washington, D. C.

The hearing will be on an informal basis and all persons desiring to testify should notify the Comptroller of the Currency by March 14, 1962.

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and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ 200,000 ~~(16)~~ or less for the additional bills dated December 7, 1961 ~~(17)~~, ( 91 ~~(18)~~ days remaining until maturity date on June 7, 1962 ~~(19)~~) and noncompetitive tenders for $ 100,000 ~~(20)~~ or less for the 182 ~~(21)~~ -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 8, 1962 ~~(22)~~, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 8, 1962 ~~(23)~~. Cash

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE

February 28, 1962

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 1,800,000,000 , or thereabouts, for cash and in exchange for Treasury bills maturing March 8, 1962 , in the amount of $1,697,658,000 , as follows:

91 -day bills (to maturity date) to be issued March 8, 1962 , in the amount of $ 1,200,000,000 , or thereabouts, representing an additional amount of bills dated December 7, 1961 , and to mature June 7, 1962 , originally issued in the amount of $ 600,646,000 , the additional and original bills to be freely interchangeable.

182 -day bills, for $600,000,000 , or thereabouts, to be dated March 8, 1962 , and to mature September 6, 1962 .

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 5, 1962 . Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

# TREASURY DEPARTMENT

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WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

February 28, 1962

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Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Departmment of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ 200,000 or less for the additional bills dated December 7,1961, (91-days remaining until maturity date on June 7, 1962) and noncompetitive tenders for $100,000 or less for the 182 -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 8, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 8, 1962. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Congress do not have Treasury support because they propose inconsistent treatment for ground rent transactions in Maryland. THEY WOULD permit~~ting~~ the home purchaser to deduct ~~the annual or periodic~~ ground rent payment as interest paid on a mortgage, BUT ~~without the same time~~ WOULD not ~~a~~ requi~~ring~~ the home builder or seller, as in other mortgage transactions, to include the fair market value of the right to receive this payment GROUND RENT AGREEMENT as taxable gain at the time of sale. The Treasury objects to such legislation as giving ~~a~~ special preference to builders in ~~MMX~~ Maryland not available to builders elsewhere.

The Treasury indic~~ated that it had reluctantly~~ issued the new regulation prohibiting future tax deduction of Maryland ground rents only after it became apparent that there was no prospect of a reversal of the Circuit Court decisions nor any immediate prospect of Congressional ~~xxxxxx~~ action.

The ~~Treasury announcement~~ made it clear that the new regulation in no way affects the ~~MMX~~ deductibility, for Federal Income Tax purposes, of Maryland ~~XXX~~ real estate taxes imposed on ground rent property.

The new regulation differs from ~~the~~ an earlier Technical Information Release ~~on the matter~~ issued by Internal Revenue last July, in which it was indicated that ground rents paid or accrued after July 22, 1961, would be disallowed as deductions on Federal Income Tax returns. The change in the effective date -- made to avoid discrimination between taxpayers whose ground rent payments fall due at different dates during the year -- means that all calendar year basis taxpayers will be able to deduct ground rent payments in full on their 1961 tax returns.

~~In XX issuing its regulation~~, the Treasury made clear that it is imposing the change only because the Circuit Court decisions have made it necessary. Treasury will continue to support legislation ~~ZMZRZXBXBXZXZXBXCXBXZXZXZX~~ (H.R. 8361) now pending before theCongress which would permit deduction of redeemab: ground rent ~~paymentsz~~ payments by home purchasers and tax the home ~~XXX XXX~~ builder or seller on ~~thexga~~ his gain on the sale of the property subject to ground rent. Other bills pending before

FOR RELEASE A.M. NEWSPAPERS
THURSDAY, MARCH 1, 1962

1962

Press Release

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X For A.m.'s, ~~Thursday, March~~ 1

TREASURY ISSUES NEW REGULATION ON MARYLAND "GROUND RENT" PAYMENTS

Maryland taxpayers will be permitted to list payments XX of "ground rent" as deductions on their 1961 Federal Income Tax returns under a X Treasury regulation mad~~e~~ public today. However, ground rents paid or accrued on or after January 1, 1962 will not be deductible.

The new regulation XX followed two recent decisions of the Fourth Circuit Court of XXXXX Appeals, which held that ground rent payments are ~~xxxxxx~~ rental payments, deductible only when incurred as a business expense and hence not deductible by the home purchaser.

The change will apply only in Maryland. The laws of other states, notably Pennsylvania, where home sales are commonly made subject to agreement for payment of ground rent, differ ~~sigxxx~~ significantly from the Maryland law.

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# TREASURY DEPARTMENT

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WASHINGTON, D.C.

February 28, 1962

FOR RELEASE A.M. NEWSPAPERS
THURSDAY, MARCH 1, 1962

TREASURY ISSUES NEW REGULATION ON MARYLAND "GROUND RENT" PAYMENTS

Maryland taxpayers will be permitted to list payments of "ground rent" as deductions on their 1961 Federal Income Tax returns under a Treasury regulation made public today. However, ground rents paid or accrued on or after January 1, 1962 will not be deductible.

The new regulation followed two recent decisions of the Fourth Circuit Court of Appeals, which held that ground rent payments are rental payments, deductible only when incurred as a business expense and hence not deductible by the home purchaser.

The change will apply only in Maryland. The laws of other states, notably Pennsylvania, where home sales are commonly made subject to agreement for payment of ground rent, differ significantly from the Maryland law.

The new regulation differs from an earlier Technical Information Release issued by Internal Revenue last July, in which it was indicated that ground rents paid or accrued after July 22, 1961, would be disallowed as deductions on Federal Income Tax returns. The change in the effective date -- made to avoid discrimination between taxpayers whose ground rent payments fall due at different dates during the year -- means that all calendar year basis taxpayers will be able to deduct ground rent payments in full on their 1961 tax returns.

The Treasury made clear that it is imposing the change only because the Circuit Court decisions have made it necessary. Treasury will continue to support legislation (H.R. 8361) now pending before the Congress which would permit deduction of redeemable ground rent payments by home purchasers and tax the home builder or seller on his gain on the sale of the property subject to ground rent. Other bills pending before Congress do not have Treasury support because they propose inconsistant treatment for ground rent transactions in Maryland. They would permit the home purchaser to deduct ground rent payment as interest paid on a mortgage, but would not require the home builder or

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seller, to include, as in other mortgage transactions, the fair market value of the ground rent agreement as taxable gain at the time of sale. The Treasury objects to such legislation as giving special preference to builders in Maryland not available to builders elsewhere.

The Treasury issued the new regulation prohibiting future tax deduction of Maryland ground rents only after it became apparent that there was no prospect of a reversal of the Circuit Court decisions nor any immediate prospect of Congressional action.

The new regulation in no way affects the deductibility, for Federal Income Tax purposes, of Maryland real estate taxes imposed on ground rent property.

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highly desirable ~~and important~~ degree of flexibility in the ~~effective~~ conduct of day-to-day Treasury operations.

When the debt ceiling becomes too restrictive it forces the Treasury to obtain some relief through SUCH unusual and costly measures ~~such~~ as utilizing the borrowing power of certain Government agencies. THIS HAD TO BE ~~as was~~ done several times ~~during the period~~ from 1953 to 1958 ~~The Government was forced to take such steps~~ when the debt limit leeway became VIRTUALLY ~~practically~~ exhausted. There have also been other times, including a quite recent occasion, when the Treasury ~~in its own financing operations~~, because of a very low margin under the debt ceiling, has been forced to defer some borrowing when it would have been most advantageous.

~~In conclusion~~ I believe that a temporary increase in the debt limit to $300 billion is essential to the orderly and economical management of the Government's finances for the remainder of this fiscal year. I earnestly recommend its favorable consideration and prompt approval by this Committee.

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Treasury for the remainder of the fiscal year 1962. There is no leeway as far as market financing operations are concerned and there is no margin to handle the necessary fluctuations in trust fund investments which are carried on mainly through the use of special issues of public debt obligations.

The table I am submitting to the Committee shows our debt projections at semimonthly intervals for the remainder of the fiscal year 1962. The $2 billion increase we are requesting in the temporary limitation is the smallest increase which would meet essential requirements for the rest of this fiscal year. It will be noted from this table that a $300 billion ceiling will afford us a margin of only $2.1 billion in March and only $800 million in June, both of which margins are desirable and in line with past practice.

It is important to observe that for the purpose of these projections we have assumed that the Treasury's operating cash balance at the Federal Reserve Banks and in Treasury tax and loan accounts in commercial banks would hold steady throughout the periods covered at $3.5 billion. This is not a large ~~cash~~ balance in relation to our Government's tremendous cash requirements. It represents less than half of an average month's budget expenditures. It is equal to only a little more than one-third of one month's total cash payments to the public, not counting cash paid out to redeem public debt obligations. During the past twelve months the operating cash balance has been more often above than below $3.5 billion. It has averaged about $4.5 billion in that period, which has given us a

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STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
ON THE PUBLIC DEBT LIMIT
WEDNESDAY, FEBRUARY 28, 1962
~~(Executive Session)~~

Mr. Chairman and Members of the Committee: I am here today in support of H.R. 10050, approved by the House of Representatives on February 20, 1962, and providing for a temporary increase of $2 billion in the public debt limit to a total of $300 billion for the remainder of the current fiscal year. As you know, the President in his Budget Message has requested an increase to $308 billion for the fiscal year 1963. It will be necessary to request the Congress later in this session to approve the additional $8 billion before June 30, 1962.

The Treasury is confronted with a serious situation. Under present legislation we are operating under a debt ceiling of $298 billion. This is made up of the permanent limit of $285 billion plus a temporary increase of $13 billion enacted last June and expiring on June 30, 1962. In fixing the present ceiling at $298 billion the Congress gave consideration to the Treasury's estimate of a high point in this fiscal year of $295 billion in the amount of debt outstanding subject to the limitation, plus a margin of $3 billion to provide for flexibility in financing and for contingencies. When the request was made for the $298 billion ceiling last June we were basing the amount required on the estimated Budget deficit for fiscal year 1962, which at that time was $3.7 billion. Since then, mainly because of increased defense expenditures growing out of the Berlin tensions, the estimated Budget deficit for this fiscal year has grown to $7.0 billion.

This increase in the deficit has, in effect, used up our margin of flexibility so that the debt subject to the limit is now very close to the ceiling. This situation imposes serious operating difficulties on the

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TREASURY DEPARTMENT
Washington

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WEDNESDAY, FEBRUARY 28, 1962
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1/ Released by the Senate Finance Committee at the conclusion of Secretary Dillon's appearance on this date.

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That increase in the deficit has, in effect, used up our margin of flexibility. The debt subject to the limit is now very close to the ceiling. This situation imposes serious operating difficulties on the Treasury for the remainder of the fiscal year 1962. There is no leeway as far as market financing operations are concerned, nor is there a margin to handle the necessary fluctuations in trust fund investments which are carried on mainly through special issues of public debt obligations.

When the debt ceiling becomes too restrictive, it forces the Treasury to obtain some relief through such unusual and costly measures as utilizing the borrowing power of certain Government agencies. This had to be done several times from 1953 to 1958 when the debt limit leeway became virtually exhausted. There have also been other times, including a quite recent occasion, when the Treasury because of a very low margin under the debt ceiling, has been forced, in its own financing operations, to defer some borrowing when it would have been most advantageous.

The table I am submitting to the Committee shows our debt projections at semimonthly intervals for the remainder of the fiscal year 1962. The $2 billion increase we are requesting in the temporary limitation is the smallest increase that would meet essential requirements for the rest of this fiscal year. It will be noted from this table that a $300 billion ceiling will afford us a margin of only $2.1 billion in March, and only $800 million in June.

It is important to observe that for the purpose of these projections, we have assumed that the Treasury's operating cash balance at the Federal Reserve Banks and in Treasury tax and loan accounts in commercial banks would hold steady throughout the periods covered at $3.5 billion. This is not a large balance in relation to our Government's tremendous cash requirements. It represents less than half of an average month's budget expenditures. It is equal to a little more than one-third of one month's total cash payments to the public, not counting cash paid out to redeem public debt obligations. During the past twelve months, the operating cash balance has averaged about $4.5 billion -- giving us a highly desirable degree of flexibility in the conduct of day-to-day Treasury operations.

I believe that a temporary increase in the debt limit to $300 billion is essential to the orderly and economical management of the Government's finances for the remainder of this fiscal year. I earnestly recommend its favorable consideration and prompt approval by this Committee.

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## Actual and estimated public debt outstanding fiscal year 1962, with estimates based on constant operating cash balance of $3,500,000,000 (excluding free gold)

Estimates based on 1963 Budget Document

(In billions)

| Actual | Operating balance Federal Reserve Banks and depositaries (excluding free gold) | Public debt subject to limitation | Allowance to provide flexibility in financing and for contingencies | Total public debt limitation required |
|---|---|---|---|---|
| June 30, 1961 | $5.9 | $288.9 | | |
| July 15 | 3.3 | 289.1 | | |
| July 31 | 5.8 | 292.2 | | |
| Aug. 15 | 4.2 | 292.1 | | |
| Aug. 31 | 5.3 | 293.5 | | |
| Sept. 15 | 3.1 | 293.2 | | |
| Sept. 30 | 8.1 | 293.6 | | |
| Oct. 15 | 7.0 | 296.0 | | |
| Oct. 31 | 5.4 | 295.5 | | |
| Nov. 15 | 4.7 | 296.7 | | |
| Nov. 30 | 5.4 | 296.9 | | |
| Dec. 15 | 2.8 | 297.0 | | |
| Dec. 31 | 5.7 | 296.1 | | |
| Jan. 15, 1962 | 3.1 | 296.3 | | |
| Jan. 31 | 3.9 | 296.4 | | |
| Feb. 15 | 3.0 | 296.3 | | |
| **Estimated** | | | | |
| Feb. 28 | 3.5 | 295.3 | $3.0 | $298.3 |
| Mar. 15 | 3.5 | 297.9 | * 2.1 | 300.0 |
| Mar. 31 | 3.5 | 293.3 | 3.0 | 296.3 |
| Apr. 15 | 3.5 | 296.8 | 3.0 | 299.8 |
| Apr. 30 | 3.5 | 296.1 | 3.0 | 299.1 |
| May 15 | 3.5 | 296.3 | 3.0 | 299.3 |
| May 31 | 3.5 | 296.6 | 3.0 | 299.6 |
| June 15 | 3.5 | 299.2 | * .8 | 300.0 |
| June 30 | 3.5 | 294.0 | 3.0 | 297.0 |

* Temporarily the full $3 billion flexibility will not be available on these dates.

U.S. Treasury Dept.

Press Releases



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AUTHOR

Press Releases

TITLE



| DATE LOANED | BORROWER'S NAME | PHONE NUMBER |
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