U.S. Treasury Dept.

Press Releases

United States Savings Bonds Issued and Redeemed Through April 30, 1962

(Dollar amounts in millions - rounded and will not necessarily add to totals)

	Amount Issued 1/	Amount Redeemed 1/	Amount Outstanding 2/	% Outsta of Amt.I
MATURED				
Series A-1935 - D-1941	$ 5,003	$ 4,987	$ 16	.32
Series F & G-1941 - 1949	26,082	25,867	215	.82
UNMATURED				
Series E: 3/				
1941	1,811	1,500	311	17.17
1942	8,003	6,613	1,390	17.37
1943	12,886	10,703	2,183	16.94
1944	14,996	12,363	2,633	17.56
1945	11,734	9,455	2,279	19.42
1946	5,264	4,005	1,259	23.92
1947	4,950	3,574	1,376	27.80
1948	5,097	3,561	1,536	30.14
1949	5,006	3,400	1,606	32.08
1950	4,358	2,858	1,499	34.40
1951	3,774	2,432	1,342	35.56
1952	3,942	2,397	1,545	39.19
1953	4,447	2,612	1,834	41.24
1954	4,499	2,577	1,922	42.72
1955	4,667	2,625	2,042	43.75
1956	4,485	2,517	1,969	43.90
1957	4,203	2,242	1,961	46.66
1958	4,053	1,992	2,061	50.85
1959	3,783	1,764	2,020	53.40
1960	3,754	1,531	2,223	59.22
1961	3,756	1,059	2,697	71.81
1962	613	25	588	95.92
Unclassified	317	370	-53	-
Total Series E	120,397	82,175	38,222	31.75
Series H-1952 - 1962 3/	8,225	1,609	6,616	80.44
Total Series E and H	128,622	83,784	44,839	34.86
Series F and G:				
1950	2,428	1,947	4/ 481	19.81
1951	792	415	377	47.60
1952	211	102	109	51.66
Unclassified	-	43	-43	-
Total Series F and G	3,431	2,507	924	26.93
Series J and K-1952 - 1957	3,678	1,860	1,818	49.43
Total Series F, G, J and K	7,109	4,367	2,742	38.57
All Series: Total matured	31,085	30,854	231	.74
All Series: Total unmatured	135,732	88,151	47,581	35.06
All Series: Grand Total	166,817	119,005	47,812	28.66

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

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OFFICE OF FISCAL ASSISTANT SECRETARY

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE April 26, 1962

TREASURY TO REFUND $11.7 BILLION OF SECURITIES
MATURING MAY 15 AND JUNE 15

The Treasury is offering holders of Treasury securities maturing May 15 and June 15, 1962, aggregating $11,683 million, the right to exchange them for any of the following securities:

3-1/4% Treasury certificates of indebtedness to be dated May 15, 1962, and to mature May 15, 1963, at par;

3-5/8% Treasury notes to be dated May 15, 1962, and to mature February 15, 1966, at 99.80, to yield about 3.68 percent to maturity; or

3-7/8% Treasury bonds to be dated May 15, 1962, and to mature November 15, 1971, at 99.50, to yield about 3.94 percent to maturity.

Cash subscriptions for the new securities will not be received. The maturing issues eligible for exchange are as follows:

$5,509 million of 3% Treasury Certificates of Indebtedness of Series A-1962, dated May 15, 1961, maturing May 15, 1962;

$2,211 million of 4% Treasury Notes of Series E-1962, dated April 14, 1960, maturing May 15, 1962; and

$3,963 million of 2-1/4% Treasury Bonds of 1959-62, dated June 1, 1945, maturing June 15, 1962.

The subscription books will be open only on April 30 through May 2 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 May 2, will be considered as timely. The new securities will be delivered May 15, 1962. Interest on the 2-1/4% bonds which are exchanged will be paid through May 15, as indicated below. The new certificates of indebtedness will be available only in bearer form. The new notes and bonds will be made available in registered as well as bearer form.

Interest on the 3-1/4% certificates of indebtedness will be paid on November 1962, and May 15, 1963. Interest on the 3-5/8% notes will be paid on August 15, 1962, and semiannually thereafter on February 15 and August 15. Interest on the 3-7/8% bonds will be paid on November 15, 1962, and semiannually thereafter on May and November 15.

D-473

FOR RELEASE A. M. NEWSPAPERS, Tuesday, May 1, 1962.

April 30, 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 February 1, 19 and the other series to be dated May 3, 1962, which were offered on April 25, were ope at the Federal Reserve Banks on April 30. 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. details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 2, 1962		:	182-day Treasury bills maturing November 1, 1962	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv Annual Rate
High	99.310 a/	2.730%	:	98.570	2.829%
Low	99.303	2.757%	:	98.560	2.848%
Average	99.305	2.748% 1/	:	98.562	2.845% 1/

a/ Excepting two tenders totaling $1,800,000
19 percent of the amount of 91-day bills bid for at the low price was accepted
80 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	$ 29,773,000	$ 23,763,000	:	$ 3,008,000	$ 2,108,000
New York	1,732,485,000	786,915,000	:	1,110,672,000	496,236,000
Philadelphia	30,221,000	14,940,000	:	8,664,000	3,661,000
Cleveland	34,887,000	30,837,000	:	27,783,000	19,248,000
Richmond	14,556,000	12,006,000	:	7,547,000	2,547,000
Atlanta	14,927,000	13,612,000	:	3,772,000	3,772,000
Chicago	228,147,000	128,680,000	:	109,417,000	28,242,000
St. Louis	29,137,000	23,327,000	:	5,543,000	3,543,000
Minneapolis	24,286,000	17,856,000	:	7,026,000	2,426,000
Kansas City	33,099,000	28,249,000	:	7,290,000	6,340,000
Dallas	17,986,000	13,026,000	:	8,094,000	2,944,000
San Francisco	132,719,000	107,929,000	:	58,081,000	28,981,000
TOTALS	$2,322,223,000	$1,201,140,000 b/		$1,356,897,000	$600,048,000

b/ Includes $195,303,000 noncompetitive tenders accepted at the average price of 99.30
c/ Includes $46,501,000 noncompetitive tenders accepted at the average price of 98.562
1/ On a coupon issue of the same length and for the same amount invested, the return o these bills would provide yields of 2.81%, for the 91-day bills, and 2.93%, 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-474

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Minneapolis	24,286,000	17,856,000	:	7,026,000	2,426,000
Kansas City	33,099,000	28,249,000	:	7,290,000	6,340,000
Dallas	17,986,000	13,026,000	:	8,094,000	2,944,000
San Francisco	132,719,000	107,929,000	:	58,081,000	28,981,000
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D-474

become a regular purchaser in the future. That is the purpose of the Freedom Bond Drive.

Our staff representatives here in New York are ready, willing, and able to help you. We count on your support and we know you will all do what you can to ensure the continued success of the Savings Bonds Program.

oOo

wages for the systematic purchase of Savings Bonds. Last year such deductions -- which average $20 a month -- brought in roughly $2 billion, more than 50 per cent of our total sales of series E bonds. If we could add an additional million bond buyers to this list we could expect to sell an additional $250 million in bonds each year.

Business organizations can help on their payrolls by giving every individual a new opportunity to invest in his own and his country's security.

Banks can find new ways of bringing Savings Bonds to the attention of their customers.

Newspapers can find new ways to bring our story to the public through their editorial, news, financial, and advertising columns. Broadcasters and magazine officials can also increase their support.

With such volunteer help, we can extend to every American an invitation to buy an extra U. S. Savings Bond now and to builds our strength and vitality. Our meeting today deals with one aspect of the overall program.

The Savings Bonds Program plays a very important role in the effort to increase investment in the Nation's productivity by promoting savings and habits of thrift which are the essential elements of capital formation. Moreover, funds coming into the Treasury from savings bonds sales reduce the amounts which the Government must borrow from financial institutions, thus leaving more funds available fpr private investment. Widespread habits of thrift and saving also play their part in reducing inflationary pressures and to that extent increasing the productivity of investment. $250

One of the most important parts of the Savings Bonds Program is the payroll savings plan. At present some eight million Americans have regular amounts deducted from their

We are also hopeful that our industrialized allies will in the future assume an even greater share in the defense and development of the free world. Some of them are already increasing their defense procurement in the United States, with consequent benefit to our payments position.

Supplementing the policies I have mentioned, a number of arrangements have been undertaken with foreign countries, central banks and the International Monetary Fund to stem short-term capital flows that occur in response to temporary interest differentials and speculative rumors. Such measures to stabilize world currency markets are, of course, not a permanent cure for our problems, but they provide a breathing space to work out a lasting solution.

All of these steps, big and small, contribute to our ability to compete in a modern world. This complex of measures broad program to develop markets abroad for American products and to acquaint American businessmen with such opportunities. Also, the Export-Import Bank, together with the Foreign Credit Insurance Association, recently announced a new program for issuing guarangees against commercial credit risks and political risks for export transactions in terms of as long as five years. A number of promotional activities are being undertaken to encourage foreign tourists to travel in the United States. Of vital importance is the President's proposal to Congress to enact the Trade Expansion Act which would broaden the power of the President to negotiate a reduction of tariff barriers, particularly with the Common Market. The expectation that the United Kingdom will join the Common Market emphasizes the need for enactment of the President's proposal to assure American goods continued access to the expanding and integrating markets of Europe.

We are also

The United States has incurred a balance of payments deficit each calendar year except 1957 since the end of 1949. In that time our gold stocks have declined from over $24 1/2 billion to a present level of about $16 1/2 billion. Moreover, the bulk of this gold drain has occurred since 1957. While our balance of payments situation has recently shown considerable improvement, the fact is that the deficit continues. Here again major efforts are being made to meet the problem. All of the means which I have outlined by which we are attempting to increase productivity are also designed to alleviate our balance of payments difficulties, for, indeed, as I have pointed out, increased productivity itself is the principal means by which our basic payments deficit may be rectified. Additionally, a number of steps have been taken to increase U. S. exports. For example, the Commerce Department has a

broad program to

holding short-term rates up, thereby discouraging an outflow of short-term capital funds seeking higher rates abroad to the detriment of our balance of payments.

In summary, increased investment will help speed economic growth by increasing our productive capacity, and should help to reduce unemployment by providing more jobs as technological advance produces new markets and new demand. Moreover, such investment will promote price stability as production costs are lowered and productivity is increased.

Increased productivity is also essential in coping with our balance of payments problem. By making American products more competitive, we can expand our export trade surplus and reduce and eventually eliminate the deficit in our international payments.

of payments problem to offer artificial incentives for foreign investments by Americans except in the less developed areas of the world. Exception is made in such cases because of the overriding importance to our national security that steps be taken to enable the populations of less-developed areas to help themselves to meet their legitimate aspirations for a decent standard of living. It has become obvious that the world has grown too small for the relatively smaller populations of a few countries to enjoy unprecedented wealth while the majority of the world's people live amidst the squalor and disease that poverty engenders.

Our monetary policy also, to the extent practicable, is designed to keep long-range interest at reasonable levels, to maintain the availability of capital for domestic investment. At the same time, we have achieved some measure of success in

holding short-term

Other efforts to stimulate investment include encouragement to foreigners to retain their dollar holdings in the United States in forms which will add to domestic investment activity. In addition, foreign governments are being encouraged to remove existing restrictions on capital investments beyond their own borders.

Our tax proposals now before the Congress include measures to remove the existing tax incentives to invest abroad. These measures will help our balance of payments position, and at the same time will have a tendency to increase domestic investment.

While the Administration has no desire to restrict the ability of Americans to make foreign investment, we believe that there is no reason -- in view of the excellent European economic recovery since the war and in light of our balance

Other aspects of our national economic policy are also designed to contribute to a higher level of productivity. President Kennedy early this year presented to Congress a program for a balanced budget for fiscal 1963. A balanced budget should stimulate a flow of private investment into productive channels because it makes it unnecessary for the Government to tap the flow of private savings and credit available for such investment. The achievement of a balanced budget for fiscal 1963 will obviously depend upon the validity of estimates as to the pace of business recovery and the related increases in profits and earnings and the consequent Government revenues. While the various business indicators have of late been somewhat mixed, the most recent figures are decidedly more encouraging.

which have been used with success elsewhere in the industrialized world. In addition, the credit will provide far greater stimulus to investment per dollar of tax revenue lost than alternative proposals. The tax loss involved in the credit is, for example, estimated at $1.4 billion in the first year. But a change in depreciation rules which would add an equal amount to the profitability of investment -- the true measure of the amount of stimulation involved -- would cost $5.3 billion. That is why the Administration recommends that the investment credit become a permanent part of our law.

At the same time the Treasury has been undertaking -- on the highest priority basis -- the administrative updating of depreciation schedules. The existing depreciation schedules for tax purposes are badly out of date and fail to take account of the accellerating rapidity of technological advance. Improvements in each of these respects will assure our objectives of meeting the competition of foreign producers and stimulating domestic growth.

Other aspects

The need for an incentive to modernize was heavily underscored in discussions concerning the proposed price increase in the steel industry. Steel spokesmen emphasized -- as have other manufacturers -- the need for aid to accumulate additional capital to accomplish urgently needed modernization to enable the steel industry to meet foreign competition.

We expect to complete the revision of depreciation guidelines by late this spring or early summer. If the investment credit becomes law, these two measures will provide a significant increase in the volume of funds available to the steel industry and to all other industries for productive investment. While some spokesmen for industry have opposed the investment credit because they would prefer tax relief in the form of more accelerated depreciation, it is worth noting that the credit closely parallels investment incentive plans payments position, by giving our manufacturers the potential to outsell foreign producers at home and abroad. Increased growth and expanded exports will provide more jobs, and greater productivity will help to prevent inflation. Greater investment then, is essential to furthering all four of our basic national economic goals.

The most important Administration program for raising the level of productive investment is a twofold one. It consists of our proposal to provide a tax credit for new investment in machinery and equipment -- which is now before the Congress -- together with a revision of existing depreciation guidelines. These steps, taken together, will stimulate modernization of our productive equipment, and help to put our producers on a comparable footing with their foreign competitors in this respect.

The need for

ratio of productive investment to total output has been growing while ours has been declining. For example, our investment in machinery and equipment declined from 6.6 per cent of GNP in 1950 to only 5.5 per cent in 1960. In contrast, the Common Market countries increased their investment from 8.5 per cent to 10.2 per cent in the same period. This investment performance in good part is an important reason why our GNP -- if we make allowance for price changes -- grew only 29 per cent during the decade as against 44 per cent for France, 87 per cent for West Germany, 65 per cent for Italy, and 57 per cent for the Netherlands.

The Administration is making a major effort in a variety of ways to meet this problem. A higher level of investment in machinery and equipment will raise productive efficiency. Increased productivity will act directly to accelerate domestic economic growth, and indirectly will help our balance of

Our national economic policy is designed to achieve four basic goals. These are to reduce unemployment, to increase our rate of economic growth, to maintain price stability, and to eliminate the deficit in our international balance of payments -- with its accompanying loss of gold.

To achieve each of these goals, it is, as you are well aware, essential to encourage the formation and investment of private capital in industrial plant and equipment at a rate that is adequate to assure that the nation's productive facilities will meet on favorable terms the increasing competition from abroad both in domestic markets and in world markets. It is disturbing that our level of domestic investment -- as a percentage of total output -- is presently at a substantially lower rate than that of other major industrial nations of the free world. Furthermore, their have bought approximately $128 billion of E and H savings bonds. Today they hold a record total of nearly $45 billion. This amounts to 15 per cent of the entire public debt and over 20 per cent of the publicly held portion of that debt. Thus, it has proved a most effective way of encouraging individual citizens to share in the financial affairs of their government.

I think it is significant that the success of the program is due in large measure to volunteer undertakings and the patriotic support of hundreds of thousands of people under the leadership of people like yourselves. Because the Freedom Bond Drive will inevitably play its role in our economic endeavors, I shall attempt in the next few minutes to outline briefly some of the major objectives of United States economic policy and the Treasury Department's view of how this program complements other activities in meeting these objectives.

22

May 2, 1962

FOR RELEASE ON DELIVERY

REMARKS BY ROBERT H. KNIGHT
GENERAL COUNSEL OF THE TREASURY DEPARTMENT
BEFORE THE WESTCHESTER COUNTY SAVINGS BONDS CONFERENCE
PELHAM COUNTRY CLUB, PELHAM, N. Y.
MAY 2, 1962
(12:15 P.M.

Secretary Dillon has asked me to express his gratitude to you for assembling here today in support of the Nation's Freedom Bond Drive. It is vital to the success of this program that leaders of industry, finance and public media understand the role of the Savings Bonds Program in our national economy and exercise their leadership in its support. Since you are among the foremost of the leaders in these fields, your presence here today not only demonstrates your concern for the problems we face but also gives strong promise of our continuing success in meeting them.

The Savings Bonds Program has become an essential tool in the fulfillment of the economic policy of the United States. In the 21 years of its existence, some 100 million Americans

have bought

TREASURY DEPARTMENT
Washington

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Our national economic policy is designed to achieve four basic goals. These are to reduce unemployment, to increase our rate of economic growth, to maintain price stability, and to eliminate the deficit in our international balance of payments -- with its accompanying loss of gold.

To achieve each of these goals, it is, as you are well aware, essential to encourage the formation and investment of private capital in industrial plant and equipment at a rate that is adequate to assure that the nation's productive facilities will meet on favorable terms the increasing competition from abroad both in domestic markets and in world markets. It is disturbing that our level of domestic investment -- as a percentage of total output -- is presently at a substantially lower rate than that of other major industrial nations of the free world. Furthermore, their ratio of productive investment to total output has been growing while ours has been declining. For example, our investment in machinery and equipment declined from 6.6 per cent of GNP in 1950 to only 5.5 per cent in 1960. In contrast, the Common Market countries increased their investment from 8.5 per cent to 10.2 per cent in the same period. This investment performance in good part is an important reason why our GNP -- if we make allowance for price changes -- grew only 29 per cent during the decade as against 44 per cent for France, 87 per cent for West Germany, 65 per cent for Italy, and 57 per cent for the Netherlands.

The Administration is making a major effort in a variety of ways to meet this problem. A higher level of investment in machinery and equipment will raise productive efficiency. Increased productivity will act directly to accelerate domestic economic growth, and indirectly will help our balance of payments position, by giving our manufacturers the potential to outsell foreign producers at home and abroad. Increased growth and expanded exports will provide more jobs, and greater productivity will help to prevent inflation. Greater investment then, is essential to furthering all four of our basic national economic goals.

The most important Administration program for raising the level of productive investment is a twofold one. It consists of our proposal to provide a tax credit for new investment in machinery and equipment -- which is now before the Congress -- together with a revision of existing depreciation guidelines. These steps, taken together, will stimulate modernization of our productive equipment, and help to put our producers on a comparable footing with their foreign competitors in this respect.

The need for an incentive to modernize was heavily underscored in discussions concerning the proposed price increase in the steel industry. Steel spokesmen emphasized -- as have other manufacturers -- the need for aid to accumulate additional capital to accomplish urgently needed modernization to enable the steel industry to meet foreign competition.

We expect to complete the revision of depreciation guidelines by late this spring or early summer. If the investment credit becomes law, these two measures will provide a significant increase in the volume of funds available to the steel industry and to all other industries for productive investment. While some spokesmen for industry have opposed the investment credit because they would prefer tax relief in the form of more accelerated depreciation, it is worth noting that the credit closely parallels investment incentive plans which have been used with success elsewhere in the industrialized world. In addition, the credit will provide far greater stimulus to investment per dollar of tax revenue lost than alternative proposals. The tax loss involved in the credit is, for example, estimated at $1.4 billion in the first year. But a change in depreciation rules which would add an equal amount to the profitability of investment -- the true measure of the amount of stimulation involved -- would cost $5.3 billion. That is why the Administration recommends that the investment credit become a permanent part of our law.

At the same time the Treasury has been undertaking -- on the highest priority basis -- the administrative updating of depreciation schedules. The existing depreciation schedules for tax purposes are badly out of date and fail to take account of the rapidity of technological advance.

Other aspects of our national economic policy are also designed to contribute to a higher level of productivity.

President Kennedy early this year presented to Congress a program for a balanced budget for fiscal 1963. A balanced budget should stimulate a flow of private investment into productive channels because it makes it unnecessary for the Government to tap the flow of private savings and credit available for such investment. The achievement of a balanced budget for fiscal 1963 will obviously depend upon the validity of estimates as to the pace of business recovery and the related increases in profits and earnings and the consequent Government revenues. While the various business indicators have of late been somewhat mixed, the most recent figures are decidedly more encouraging.

Other efforts to stimulate investment include encouragement to foreigners to retain their dollar holdings in the United States in forms which will add to domestic investment activity. In addition, foreign governments are being encouraged to remove existing restrictions on capital investments beyond their own borders.

Our tax proposals now before the Congress include measures to remove the existing tax incentives to invest abroad. These measures will help our balance of payments position, and at the same time will have a tendency to increase domestic investment.

While the Administration has no desire to restrict the ability of Americans to make foreign investment, we believe that there is no reason -- in view of the excellent European economic recovery since the war and in light of our balance of payments problem to offer artificial incentives for foreign investments by Americans except in the less developed areas of the world. Exception is made in such cases because of the overriding importance to our national security that steps be taken to enable the populations of less-developed areas to help themselves to meet their legitimate aspirations for a decent standard of living. It has become obvious that the world has grown too small for the relatively smaller populations of a few industrialized countries to enjoy unprecedented wealth while the majority of the world's people live amidst the squalor and disease that poverty engenders.

Our monetary policy also, to the extent practicable, is designed to keep long-range interest at reasonable levels, to maintain the availability of capital for domestic investment. At the same time, we have achieved some measure of success in holding short-term rates up, thereby discouraging an outflow of short-term capital funds seeking higher rates abroad to the detriment of our balance of payments.

In summary, increased investment will help speed economic growth by increasing our productive capacity, and should help to reduce unemployment by providing more jobs as technological advance produces new markets and new demand. Moreover, such investment will promote price stability as production costs are lowered and productivity is increased.

Increased productivity is also essential in coping with our balance of payments problem. By making American products more competitive, we can expand our export trade surplus and reduce and eventually eliminate the deficit in our international payments.

The United States has incurred a balance of payments deficit each calendar year except 1957 since the end of 1949. In that time our gold stocks have declined from over $24-1/2 billion to a present level of about $16-1/2 billion. Moreover, the bulk of this gold drain has occurred since 1957. While our balance of payments situation has recently shown considerable improvement the fact is that the deficit continues. Here again major efforts are being made to meet the problem. All of the means which I have outlined by which we are attempting to increase productivity are also designed to alleviate our balance of payments difficulties, for, indeed, as I have pointed out, increased productivity itself is the principal means by which our basic payments deficit may be rectified. Additionally, a number of steps have been taken to increase U.S. exports. For example, the Commerce Department has a broad program to develop markets abroad for American products and to acquaint American businessmen with such opportunities.

Also, the Export-Import Bank, together with the Foreign Credit Insurance Association, recently announced a new program for issuing guarantees against commercial credit risks and political risks for export transactions in terms of as long as five years. A number of promotional activities are being undertaken to encourage foreign tourists to travel in the United States. Of vital importance is the President's proposal to Congress to enact the Trade Expansion Act which would broaden the power of the President to negotiate a reduction of tariff barriers, particularly with the Common Market. The expectation that the United Kingdom will join the Common Market emphasizes the need for enactment of the President's proposal to assure American goods continued access to the expanding and integrating markets of Europe.

We are also hopeful that our industrialized allies will in the future assume an even greater share in the defense and development of the free world. Some of them are already increasing their defense procurement in the United States, with consequent benefit to our payments position.

Supplementing the policies I have mentioned, a number of arrangements have been undertaken with foreign countries, central banks and the International Monetary Fund to stem short-term capital flows that occur in response to temporary interest differentials and speculative rumors. Such measures to stabilize world currency markets are, of course, not a permanent cure for our problems, but they provide a breathing space to work out a lasting solution.

All of these steps, big and small, contribute to our ability to compete in a modern world. This complex of measures builds our strength and vitality. Our meeting today deals with one aspect of the overall program.

The Savings Bonds Program plays a very important role in the effort to increase investment in the Nation's productivity by promoting savings and habits of thrift which are the essential elements of capital formation. Moreover, funds coming into the Treasury from savings bonds sales reduce the amounts which the Government must borrow from financial institutions, thus leaving more funds available for private investment. Widespread habits of thrift and saving also play their part in reducing inflationary pressures and to that extent increasing the productivity of investment.

One of the most important parts of the Savings Bonds Program is the payroll savings plan. At present some eight million Americans have regular amounts deducted from their salaries or wages for the systematic purchase of savings bonds. Last year such deductions -- which average $20 a month -- brought in roughly $2 billion, more than 50 per cent of our total sales of series E bonds. If we could add an additional million bond buyers to this list we could expect to sell an additional $250 million in bonds each year.

Business organizations can help by giving every individual on their payrolls a new opportunity to invest in his own and his country's security.

Banks can find new ways of bringing Savings Bonds to the attention of their customers.

Newspapers can find new ways to bring our story to the public through their editorial, news, financial, and advertising columns. Broadcasters and magazine officials can also increase their support.

With such volunteer help, we can extend to every American an invitation to buy an extra U. S. Savings Bond now and to become a regular purchaser in the future. That is the purpose of the Freedom Bond Drive.

Our staff representatives here in New York are ready, willing, and able to help you. We count on your support and we know you will all do what you can to ensure the continued success of the Savings Bonds Program.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

WITHHOLDING OF APPRAISEMENT ON
PORTLAND CEMENT

The Treasury Department is instructing customs field officers to withhold appraisement on portland cement, other than white, non-staining portland cement, from Norway, 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 1961 was approximately $1,462,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE
May 2, 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.

~~TEXT 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 ~~(16)~~ or less for the additional bills dated February 8, 1962 ~~(17)~~, (91 ~~(18)~~ days remaining until maturity date on August 9, 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 May 10, 1962 ~~(22)~~, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 10, 1962 ~~(23)~~. Cash

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, May 2, 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 May 10, 1962, in the amount of $1,700,422,000, as follows:

91-day bills (to maturity date) to be issued May 10, 1962, in the amount of $1,200,000,000, or thereabouts, representing an additional amount of bills dated February 8, 1962, and to mature August 9, 1962, originally issued in the amount of $600,080,000, the additional and original bills to be freely interchangeable.

182-day bills, for $600,000,000, or thereabouts, to be dated May 10, 1962, and to mature November 8, 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 Daylight Saving/~~Standard~~ time, Monday, May 7, 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

D-475

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 2, 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.

D-475

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 February 8, 1962, (91-days remaining until maturity date on August 9, 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 May 10, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 10, 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 fro any Federal Reserve Bank or Branch.

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FOR IMMEDIATE RELEASE May 4, 1962

PRELIMINARY RESULTS OF TREASURY'S CURRENT EXCHANGE OFFERING

Treasury officials indicated today their satisfaction with the preliminary result of the exchange offering completed on Wednesday, May 2. Initial figures show that abo $10,850 million, or 92.9%, of Treasury securities maturing May 15 and June 15, 1962, aggregating $11,683 million, have been exchanged for the three new issues included in the current exchange offering. Thus far about $833 million, or 7.1%, of the three maturing issues have not been exchanged and may be redeemed for cash.

Of the maturing securities held outside the Federal Reserve Banks and Government accounts, 8.8% have not been exchanged. The unexchanged part of the May 15 maturities amounts to 5.0% of the public holdings. The unexchanged part of the June 15 maturities amounts to 15.1% of those publicly held.

A breakdown of the subscriptions is as follows: (in millions)

	Exchanged for				
	May 15, 1963	Feb. 15, 1966	Nov. 15, 1971	Total	Total
Maturing Issues	3-1/4% Ctfs.	3-5/8% Notes	3-7/8% Bonds	Exchanged	Outstanding
May 15 3% ctfs.	$3,820	$1,136	$ 472	$ 5,428	$ 5,509
May 15 4% notes	896	820	280	1,996	2,211
June 15 2¼% bonds	1,824	1,155	447	3,426	3,963
Total	$6,540	$3,111	$1,199	$10,850	$11,683
Subscribers					
Federal Reserve Banks and Govt. accounts	$2,166	$ 14	$ 64	$ 2,244	
All others	4,374	3,097	1,135	8,606	
Total	$6,540	$3,111	$1,199	$10,850	

Final figures regarding the exchange will be announced after final reports are received from the Federal Reserve Banks.

D-476

TREASURY DEPARTMENT

WASHINGTON, D.C.

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D-476

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, May 8, 1962.

May 7, 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 February 8, 1[...] and the other series to be dated May 10, 1962, which were offered on May 2, were opene[d] at the Federal Reserve Banks on May 7. 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. [...] details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 9, 1962		:	182-day Treasury bills maturing November 8, 1962	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv Annual Rate
High	99.318	2.698%	:	98.585	2.799%
Low	99.312	2.722%	:	98.572	2.825%
Average	99.313	2.720% 1/	:	98.576	2.816% 1/

89 percent of the amount of 91-day bills bid for at the low price was accepted
2 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	$ 23,956,000	$ 13,681,000	:	$ 7,990,000	$ 1,490,000
New York	1,953,157,000	887,666,000	:	1,101,807,000	503,203,000
Philadelphia	28,917,000	11,894,000	:	9,587,000	2,393,000
Cleveland	25,741,000	16,866,000	:	25,331,000	20,131,000
Richmond	14,785,000	8,835,000	:	7,467,000	2,467,000
Atlanta	24,767,000	19,179,000	:	4,364,000	4,059,000
Chicago	270,409,000	131,264,000	:	116,769,000	28,209,000
St. Louis	27,388,000	19,778,000	:	6,528,000	4,528,000
Minneapolis	25,115,000	14,540,000	:	7,630,000	3,730,000
Kansas City	25,915,000	21,535,000	:	8,515,000	8,293,000
Dallas	19,152,000	13,902,000	:	8,720,000	3,220,000
San Francisco	84,936,000	44,959,000	:	47,167,000	19,900,000
TOTALS	$2,524,238,000	$1,204,099,000 a/		$1,351,875,000	$601,623,000

a/ Includes $201,968,000 noncompetitive tenders accepted at the average price of 99.3[...]
b/ Includes $49,962,000 noncompetitive tenders accepted at the average price of 98.57[...]
1/ On a coupon issue of the same length and for the same amount invested, the return o[n] these bills would provide yields of 2.78%, for the 91-day bills, and 2.90%, for th[e] 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[l] compounding if more than one coupon period is involved.

D-477

TREASURY DEPARTMENT

WASHINGTON, D.C.

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Atlanta	24,767,000	19,179,000	4,364,000	4,059,000
Chicago	270,409,000	131,264,000	116,769,000	28,209,000
St. Louis	27,388,000	19,778,000	6,528,000	4,528,000
Minneapolis	25,115,000	14,540,000	7,630,000	3,730,000
Kansas City	25,915,000	21,535,000	8,515,000	8,293,000
Dallas	19,152,000	13,902,000	8,720,000	3,220,000
San Francisco	84,936,000	44,959,000	47,167,000	19,900,000
TOTALS	$2,524,238,000	$1,204,099,000 a/	$1,351,875,000	$601,623,000 b/

a/ Includes $201,968,000 noncompetitive tenders accepted at the average price of 99.313
b/ Includes $49,962,000 noncompetitive tenders accepted at the average price of 98.576
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.78%, for the 91-day bills, and 2.90%, 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-477

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.

~~[illegible] 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 ~~(16)~~ or less for the additional bills dated February 15, 1962 ~~(17)~~, (91 ~~(18)~~ days remaining until maturity date on August 16, 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 May 17, 1962 ~~(22)~~, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 17, 1962 ~~(23)~~. Cash

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, May 9, 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 May 17, 1962 , in the amount of $ 1,800,406,000 , as follows:

91 -day bills (to maturity date) to be issued May 17, 1962 , in the amount of $ 1,200,000,000 , or thereabouts, representing an additional amount of bills dated February 15, 1962 , and to mature August 16, 1962 , originally issued in the amount of $ 600,423,000 , the additional and original bills to be freely interchangeable.

182 -day bills, for $ 600,000,000 , or thereabouts, to be dated May 17, 1962 , and to mature November 15, 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 Daylight Saving time, Monday, May 14, 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

2478

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 9, 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.

D-478

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 February 15,1962, (91-days remaining until maturity date on August 16, 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 May 17, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 17, 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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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 May 7, 1962	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1961, to May 7, 1962
United Kingdom	4,323,457	1,764,880	1,441,152	1,441,152
Canada	239,690	239,690	-	-
France	227,420	106,154	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	22,062	12,853	-
Japan	341,535	341,500	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	76,329	25,443	25,443
Italy	21,263	-	7,088	-
	5,482,509	2,685,008	1,599,886	1,577,654

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
WEDNESDAY, MAY 9, 1962

D-479

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, May 7, 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	245,483	Paraguay	871	-
British India	2,003,483	2,003,483	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 to May 7, 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
WEDNESDAY, MAY 9, 1962

D-479

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

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(In pounds)

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Belgium	38,559	22,062	12,853	-
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Germany	76,329	76,329	25,443	25,443
Italy	21,263	-	7,088	-
	5,482,509	2,685,008	1,599,886	1,577,654

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
WEDNESDAY, MAY 9, 1962

D-480

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 - April 1 - June 30, 1962

IMPORTS - April 1 - May 5, 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	9,960,324*	23,680,000	775,667	-	-	-	-
Belgian Congo	-	-	-	-	-	-	5,440,000	-
Belgium and Luxemburg (total)	-	-	-	-	-	-	7,520,000	7,520,000
Bolivia	5,040,000	2,836,539*	-	-	-	-	-	-
Canada	13,440,000	13,440,000	15,920,000	7,678,473*	66,480,000	53,673,379	37,840,000	23,246,592
Italy	-	-	-	-	-	-	3,600,000	-
Mexico	-	-	36,880,000	12,642,206	70,480,000	24,217,613	6,320,000	1,315,704
Peru	16,160,000	1,733,415	12,880,000	5,300,235	35,120,000	12,285,790	3,760,000	-
Un. So. Africa	14,880,000	14,880,000	-	-	-	-	-	-
Yugoslavia	-	-	15,760,000	917,078*	-	-	-	-
All other foreign countries (total)	6,560,000	6,560,000	6,080,000	194,583*	17,840,000	17,840,000	6,080,000	6,080,000

*Imports as of May 7, 1962

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
WEDNESDAY, MAY 9, 1962

D-480

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QUARTERLY QUOTA PERIOD - April 1 - June 30, 1962

IMPORTS - April 1 - May 5, 1962 (or as noted)

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	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	9,960,324*	23,680,000	775,667	-	-	-	-
Belgian Congo	-	-	-	-	-	-	5,440,000	-
Belgium and Luxemburg (total)	-	-	-	-	-	-	7,520,000	7,520,000
Bolivia	5,040,000	2,836,539*	-	-	-	-	-	-
Canada	13,440,000	13,440,000	15,920,000	7,678,473*	66,480,000	53,673,379	37,840,000	23,246,592
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Mexico	-	-	36,880,000	12,642,206	70,480,000	24,217,613	6,320,000	1,315,704
Peru	16,160,000	1,733,415	12,880,000	5,300,235	35,120,000	12,285,790	3,760,000	-
Un. So. Africa	14,880,000	14,880,000	-	-	-	-	-	-
Yugoslavia	-	-	15,760,000	917,078*	-	-	-	-
All other foreign countries (total)	6,560,000	6,560,000	6,080,000	194,583*	17,840,000	17,840,000	6,080,000	6,080,000

*Imports as of May 7, 1962

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
WEDNESDAY, MAY 9, 1962 D-481

The Bureau of Customs announced today the following preliminary figures showing the imports for consumption from January 1, 1962, to April 28, 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 April 28, 1962
Buttons.............	680,000	Gross	79,205
Cigars..............	160,000,000	Number	3,033,783
Coconut oil.........	358,400,000	Pound	55,042,589
Cordage.............	6,000,000	Pound	1,358,354
Tobacco.............	5,200,000	Pound	3,199,868

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
WEDNESDAY, MAY 9, 1962

D-481

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Cordage.............	6,000,000	Pound	1,358,354
Tobacco.............	5,200,000	Pound	3,199,868

Commodity	Period and Quantity		Unit of Quantity	Imports as of April 28, 1
Absolute Quotas:				
Butter substitutes, including butter oil, containing 45% or more butter fat................	Calendar Year 1962	1,200,000	Pound	Quota Fille
Cotton products, except cotton wastes, produced in any stage preceding the spinning into yarn............................	12 mos. from Sept. 11, 1961	1,000	Pound	Quota Fille
Peanuts, shelled, unshelled, blanched, salted, prepared or preserved (incl. roasted peanuts but not peanut butter)......	12 mos. from August 1, 1961	1,709,000	Pound	915,037
Tung Oil.2/.......................	Feb. 1- Oct. 31, 1962			
	Argentina	17,226,164	Pound	7,266,921
	Paraguay	2,963,370	Pound	-
	Other Countries	936,000	Pound	-

1/ Imports through May 7, 1962.

2/ Imports through May 1. Presidential Proclamation No. 3471 of May 1, 1962, terminated, effective May 2, the quota on tung oil.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
WEDNESDAY, MAY 9, 1962 D-482

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 April 28, 1962, inclusive, as follows:

Commodity	Period and Quantity		Unit of Quantity	Imports as of April 28, 1962
Tariff-Rate Quotas:				
Cream, fresh or sour..............	Calendar Year	1,500,000	Gallon	-
Whole Milk, fresh or sour.........	Calendar Year	3,000,000	Gallon	36
Cattle, 700 lbs. or more each (other than dairy cows)..........	April 1, 1962- June 30, 1962	120,000	Head	8,633
Cattle less than 200 lbs. each....	12 mos. from April 1, 1962	200,000	Head	11,762
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish..........	Calendar Year	28,571,433	Pound	13,335,533 1/
Tuna Fish.........................	Calendar Year	59,059,014	Pound	17,049,225
White or Irish potatoes:				
Certified seed..................	12 mos. from	114,000,000	Pound	43,096,710
Other...........................	Sept. 15, 1961	36,000,000	Pound	17,242,407
Walnuts...........................	Calendar Year	5,000,000	Pound	1,196,135
Stainless steel table flatware (table knives, table forks, table spoons)..................	Nov. 1, 1961- Oct. 31, 1962	69,000,000	Pieces	67,138,879

1/ Imports for consumption at the quota rate are limited to 14,285,716 pounds during the first six months of the calendar year.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
WEDNESDAY, MAY 9, 1962 D-482

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Cream, fresh or sour.............	Calendar Year	1,500,000	Gallon	-
Whole Milk, fresh or sour.........	Calendar Year	3,000,000	Gallon	36
Cattle, 700 lbs. or more each (other than dairy cows)..........	April 1, 1962- June 30, 1962	120,000	Head	8,633
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Other...........................	Sept. 15, 1961	36,000,000	Pound	17,242,407
Walnuts..........................	Calendar Year	5,000,000	Pound	1,196,135
Stainless steel table flatware (table knives, table forks, table spoons)..................	Nov. 1, 1961- Oct. 31, 1962	69,000,000	Pieces	67,138,879

1/ Imports for consumption at the quota rate are limited to 14,285,716 pounds during the first six months of the calendar year.

Commodity	Period and Quantity		Unit of Quantity	Imports as of April 28, 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 August 1, 1961	1,709,000	Pound	915,037
Tung Oil.2/......................	Feb. 1-Oct. 31, 1962			
	Argentina	17,226,164	Pound	7,266,921
	Paraguay	2,963,370	Pound	-
	Other Countries	936,000	Pound	-

1/ Imports through May 7, 1962.

2/ Imports through May 1. Presidential Proclamation No. 3471 of May 1, 1962, terminated, effective May 2, the quota on tung oil.

FOR IMMEDIATE RELEASE

WITHHOLDING OF APPRAISEMENT ON
LIGNIN VANILLIN

The Treasury Department is instructing customs field officers to withhold appraisement on lignin vanillin from Canada 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 1961 was approximately $770,000.

2cc: Mr. J. P. Hendrick

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 9, 1962

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all aspects of section 20 information will be required only as set forth in such regulations as are in existence on the first day of a taxable year.

Foreign Investment Companies (Sec. 15)

Further study of the foreign investment company provisions with representatives of such companies indicates that a number of minor technical amendments should be added to clarify and improve their application. For example, an increase should be made in the time permitted for reporting undistributed capital gains to the shareholders. Also, provision should be made for a pass-through of foreign tax credit to the shareholders for taxes paid by the foreign investment company.

Finally, with respect to the overall problem of foreign income, I believe that the hearings have shown more than ever the need for and the appropriateness of legislation to establish equity in the taxation of such income and I hope that the Committee will agree with this view and act accordingly.

Conclusion

In conclusion I wish to express our appreciation for the extended effort and careful consideration which your Committee and those testifying before it have already given to this legislation. As your consideration of the bill progresses, we are at your disposal to work further with you and your staffs in any way which you feel may be helpful to you.

first would add an averaging provision to the bill. This would be similar to that involved in the foreign trust provision, which permits an individual to reduce the amount of tax on a distribution by treating it as if it had been distributed to him over the period of his holding. The second would give the individual shareholder the alternative of limiting his tax under section 16 to a capital gains tax provided that at the same time he pays a tax equal to 52 percent of the earnings of the corporation less any foreign tax credit. The mechanics of this will work out so that the shareholder pays 64 percent overall (52 percent plus 25 percent of 48 percent) and is in exactly the same position as if he had had a domestic corporation which had paid its full 52 percent tax and which he had liquidated or sold at capital gain rates.

Information Requirements (Sec. 20)

Section 20 of the House bill needs some modification. For example, changes are needed to prevent the provision from applying to foreign corporations where there is no substantial U. S. share ownership. It should be made clear that U. S. officers and directors of foreign companies where there are no substantial U. S. owners need not supply information as to such companies. Likewise, it should be provided that domestic subsidiaries of foreign parent corporations will not be required to supply information about non-U. S. subsidiaries of such parent corporations. Finally, it should be made clear that as to

5. Reorganizing foreign corporate structures.--Taxpayers have indicated a desire to reorganize foreign corporate structures to accommodate to the legislation. I would like to state that it would be the policy of the Treasury to view sympathetically applications of taxpayers for rulings under section 367 which are required in the case of reorganizations involving foreign corporations. We contemplate that such advance rulings could be made available relatively freely, except in situations where such arrangements involve U. S. tax avoidance.

Liquidation Provision (Sec. 16)

In my prior testimony, I suggested reconsideration of section 16, dealing with the liquidation of or sale of stock in controlled foreign corporations. The hearings and discussions with private groups have confirmed our view that this provision should apply only to earnings for taxable years beginning after December 31, 1962. In addition, technical amendments are needed to coordinate more closely the treatment of sales of stock with the treatment on liquidation, including the allowance in appropriate circumstances of a foreign tax credit on sales of stock.

Further, we recommend that the impact of the section on individuals be mitigated. Unlike a corporate shareholder, whose tax will be limited to 52 percent less a foreign tax credit, the individual would be taxed at rates up to 91 percent and no foreign tax credit would be available. Two meritorious suggestions have been advanced. The

the mechanics for taxing constructive distributions to U. S. shareholders. Some of these changes would enable the losses of intervening foreign corporations to offset the gains of subsidiaries of such controlled foreign corporations.

3. Computation of earnings and profits.--Some concern has been expressed over the problem of computing the earnings and profits of a controlled foreign corporation that would be taxed to United States shareholders. We shall provide clear administrative regulations to assist taxpayers in computing the earnings and profits of foreign corporations in accordance with the rules which have been developed for domestic corporations. We will permit the foreign corporations earnings and profits to be computed with the benefit of elections similar to those which are available to domestic corporations.

4. Foreign currency restrictions and blocked income.--We are aware of problems taxpayers have with foreign currency restrictions and blocked income and provisions should be made to take care of these situations. These problems arise under present law in connection with branch operations and administrative guidelines have been developed in the past to deal with them. Problems under the House bill will be somewhat different than those dealt with in the past but it is believed that these matters can be handled satisfactorily through establishment of rules which are similar in nature.

B. Suggestions with Respect to Technique.

1. Modify definition of controlled foreign corporation.--We recommend modifying the definition of control so as to limit somewhat the coverage of foreign corporations classified as controlled foreign corporations. Perhaps the most effective way of doing this would be to provide that in determining whether more than 50 percent of a foreign corporation is owned by U. S. persons, only U. S. shareholders owning at least a 10 percent interest are to be counted. This would help eliminate, for example, the possibility of covering certain foreign corporations more than 50 percent of which may be owned by U. S. persons but where such ownership is so widely scattered that there is no U. S. group in effective control. Also, some modifications in the constructive ownership rules would seem desirable to achieve a more limited coverage. In particular, we would recommend that U. S. shareholders not be treated as the indirect owners of stock owned by a corporation in which they have an interest unless such interest is at least 10 percent.

2. Recognition of losses.--It would seem desirable to provide for greater recognition of losses of foreign subsidiaries than is effected by the House bill. Thus, some provision should be made for allowing losses of a foreign subsidiary in one year to offset its profits for another year which otherwise would be taxable under section 13. It would also seem desirable to make certain changes in

granted in appropriate circumstances, it will be necessary to restrict the companies qualifying to those having substantially all their income from such countries. In this connection, liberal rules as to source of income would be provided, so that such companies can market their products or purchase materials outside less developed countries and still qualify as operating in less developed areas. It should be pointed out that operating companies not qualifying for the less developed country reinvestment privilege would have restricted reinvestment privileges regardless of where their earnings were reinvested.

6. Nonapplicability to possessions of United States.--All corporations not incorporated under the laws of the United States are treated as foreign corporations for purposes of the Internal Revenue Code. As a consequence, corporations incorporated under the laws of possessions of the United States technically might be classified and treated as controlled foreign corporations under the present language of the bill. I would recommend, however, that such corporations not be treated as controlled foreign corporations, since the possessions of the United States, principally Puerto Rico and the Virgin Islands, are not truly foreign areas and present special problems under United States tax law which can best be handled outside of the context of the treatment of controlled foreign corporations.

for reinvestment in less developed countries to prevent a "pour over" from developed countries. Permitting the profits of tax haven companies in developed areas to escape U. S. taxation might unduly encourage the use of such tax haven companies and would be inconsistent with the basic policy of eliminating deferral for such operations. Our view is that the soundest approach would be to provide that there would be no reinvestment deduction for any tax haven profits except for dividends and interest derived from related companies carrying on an active trade or business within a less developed country. In this connection, I would suggest liberalizing the types of property which would qualify for the deduction as well as the conditions for reinvestment. For example, it may be that substantial minority stock interest should qualify even though the foreign corporation is not U. S. controlled. Consideration should also be given to allowing certain forms of debt obligations to qualify. The time within which investments must be made is much too restricted under section 13 and provision for a longer period would be desirable.

5. Liberalized rules for reinvestment of earnings of operating companies in less developed areas.--As a concomitant of my last suggestion, I would propose to liberalize the use to which earnings of operating companies in less developed countries may be put. I recommend that there be complete freedom as to the manner in which such earnings may be employed. To ensure that this privilege is only

and would be desirable from the standpoint of adding flexibility to ensure a fair application of the base company income provisions in the cases where it is needed. For example, a subsidiary incorporated in one country but conducting a sales operation in a second country may pay full taxes to the second country so that its place of incorporation does not result in the avoidance of taxes. Finally, there are certain shipping activities which present special problems for which exclusions should be developed.

3. Limit anti-diversification rule.--The House bill denies the use of deferral to new businesses in developed areas. Earnings invested in a trade or business that was not in operation on December 31, 1962 or that has not been in operation for 5 years would not qualify for deferral. Our preference that deferral be eliminated for all profits arising in developed areas, of course, would obviate the need for this provision. However, if deferral is not eliminated, the provision should be modified to make clear that it applies only with respect to the use of earnings from a business enjoying deferral and that it does not apply to the earnings of a new business started with fresh capital from the United States. Also, it may be desirable to indicate with more definiteness when a trade or business will be considered to have been conducted for a 5-year period or since December 31, 1962 by substantially the same interests.

4. Eliminate provision for reinvestment of developed area tax haven profits.--I renew my prior suggestion to modify the deduction

Thus, the omission under H. R. 10650 of income received by tax haven companies from related parties for rendering managerial, technical and other services outside of the country of their incorporation should be corrected since this is a significant form of tax haven income. Also, the coverage of tax haven sales income requires technical clarification to ensure its application to commissions of companies acting as sales agents.

On the other hand, the base company provisions of section 13 now treat certain kinds of <u>operating</u> income as "passive" income and, therefore, subject to taxation to the U. S. shareholder. Thus, rentals, royalties and interest may constitute active income to businesses such as shipping, leasing and financing companies. These types of income when they are the income of an operating company should not be treated as "passive income", and, accordingly, an appropriate exception should be made. However, this exception should not extend to tax haven situations, as for example, when rentals are received from a related party for the use of property outside of the country of incorporation of the recipient.

We would also suggest that there be an over-all exception to deal with situations where a controlled foreign corporation covered by the provisions of the bill has not been availed of to avoid taxes. Such a provision was contained in the revised draft of tax haven legislation which we submitted to the House Ways and Means Committee subjecting the current income generated by such rights to current U. S. taxation. This requires a determination of the amount of income generated by the use of patents, etc., an admittedly difficult problem. It would be more appropriate to handle this problem at the time the patent (or like property or right) is transferred abroad. Thus, it could be provided that the sale of such a U. S.-developed patent to a controlled foreign corporation would result in ordinary income, rather than capital gain, as frequently occurs under present law. A somewhat longer statute of limitations could be provided to ensure that the valuation of the patent at the time of transfer is a fair one. If the patent is licensed rather than sold, the transferee of the patent is under current law obligated to pay a fair royalty annually in return for the use of such patent. This approach should effectively eliminate any abuse in this area since all U. S. patents would be transferred abroad in arms-length transactions producing a full U. S. tax at the time of transfer or on an annual basis. It would make unnecessary the determination of the amount of income generated by the use of patents, etc., as under the House bill.

2. Refine coverage of foreign base company provisions.--The coverage of the foreign base company provisions of section 13 should be modified to ensure that all tax haven transactions are reached and also to avoid unintended coverage of non-tax haven situations.

the effectiveness of the systems in reducing the intolerable gap between dividends and interest received and those reported for tax purposes.

<u>Controlled Foreign Corporations (Sec. 13)</u>

A great deal of concern has been expressed by witnesses regarding the provisions of section 13 of the bill. Substantial modifications of this section are called for. We remain convinced that our basic proposal for the general elimination of deferral for operations in developed countries would be the most equitable and appropriate policy. Adoption of this principle would eliminate a great deal of the complexity of section 13. However, should the Committee decide to adopt an approach along the lines of the House bill, there are a number of changes that should be made. Our suggestions for such changes should not be taken as indicating any lessening of our support for the elimination of deferral. It merely seemed desirable to indicate the changes that would be needed to improve the working of section 13 should this type of approach be preferred by the Committee.

A. <u>Suggestions as to Income Covered in Section 13.</u>

1. <u>Change approach to income from U. S. patents, copyrights, etc.</u>--The House bill deals with the problem of U. S.-developed patents, copyrights, and exclusive formulas and processes, which are exploited abroad free of U. S. tax by controlled foreign corporations, by

standard deduction in computing the allowable amount of a quarterly refund so that overwithholding can result if the taxpayer's itemized deductions exceed the standard deduction. In order to provide prompt refund of all significant overwithholding, we would recommend extension of the refund allowance provision to permit an individual to take into account his itemized deductions.

We also recommend two changes to eliminate technical problems which have been called to our attention. The first is to eliminate withholding on dividends in kind which consist of distributions of stock of another corporation.

Second, it has been pointed out to us that some corporations, for instance, some railroads with little or no tax liability, may not be able to file their final tax returns until many months after the close of the taxable year. Such corporations would be delayed in obtaining a refund of amounts withheld from their interest and dividends since under the House bill refund for the fourth quarter of the taxable year can only be obtained upon the filing of the final return for such year. This problem can be solved by permitting a quarterly refund for the fourth quarter in the case of a corporate taxpayer if the refund is expected to exceed its total tax liability for the year.

These changes will reduce inconvenience both to payers and recipients of interest and dividends and at the same time will maintain

Regarding withholding in the insurance industry, the exemption certificate system should continue to apply to interest on proceeds of life insurance left on deposit with the insurance company but should not apply to interest on dividend accumulations on unmatured life insurance policies. In the case of interest on these dividend accumulations there would appear to be no need for exemption certificates because the interest is customarily left with the insurance company and not used by the policyholder to meet current living expenses. In addition, the insurance companies, who recommended this change, have testified that the amounts involved are normally small and an exemption certificate procedure would be impractical to apply because of the millions of accounts.

Provision should also be made for exemption certificates to remain valid until revoked by the filer instead of requiring annual refiling. This would make the House exemption certificate system easier to administer by the paying institutions and would also reduce the number of forms which non-taxable persons would be required to file.

There has been considerable exaggeration of the amount of over-withholding that could occur under the House bill. However, there may be some situations where the quarterly refund allowance is not sufficient to correct overwithholding on a taxpayer with large itemized deductions. The House bill takes into account only the advertising to be carried on free of accounting difficulties in keeping track of a large number of small items without disturbing the curtailment of abuses which the bill provides.

In addition, it was never our intention that advertising devices such as display racks and advertising signs, which are provided for use in business and which are not items of personal use, should be included under the gift provision. We would recommend that the Committee report contain language clearly indicating that such items are not business gifts under section 4 of the bill.

Withholding on Interest and Dividends (Sec. 19)

We have continued our efforts to work out a withholding system that would be as efficient as possible and at the same time would minimize any possible hardship to the recipients of dividends and interest. We would like now to recommend certain improvements in the provisions for exemption certificates.

The exemption certificate system contained in the House bill applies to savings account interest, certain interest paid by insurance companies, dividends, and patronage dividends, so that there will be no withholding on such amounts received by individuals who owe no tax. We would recommend that the exemption certificate procedure be extended to dividend income of other non-taxable recipients. For example, this would include foreign, state and local governments, and tax-exempt organizations, such as colleges and universities, churches, and pension trusts.

Gains from the Disposition of Depreciable Property (Sec. 14)

Some witnesses expressed concern that section 14 may require recognition of gain despite the fact that the taxpayer's method of accounting today does not require such recognition. The example given was the normal retirement of property depreciated in a multiple asset account. Section 1231 today does not require the recognition of gain or loss at the time of such retirement as long as the taxpayer's method of accounting, in accordance with Treasury regulations, clearly reflects income. If the taxpayer's method of composite accounting complies with the Treasury regulations, those regulations will similarly permit nonrecognition of gain or loss under section 14. A statement in your Committee's report, illustrating this point, should allay any concern in this regard.

Expense Accounts (Sec. 4)

In order to ease the accounting problems of concerns supplying articles for use in novelty advertising, we recommend a special exclusion from the $25 business gift limit in the House bill. Such exclusion would permit the deduction of items costing a modest amount, such as up to two or three dollars, regardless of the total gifts to any one customer over the year. It would apply to each gift item on which the name of the advertiser is clearly and permanently imprinted and which is one of a number of identical items distributed generally by the advertiser. Such an exclusion would permit novelty the bill be amended to provide for a three-year carryback of unused investment credits. Of course, such unused credits should not be carried back to taxable years before those for which the credit is effective. Such a provision would result in greater cash flow benefits during periods of recession when earnings are low or at other times when it may be especially needed by particular businesses.

We would also recommend that livestock be excluded from the credit. The House decided in section 14 that gain on the sale of livestock which reflects prior depreciation should continue to be treated as capital gain rather than ordinary income. We feel strongly that property not subject to the recapture of excessive depreciation should not be granted the investment credit.

A number of witnesses raised questions as to whether specific items were eligible for the credit or would be disqualified as structural components of a building. Some of the items mentioned were refrigerator cases used in the grocery business and testing equipment used in the aerospace industry. The House Ways and Means Committee Report indicates that machinery and equipment are to be considered eligible property even though considered a part of the building under local law. This means that such items as refrigerator cases and testing equipment would qualify for the credit even though affixed to a building. Appropriate language in your Committee's report could provide further clarification in this area.

Statement of the Honorable Douglas Dillon
Secretary of the Treasury
Before the Committee on Finance of the United States Senate
on H. R. 10650, the Revenue Act of 1962
May 10, 1962, 10:00 A.M. DST

Mr. Chairman, I appreciate this additional opportunity to discuss with you the proposed Revenue Act of 1962. I would also like to suggest some changes in the bill. We have followed closely the suggestions, objections and recommendations which have been offered in the extensive testimony which has been presented to your Committee since April 2nd. As the hearings have proceeded we have held numerous meetings with persons interested in the bill, including some of the witnesses who appeared before the Committee as well as representatives of other interested groups. We have worked with them to make technical improvements and to evaluate possible policy changes. Today I should like to outline a number of changes which are responsive to matters raised during the hearings and which we believe would improve the bill. These changes seem to us to be clearly called for. Undoubtedly further discussion in Executive session will reveal other ways in which the bill can be improved. It is our desire to work closely with you and the staff of the Joint Committee to produce the most effective, the fairest, and the most practicable bill that can be developed.

Investment Credit (Sec. 2)

The language of section 2 of the House bill appears to present no serious technical problems. However, we would recommend that

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the bill be amended to provide for a three-year carryback of unused investment credits. Of course, such unused credits should not be carried back to taxable years before those for which the credit is effective. Such a provision would result in greater cash flow benefits during periods of recession when earnings are low or at other times when it may be especially needed by particular businesses.

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subjecting the current income generated by such rights to current U. S. taxation. This requires a determination of the amount of income generated by the use of patents, etc., an admittedly difficult problem. It would be more appropriate to handle this problem at the time the patent (or like property or right) is transferred abroad. Thus, it could be provided that the sale of such a U. S.-developed patent to a controlled foreign corporation would result in ordinary income, rather than capital gain, as frequently occurs under present law. A somewhat longer statute of limitations could be provided to ensure that the valuation of the patent at the time of transfer is a fair one. If the patent is licensed rather than sold, the transferee of the patent is under current law obligated to pay a fair royalty annually in return for the use of such patent. This approach should effectively eliminate any abuse in this area since all U. S. patents would be transferred abroad in arms-length transactions producing a full U. S. tax at the time of transfer or on an annual basis. It would make unnecessary the determination of the amount of income generated by the use of patents, etc., as under the House bill.

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3. Limit anti-diversification rule.--The House bill denies the use of deferral to new businesses in developed areas. Earnings invested in a trade or business that was not in operation on December 31, 1962 or that has not been in operation for 5 years would not qualify for deferral. Our preference that deferral be eliminated for all profits arising in developed areas, of course, would obviate the need for this provision. However, if deferral is not eliminated, the provision should be modified to make clear that it applies only with respect to the use of earnings from a business enjoying deferral and that it does not apply to the earnings of a new business started with fresh capital from the United States. Also, it may be desirable to indicate with more definiteness when a trade or business will be considered to have been conducted for a 5-year period or since December 31, 1962 by substantially the same interests.

4. Eliminate provision for reinvestment of developed area tax haven profits.--I renew my prior suggestion to modify the deduction

for reinvestment in less developed countries to prevent a "pour over" from developed countries. Permitting the profits of tax haven companies in developed areas to escape U. S. taxation might unduly encourage the use of such tax haven companies and would be inconsistent with the basic policy of eliminating deferral for such operations. Our view is that the soundest approach would be to provide that there would be no reinvestment deduction for any tax haven profits except for dividends and interest derived from related companies carrying on an active trade or business within a less developed country. In this connection, I would suggest liberalizing the types of property which would qualify for the deduction as well as the conditions for reinvestment. For example, it may be that substantial minority stock interest should qualify even though the foreign corporation is not U. S. controlled. Consideration should also be given to allowing certain forms of debt obligations to qualify. The time within which investments must be made is much too restricted under section 13 and provision for a longer period would be desirable.

5. Liberalized rules for reinvestment of earnings of operating companies in less developed areas.--As a concomitant of my last suggestion, I would propose to liberalize the use to which earnings of operating companies in less developed countries may be put. I recommend that there be complete freedom as to the manner in which such earnings may be employed. To ensure that this privilege is only

granted in appropriate circumstances, it will be necessary to restrict the companies qualifying to those having substantially all their income from such countries. In this connection, liberal rules as to source of income would be provided, so that such companies can market their products or purchase materials outside less developed countries and still qualify as operating in less developed areas. It should be pointed out that operating companies not qualifying for the less developed country reinvestment privilege would have restricted reinvestment privileges regardless of where their earnings were reinvested.

6. Nonapplicability to possessions of United States.--All corporations not incorporated under the laws of the United States are treated as foreign corporations for purposes of the Internal Revenue Code. As a consequence, corporations incorporated under the laws of possessions of the United States technically might be classified and treated as controlled foreign corporations under the present language of the bill. I would recommend, however, that such corporations not be treated as controlled foreign corporations, since the possessions of the United States, principally Puerto Rico and the Virgin Islands, are not truly foreign areas and present special problems under United States tax law which can best be handled outside of the context of the treatment of controlled foreign corporations.

B. Suggestions with Respect to Technique.

1. Modify definition of controlled foreign corporation.--We recommend modifying the definition of control so as to limit somewhat the coverage of foreign corporations classified as controlled foreign corporations. Perhaps the most effective way of doing this would be to provide that in determining whether more than 50 percent of a foreign corporation is owned by U. S. persons, only U. S. shareholders owning at least a 10 percent interest are to be counted. This would help eliminate, for example, the possibility of covering certain foreign corporations more than 50 percent of which may be owned by U. S. persons but where such ownership is so widely scattered that there is no U. S. group in effective control. Also, some modifications in the constructive ownership rules would seem desirable to achieve a more limited coverage. In particular, we would recommend that U. S. shareholders not be treated as the indirect owners of stock owned by a corporation in which they have an interest unless such interest is at least 10 percent.

2. Recognition of losses.--It would seem desirable to provide for greater recognition of losses of foreign subsidiaries than is effected by the House bill. Thus, some provision should be made for allowing losses of a foreign subsidiary in one year to offset its profits for another year which otherwise would be taxable under section 13. It would also seem desirable to make certain changes in

the mechanics for taxing constructive distributions to U. S. shareholders. Some of these changes would enable the losses of intervening foreign corporations to offset the gains of subsidiaries of such controlled foreign corporations.

3. Computation of earnings and profits.--Some concern has been expressed over the problem of computing the earnings and profits of a controlled foreign corporation that would be taxed to United States shareholders. We shall provide clear administrative regulations to assist taxpayers in computing the earnings and profits of foreign corporations in accordance with the rules which have been developed for domestic corporations. We will permit the foreign corporations earnings and profits to be computed with the benefit of elections similar to those which are available to domestic corporations.

4. Foreign currency restrictions and blocked income.--We are aware of problems taxpayers have with foreign currency restrictions and blocked income and provisions should be made to take care of these situations. These problems arise under present law in connection with branch operations and administrative guidelines have been developed in the past to deal with them. Problems under the House bill will be somewhat different than those dealt with in the past but it is believed that these matters can be handled satisfactorily through establishment of rules which are similar in nature.

5. <u>Reorganizing foreign corporate structures.</u>--Taxpayers have indicated a desire to reorganize foreign corporate structures to accommodate to the legislation. I would like to state that it would be the policy of the Treasury to view sympathetically applications of taxpayers for rulings under section 367 which are required in the case of reorganizations involving foreign corporations. We contemplate that such advance rulings could be made available relatively freely, except in situations where such arrangements involve U. S. tax avoidance.

<u>Liquidation Provision (Sec. 16)</u>

In my prior testimony, I suggested reconsideration of section 16, dealing with the liquidation of or sale of stock in controlled foreign corporations. The hearings and discussions with private groups have confirmed our view that this provision should apply only to earnings for taxable years beginning after December 31, 1962. In addition, technical amendments are needed to coordinate more closely the treatment of sales of stock with the treatment on liquidation, including the allowance in appropriate circumstances of a foreign tax credit on sales of stock.

Further, we recommend that the impact of the section on individuals be mitigated. Unlike a corporate shareholder, whose tax will be limited to 52 percent less a foreign tax credit, the individual would be taxed at rates up to 91 percent and no foreign tax credit would be available. Two meritorious suggestions have been advanced. The first would add an averaging provision to the bill. This would be similar to that involved in the foreign trust provision, which permits an individual to reduce the amount of tax on a distribution by treating it as if it had been distributed to him over the period of his holding. The second would give the individual shareholder the alternative of limiting his tax under section 16 to a capital gains tax provided that at the same time he pays a tax equal to 52 percent of the earnings of the corporation less any foreign tax credit. The mechanics of this will work out so that the shareholder pays 64 percent overall (52 percent plus 25 percent of 48 percent) and is in exactly the same position as if he had had a domestic corporation which had paid its full 52 percent tax and which he had liquidated or sold at capital gain rates.

Information Requirements (Sec. 20)

Section 20 of the House bill needs some modification. For example, changes are needed to prevent the provision from applying to foreign corporations where there is no substantial U. S. share ownership. It should be made clear that U. S. officers and directors of foreign companies where there are no substantial U. S. owners need not supply information as to such companies. Likewise, it should be provided that domestic subsidiaries of foreign parent corporations will not be required to supply information about non-U. S. subsidiaries of such parent corporations. Finally, it should be made clear that as to all aspects of section 20 information will be required only as set forth in such regulations as are in existence on the first day of a taxable year.

Foreign Investment Companies (Sec. 15)

Further study of the foreign investment company provisions with representatives of such companies indicates that a number of minor technical amendments should be added to clarify and improve their application. For example, an increase should be made in the time permitted for reporting undistributed capital gains to the shareholders. Also, provision should be made for a pass-through of foreign tax credit to the shareholders for taxes paid by the foreign investment company.

Finally, with respect to the overall problem of foreign income, I believe that the hearings have shown more than ever the need for and the appropriateness of legislation to establish equity in the taxation of such income and I hope that the Committee will agree with this view and act accordingly.

Conclusion

In conclusion I wish to express our appreciation for the extended effort and careful consideration which your Committee and those testifying before it have already given to this legislation. As your consideration of the bill progresses, we are at your disposal to work further with you and your staffs in any way which you feel may be helpful to you.

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY May 10, 1962

REMARKS BY ROBERT H. KNIGHT,
GENERAL COUNSEL OF THE TREASURY DEPARTMENT,
BEFORE THE ASSOCIATION OF GENERAL COUNSEL
PONTE VEDRA CLUB, PONTE VEDRA BEACH, FLORIDA
MAY 10, 1962, 12:30 P.M., EST

I was delighted for a number of reasons to accept Mr. Rittenhouse's very kind invitation to participate with you today in the Spring Meeting of your Association and to discuss the current status of the Administration's tax legislative program. As a private practitioner, I shared with you the same background of general corporate practice and, indeed, have shared with some of you the same clients. Since the Administration's tax program is reaching a critical stage in its consideration by the Congress, this is also for me a most opportune time to attempt to describe some of the more important tax proposals and some of the reasons that lie behind them. When your clients attempt to divine and evaluate the public interest contained in these proposals, and weigh that public interest against their own where the two may not be consistent, they must inevitably rely in large measure upon your advice and counsel. Accordingly, no segment of private enterprise can have a more forceful impact upon the reception which the proposals will ultimately be given by the Congress.

I hope, therefore, that none of you will content yourselves with the brief summary that I can give in this session, but that you will independently analyze and evaluate these proposals and make your conclusions known.

Since any tax policy must be formulated with a view to its effect on the economy, let us first look at our economic policy.

Our national economic policy is designed to achieve four basic goals. These are: To reduce unemployment, to increase our rate of economic growth, to maintain price stability, and to eliminate the deficit in our international balance of payments, with its accompanying loss of gold.

The goal which is in many respects the most critical today is the last, that is, to eliminate the deficit in our international balance of payments. As you may know, with the exception of 1957, when the Suez crisis swelled exports, we have incurred a balance of payments deficit in each year since the end of 1949. In the same period of time, our gold reserves have declined from $24-1/2 billion to around $16-1/2 billion, most of the drain (some $6 billion) occurring in the past four years. We have, moreover, incurred this deficit despite the fact that in the same period our exports of goods and services substantially exceeded our imports. Despite our excellent export trade surplus, however, it has not been large enough in recent years to offset the combined impact on our balance of payments of our private investment in other countries, the cost of our overseas defense spending and that small portion of our foreign aid expenditures which contributes to the deficit. We have, of course, no intention or desire to inhibit the free flow of private investment capital between nations. Moreover, it is plain that necessity requires and the public demands that we maintain defenses abroad as well as at home which are adequate to meet any threat of aggression against ourselves and our allies of the Free World. It is equally clear that the world has grown too small to permit a few of the industrialized nations with relatively smaller populations to enjoy unprecedented wealth while the greater portion of the Free World with its substantially larger populations lives in the squalor and disease that poverty engenders. Our own survival depends upon our contributing our share to enable the less-developed nations to help themselves to provide their people with the hope and with the means of realizing their legitimate aspirations for a decent standard of living. Clearly, if we are to continue these essential activities, we must find a solution to our balance of payments problem.

We are attacking this problem on many fronts. Any long-range solution, however, must depend on increasing our export trade surplus. To do this, we must keep down the cost and price of our goods, and keep their relative quality at the highest levels. This in turn requires that industry be enabled to take prompt advantage of technological advances in the development of the most modern and efficient industrial plant and equipment. Achieving these goals will help to relieve another problem -- our present intolerably high level of unemployment. The Administration's tax proposals are designed to help in meeting these problems.

The genesis of the tax bill now pending before the Congress is contained in the President's Tax Message of April 20, 1961, to the Congress. The general objectives of the President's tax proposals as set forth in the Message are to serve the basic economic goals I have outlined and "to eliminate to the extent possible economic injustice within our own society -- and to maintain the level of revenues ..." In the Message, the President pointed to the need for long-range tax reform but limited his immediate proposals to "urgent and obvious tax adjustments needed to fulfill" these aims. At the same time the President asked the Treasury to undertake the research and preparation of a comprehensive tax reform program which is now scheduled to be presented to the Congress toward the end of the current session.

Beginning on May 3, 1961, the Administration's tax proposals were elaborated by Secretary Dillon and other Treasury officials appearing before the House Ways and Means Committee throughout the balance of the First Session of the 87th Congress and the first three months of the current Second Session. During that period the Ways and Means Committee also heard some 217 witnesses representing affected sectors of the public or particular points of view. The record of these hearings, including numerous statements filed with the Committee, covers over 3,600 pages. In the light of the President's proposals, the testimony adduced, and the desires of the Committee, Treasury technicians worked with those of the Committee staff and the staff of the Joint Committee on Internal Revenue Taxation, headed by Mr. Colin Stam, to prepare specific draft legislation. The Committee favorably reported a bill on March 16, 1962. The bill, H. R. 10650, is entitled, "The Revenue Act of 1962."

Basically, the bill contains two categories of proposals. The first category is embodied in the so-called investment incentive tax credit. It is designed to give a tax preference to those who invest in productive machinery and equipment. These provisions are intended to meet the need for modernization of our plant and equipment, to increase our ability to compete both at home and abroad with foreign goods in price and quality, and thereby to alleviate our balance of payments deficit and to contribute to a healthy rate of growth of the economy as a whole.

The balance of the bill is designed to eliminate certain more glaring defects and inequities in the present tax law which would be remedied at this time to provide revenue gains to offset the revenue loss involved in the first proposal.

After the bill was reported, it went to the Rules Committee of the House where the Chairman of the Ways and Means Committee sought a rule which would permit the bill to be considered by the House as a "package" without allowing the addition of amendments on the floor of the House. Such a rule is customary in the case of tax bills in order to provide for their orderly consideration and to prevent the bill being burdened by hastily or ill-considered amendments. During the hearings by the Rules Committee, it became apparent that there was considerable sentiment in the House for a so-called balanced bill: i.e., one in which the loss of revenue attributable to the investment credit would be at least offset by the increase in revenues attributable to the other provisions. The original Administration proposals would have met this test but changes thought desirable by the Committee had resulted in an unbalanced bill. To restore the balance, the House Ways and Means Committee reconvened, reduced the tax credit by 1 per cent and generally tightened certain other provisions of the bill. This tightening process achieved the objective of balancing the bill but resulted in some features which the Administration felt would diminish the effectiveness of the credit.

As amended, the bill was passed by the House with a vote of 219 to 196 on March 29, and hearings began in the Senate before the Senate Finance Committee on April 2. That Committee has now concluded five weeks of public hearings during which over 200 witnesses testified. It is now proceeding in Executive Session to finish its consideration of the House Bill.

With certain significant omissions, H. R. 10650, as passed by the House, incorporates the bulk of the initial program recommended by the President. The Treasury Department is urging the Senate to restore some of the Administration's original proposals as well as to make certain changes in the bill and hopes that these improvements if enacted by the Senate will survive the legislative conference procedures before final enactment.

H. R. 10650 in its present form contains 21 sections, 19 of which are of substantive content.

Section 2 sets forth the so-called investment incentive tax credit I referred to and provides in general for a credit of 7 per cent of investments made in the United States by the taxpayer during the taxable year in depreciable personal and real property, other than land and buildings. I will discuss this more specifically in a few minutes.

Section 3 would permit deduction of certain lobbying expenses. Treasury is opposed to this provision.

Section 4 attempts to tighten the law respecting the deductibility of business traveling and entertainment expenses. The Treasury is urging further tightening.

Section 5 relates to distributions in kind by foreign corporations to domestic corporations. Basically, the bill treats such distributions for tax purposes as ordinary income to the U. S. taxpayer at the fair market value of the property distributed rather than at the cost of the property to the distributing foreign corporation. Exceptions are made in the case of property purchased with U. S. earnings.

Section 6 merely clarifies the rules for allocating income in the case of intercompany sales between domestic corporations and their foreign affiliates.

Section 7 would tax U. S. shareholders of foreign personal holding companies on so-called passive income earned by such companies when that income is at least 20 per cent of its total earnings. The present law provides that such a tax be imposed when the passive income is at least 60 per cent of the foreign personal holding companies' earnings. Passive income generally includes rents, royalties, investment income and the like as distinguished from earnings directly attributable to services rendered or to the conduct of a trade or business.

Section 8 reduces the deductions attributable to adding income of mutual savings banks and similar institutions to their bad debt reserves, and generally tightens up other tax provisions relating to such institutions, all with a view to reducing the competitive tax advantage they presently enjoy in relation to banks and commercial lending institutions. This provision only goes part of the way to achieving competitive equality, the objective set forth in the President's recommendations.

Section 9 relates to distributions by foreign trusts to U. S. beneficiaries, making the beneficiaries taxable on income which has been accumulated abroad to avoid U. S. taxation under loopholes existing in present law.

Section 10 extends to a degree general corporate tax rules to mutual and reciprocal fire and casualty insurance companies, thus placing them more nearly on a basis of equality with their stock-owned counterparts. The Ways and Means Committee, by way of compromise, retained modified preferences, some of which the Treasury is now opposing before the Senate Finance Committee.

Section 11, the so-called "gross-up" provision, amends the rules relating to the treatment of foreign tax credits allowable to domestic corporations on dividends from foreign subsidiaries to prevent the domestic parent from in effect receiving both a deduction and a credit for the foreign taxes. The change will result in assuring that taxes paid by domestic corporations on income received from foreign sources are paid at the 52 per cent rate rather than at lower rates permitted by loopholes in present law.

Section 12 puts a ceiling on the exemption applicable to income earned from sources outside the United States by individual taxpayers residing abroad.

Section 13 eliminates to an extent the present provisions of the Code which permit foreign corporations controlled by U. S. shareholders to defer payment of U. S. taxes on their earnings allocable to such shareholders. Contrary to Treasury proposals deferral will be permitted where the earnings are reinvested abroad in substantially the same trade or business or if such earnings are invested in less developed countries. Other provisions of this section tend to weaken the Administration's overall objective to eliminate deferral privileges.

Section 14 would require that the gain from the sale of depreciable personal property and certain other property to the extent of depreciation taken shall be treated as ordinary income for tax purposes rather than capital gain as is now the case. The Treasury is urging a limited extension of the principle to depreciable real property.

Section 15 provides that where stock in a foreign investment company is sold or exchanged, the gain realized by the U. S. shareholder is to be treated as ordinary income rather than capital gain to the extent of the taxpayer's share of earnings and profits accumulated by the corporation during the period for which he held the stock. Equivalent changes are made where such stock is inherited.

Section 16 contains a complementary provision which would treat gain from the sale or exchange of stock of a foreign corporation held by a 10-per-cent or greater U. S. shareholder as ordinary income, to the extent it represents allocable earnings and profits accumulated by the foreign corporation. A retroactive feature of the bill relaing to the accumulation period to be subjected to this provision is opposed by the Treasury as unduly burdensome to the taxpayer.

Section 17 is intended to tighten up the tax treatment of cooperatives and their patrons to make sure that all cooperatives' earnings are taxed once currently -- either at the cooperative or patron level. The bill would insure, for example, that either the cooperative or the patron would be taxed where the patron receives redeemable scrip representing an undistributed allocation of earnings which are to be reinvested by the cooperative.

Section 18 for the first time makes real property located outside the United States includible in the gross estate for U. S. estate tax purposes.

Section 19 would provide for withholding at source on dividends, interest and cooperative patronage dividends at a rate of 20 per cent.

Section 20 would incorporate a number of changes made in the annual information returns which domestic corporations (and certain U. S. citizens and residents) are required to file with respect to foreign subsidiaries.

The most important feature of the tax bill from the standpoint of the Administration and one of those which has aroused the widest comment is, of course, the investment incentive credit. As originally proposed by the President in his Message of April 20, 1961, the proposal provided for a tax credit of 15 per cent of all new productive equipment investment expenditures in excess of current depreciation allowances, with proportionately reduced credits for lesser investment expenditures. The credit in this form was to be taken as an offset against corporate and individual taxpayers' tax liability up to an overall limitation of 30 per cent in the reduction of that liability in any one year. It was, as is presently the case, separate from and in addition to depreciation of the eligible new investment. The House Ways and Means Committee considered that having three categories of allowances and having their computation hinged to depreciation allowances was too complicated and substituted a straight 8 (later reduced to 7) per cent credit for investment in depreciable personal and certain real property. The useful life of the property to qualify was changed from six years to a formula in which investment in property with a life of four to six years would take one-third of the investment into account; property with a life from six to eight years would have two-thirds of the investment taken into account; and property with a longer life would have the full investment to take. Moreover, purchases of used property up to $50,000 would also be eligible for the credit. The credit would be an offset against tax liability (as distinguished from an allowable deduction) in full up to $25,000 and above that point would reduce tax liability by not more than 25 per cent. Unused credits could be carried over for five years. The provision was made effective for the taxable years ending after December 31, 1961, so as to avoid postponement of investments which would otherwise be made while the bill was pending.

The Administration now recommends that the Senate restore the 8 per cent credit as distinguished from the 7 per cent now in the bill and increase the limit on the credit allowable against tax liability in any taxable year from $25,000 plus 25 per cent to $25,000 plus 50 per cent. We have also recommended that the Senate eliminate a 3 per cent credit allowed to regulated public utilities largely on the ground that the utilities' rates are regulated and any profits in excess of those considered desirable by the regulatory agencies would be automatically passed on to consumers rather than used for investment in new plants and equipment.

At first a number of fears were expressed that the investment credit was to be a substitute for a long overdue reform of depreciation allowances. Much of the force of this argument was eliminated by Secretary Dillon's announcement that the Treasury Department was undertaking to reform depreciation allowances administratively to take account of the changes in useful lives of machinery and equipment which had occurred since Bulletin F was last published by the Internal Revenue Service, and additionally to take account of the ever-increasing speed by which technological advance makes obsolete existing machinery and equipment. If the investment credit in its present form becomes law, that credit, together with reformed depreciation allowances which are expected to be announced late in June or in July at the latest will provide American business with total allowances on their investment in new machinery and equipment equal to the average of those prevailing in the leading industrial nations of Europe. This should enable American industry to compete on more favorable terms with their foreign counterparts both at home and abroad. The need to stimulate productivity through increased investment is plain. In the past decade U. S. investment in plant and machinery as a percentage of GNP declined from 6.6 per cent to 5.5 per cent while the Common Market countries increased such investment from 8.5 per cent to 10.2 per cent. Dramatic emphasis has recently been given the problem in the recent price-increase announcement by U. S. Steel and other members of the steel industry. You may recall that a principal reason for the price increase offered by the Chairman of the Board of U. S. Steel in his television appearance was based on his Company's need to acquire funds to invest in new productive equipment so that it could modernize its plants to meet foreign competition. Treasury Department estimates show that the investment credit will provide the steel companies with a substantial portion of the funds for investment in productive equipment as would have been provided by the price increase had it remained in effect and if sales continued at the same rate. The investment credit, on the other hand, assures that business will have the funds to carry out necessary modernization without resorting to inflationary price increases.

Investigation has shown that American industry in many areas is falling behind Europe and Japan in the age and efficiency of its plant and equipment. This modernization lag is steadily increasing the ability of these foreign countries to sell their goods at favorable prices in our market and decreasing the ability of U. S. companies to sell our goods abroad at a time when our balance of payments is running a deficit for the fifth straight year. The investment incentive tax credit is deemed a vital part of the Administration's program to modernize, to increase productivity and to meet the challenge of the other industrialized nations. This, of course, should help increase our trade surplus, and aid in reducing unemployment and in contributing to the growth and expansion of our economy.

Questions have been raised as to whether the Administration should not have sought to achieve its purpose by accelerating depreciation rates on plant and equipment. Accelerated depreciation might provide the same result but would cost the Government far more in revenue for the same incentive effect upon industry. For example, the cost to the United States in revenue losses that would be sustained in the first year by enactment of the tax credit would amount to $1.4 billion. On the other hand, a change in the depreciation rules which would add an equal amount to the profitability of investment, the true measure of the stimulation involved, would cost some $5.3 billion. This is why the Administration has chosen the investment credit to stimulate productive investment,-- because it offers the maximum stimulus for each dollar of tax revenue lost. Because this will be a continuing problem, we are convinced that this should be made a permanent part of our laws.

The second major item in the bill of wide public interest relates to withholding on dividends and interest. Currently, while about $15 billion of such income is faithfully reported, about $3 billion of interest and dividends received by taxable individuals is not reported. This failure results in a revenue loss of more than $800 million annually, which must be made up by other taxpayers. This gap between earned and reported taxable dividends and interest is not attributable to lack of effort on the part of the Internal Revenue Service to enforce the law. However, despite full support and cooperation from the financial community to improve voluntary compliance and enlargement of audit enforcement and educational activities, the overall results have been insignificant.

Even Commissioner Caplin's revolutionary automatic data processing equipment will not be able to close the gap because failure to report dividends and interest is a mass compliance problem involving millions of transactions, and while ADP is helpful in providing

Internal Revenue with a check in the case of individual taxpayers, it will not in itself collect any tax. To add to ADP a mass collection system would be excessively expensive and less than a third as effective as withholding.

The bill provides that institutions paying dividends or interest merely total up the amount due to persons who have not filed exemption certificates, deduct 20 per cent of the total amount, and pay this over to the Government at the end of the month following the quarter in which the dividends or interest were paid. It will not be necessary for payors to furnish information statements to the Government or the recipients. Certain persons, including children under 18 years and adults who do not expect to owe any tax, may be exempted by filing exemption certificates. Where withholding is excessive, the bill provides for prompt quarterly refunds. It is estimated that withholding, if enacted, will recoup in 1963 some $650 million of the more than $800 million in taxes now being evaded.

The third portion of the bill of widest general interest is set out in those provisions relating to the taxation of foreign income and investment. The objective of the Treasury proposals is to promote equity between taxpayers whose income comes from abroad with those who receive such income from domestic sources and to provide for tax neutrality between investment at home and abroad. At the present time income earned by foreign companies owned by U. S. taxpayers is able to avoid much of the tax payable by domestic corporations and their stockholders because present law permits deferral of taxes on earnings of the foreign subsidiary until such time as the earnings are actually distributed to the shareholders. If reinvested abroad, taxes are avoided. At a time when our balance of payments has become critical and when the industrial countries have not only recovered from the damage of the war but are enjoying unprecedented economic booms, there is no national interest to be served by subsidizing investment abroad. This is particularly true when unemployment at home remains at an unacceptably high level. The President's recommendations, and the provisions of the bill, are not, however, designed to discourage any such investment where it serves a business purpose.

H. R. 10650 eliminates deferral of taxes on income from dividends, interest, rents and royalties, and trading earnings except where they are reinvested in less developed countries. Income from insurance against U. S. risks and from the use of patents, copyrights, etc., developed in the United States are subject to tax without any exception for reinvestment. In the case of foreign subsidiaries, other than those in tax haven countries, the bill would subject to U. S. tax undistributed foreign earnings except as they are reinvested in the same country and in substantially the same trade or business conducted by the firm in question, or if they are invested in less developed countries. The provision in its present form does not meet the President's recommendation which would eliminate deferral except for income earned abroad and reinvested in less developed countries.

The subject of foreign investment and tax neutrality is, as I am sure you are aware, very complex and the matter is still being given the most earnest study in the light of the testimony to date. We are hopeful that the provisions of the bill when finally enacted will be recognized as adequately meeting the problems which the country faces even though some individuals may differ as to the desirability of taking the particular form of action chosen.

As you can see from my discussion, the bill covers a number of complex subjects and I have only been able to give them the most superficial treatment. I can only hope that the discussion has been adequate to prompt you to further study with a view to formulating a truly informed opinion. Such an effort is, in my mind, an important service which you can render your country and yourselves.

~~TREASURY DEPARTMENT~~

~~WASHINGTON, D. C.~~

May 10, 1962

Immediate Release

~~FOR RELEASE P.M. NEWSPAPERS~~
THURSDAY, MAY 10, 1962

TREASURY ISSUES AMENDMENT TO ITS
CUBAN IMPORT REGULATIONS

The Treasury Department today amended the Cuban Import Regulations so that the exemption ~~or~~ OF Cuban goods brought in as baggage for personal use WILL no longer ~~applies~~ apply to United States citizens and residents arriving after May 20, 1962. The exemption remains in effect until that date to avoid ~~an undue burden on~~ HARDSHIP such persons who are abroad.

UNWARRANTED INCONVENIENCE

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 10, 1962

FOR IMMEDIATE RELEASE

TREASURY ISSUES AMENDMENT TO ITS
CUBAN IMPORT REGULATIONS

The Treasury Department today amended the Cuban Import Regulations so that the exemption of Cuban goods brought in as baggage for personal use will no longer apply to United States citizens and residents arriving after May 20, 1962. The exemption remains in effect until that date to avoid unwarranted inconvenience to such persons who are abroad.

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D-484

revision of our guidelines will, therefore, be essential if our depreciation policies are to keep pace with the changing world. Such review and revision is planned, for we must never again allow our tax practices to fall behind ~~for~~ [illegible] industrial practices.

oOo

the part of the most skilled economists, lawyers, engineers and accountants at the command of the Treasury and the Internal Revenue Service. It also, as many of you know at first hand, is requiring numberless consultations with industry technicians and management.

But we will not consider the job done when we have published our new guidelines and rulings. We know that in such an enormous undertaking, some errors of fact or judgement are perhaps inevitable -- and we will be responsive to industries or taxpayers ~~by no means turn a deaf ear to these~~ who demonstrate the existence of such errors.

In addition, depreciation reform is, almost by definition, a job which is never done once and for all. These new standards will indeed -- and for the first time -- take into account not only past but anticipated obsolescence. But what about the technological breakthroughs which lie just beyond the ones we can now glimpse over the horizon? We do not know <u>what</u> they will be -- but we do know that they <u>will be</u>. Periodic review and

By closing the existing loophole in taxation of these gains, the legislation provides the safeguards necessary to permit our planned shift to more liberal and flexible treatment of depreciation of such property. But the legislation does not, at present, contain a similar provision applicable to buildings ~~real property~~. I would be less than candid, therefore, if I did not tell you that we are not now contemplating a revision of Bulletin F so far as buildings are concerned. If, however, the Congress enacts legislation closing existing loopholes in the tax treatment of depreciable real estate ~~property~~, Bulletin F revisions covering buildings will follow.

Our depreciation revision as a whole will, indeed be meaningful to American industry and to the entire American economy. Can anyone any longer doubt this?

Depreciation revision has proved to be a monumental task -- requiring long hours of work over a period of many months on overall depreciation account is in conformity with the guideline life established for that class of assets, the individual item lives used by the taxpayer will remain unchallenged.

This move to a broad category approach to depreciation will also, we believe, eliminate controversy between Internal Revenue and business taxpayers. The class ~~category~~ approach we are working on is designed for simplicity. For most industries, a single class life will be established covering all machinery and equipment used in production. Items in general use, such as office equipment and furnishings, automobiles and trucks, will be covered in separate guideline classes to be used by all industries.

Buildings are a special case. As you are aware, the tax bill now pending before the Congress contains a section providing for correct tax treatment, as ordinary income, of gains realized on the sale of depreciable machinery & equipment ~~personal property~~.

We believe that our new guidelines and rulings will greatly diminish the area of dispute between taxpayers and the government over depreciation.

But this is not all. In the future, whenever application of the reserve ratio test indicates that a business should be shifted to the use of longer depreciable lives, there will be no penalty attached. The lives will be lengthened only to correspond to the actual replacement practices of that business. "Penalty rates" will become only an unpleasant memory.

Our new depreciation guidelines will also be vastly simpler than those set forth in Bulletin F. In place of the more than 5,000 individual items of plant and equipment presently listed in Bulletin F, there will be substituted broad categories of assets for which an average life will be prescribed. Taxpayers may, if they wish, shift their own depreciation accounts to conform to the categories set forth in the new guidelines, but they will not be required to do this. So long as the taxpayer's the length of an entire replacement cycle actually to reach that schedule. The fact that such a shift toward more rapid replacement policy is under way will have to be demonstrated, however, within a few years.

For those who wish to move for the first time below the new guidelines, or to reduce further an already below-guideline schedule, a look at the current depreciation reserve ratio will indicate immediately whether Internal Revenue might question this change on audit. In some such cases, a move toward shorter depreciable lives may nevertheless be permitted, despite the fact that the reserve ratio test would seem to indicate the shift is not warranted. Such a decision would, of course, be a matter of judgement on the part of the Internal Revenue Service, although certain additional criteria for exceptional treatment will be developed. But note that our one probable

THOSE SPECIFIED IN THE RULINGS

resort to standards other than ~~precisely objective ones~~ can work only <u>in</u> <u>favor</u> of the taxpayer.

method of depreciation being used by the business and the rate of growth of its depreciable assets. The tables will provide for flexibility -- a range of allowable fluctuations in depreciation reserves. The ratio of depreciation reserves to depreciable assets will be considered too high only after actual replacement practices have lagged substantially behind the depreciable lives being used for tax purposes. How high is too high? This also will be spelled out in the ruling.

For a business~~es~~ which shifts ~~their~~ its depreciation timetables only to, but not below, the new guideline standards, a long period of time will be allowed before their use of the guidelines will be ~~challenged on the basis that~~ CHALLENGED. [illegible] ONLY IF its ~~their~~ depreciation reserve ratio proves it is ~~they are~~ not, in fact, replacing equipment as rapidly ~~they~~ IT claims for tax purposes, WILL ANY QUESTION BE RAISED. If a business can demonstrate that it is moving toward replacement practices in keeping with its use of the new guidelines, it may be allowed

INTERN[illegible]

Any business that has already demonstrated the appropriateness of its use of depreciable lives WHICH ARE shorter than those set forth in the new guidelines, will be allowed to continue to use them. Internal Revenue will not challenge these depreciation deductions unless -- by an objective, arithmetical standard, which will be spelled out in the Revenue Ruling -- there is a clear and convincing basis for such adjustment. This standard we call the "reserve ratio" and it will be based on the relationship of depreciation reserves to depreciable assets.

The use of such an objective standard is, of course, one of the most significant of the many meaningful changes we are making. As long as the depreciation reserves of a business do not become inordinately high in comparison to assets, the lives used by the business will not be subject to challenge at any time. Whether the reserves become unreasonably high will be easily ascertainable from tables which take into account the

All taxpayers -- let me repeat that -- all taxpayers will, as a matter of right, and without question by any revenue agent, be permitted to use the new depreciation timetables in preparing their tax returns for the current year. The new guidelines will, of course, apply to machinery and equipment already in use as well as assets acquired subsequently.

The fundamental concept which underlies our depreciation revision is a belief that depreciation should be realistic. Our new guidelines are rooted in reality: existing and prospective rates of change in technology, in economic obsolescence and in industry replacement practices.

But the new guidelines and rulings will seek to achieve more than a mere recognition of present-day realities. They will be designed to make sure that our tax standards do not constitute a barrier against movement toward even more rapid replacement policies on the part of industry.

payers concerning proper determination of depreciable lives. These disputes, which frequently have been prolonged and sometimes have required resort to the courts, were in large part made inevitable by the fact that Internal Revenue agents have had to use as their guide for depreciation allowances a bulletin published twenty years ago and never since modified.

Our new guidelines, and the rulings which will spell out the manner in which they are to be applied, are designed to bring to an end to this debate, paperwork and controversy.

The new guideline lives will in the vast majority of cases be significantly shorter than those set forth in Bulletin F. In no case will they be longer. Because many firms are already following faster depreciation schedules than those set forth in Bulletin F, the reduction from the lives now actually in use will, of course, be less than the reduction from Bulletin F standards. But for a substantial majority of taxpayers, use of the new guideline lives will result in increased depreciation allowances.

The new suggested depreciable lives for the assets used by American industry will be significantly shorter, on the average, than those now prescribed by Internal Revenue ~~for tax purposes.~~ In addition, and equally important, the new guidelines and the standards used in their application will be designed to achieve three major objectives:

First, simplicity -- for the taxpayer and the tax administrat~~ion.~~ORS,

Second, objectivity -- to minimize controversy about depreciation schedules.

Third, uniformity -- to assure even-handed application of the new rules to all businesses in similar circumstances, regardless of their location or which revenue agent they deal with.

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EXCERPT FROM REMARKS OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE BUSINESS COUNCIL, HOT SPRINGS, VIRGINIA
FRIDAY, MAY 11, 1962, 9:15 A.M. EST

~~Our~~ THE ADMINISTRATION'S program of depreciation reform involves two aspects -- the investment credit and the revision, by administrative action, of depreciation guidelines.

~~I would like to turn now to the subject of depreciation revision.~~ There is general agreement in this country today concerning the urgent ~~necessity~~ NEED to liberalize our tax treatment of depreciation to put it on a realistic basis. ~~This~~ THE Administration clearly recognized this need from its earliest days and, building on studies initiated by my predecessor, Secretary Anderson, the Treasury has moved ahead as rapidly as possible with a thoroughgoing revision of our administrative guidelines for depreciation. Our work is now in its final stages and we expect to announce the new guidelines late next month or in July at the latest.

R-485

(DELIVERED BY UNDER SECRETARY OF THE TREASURY HENRY H. FOWLER)

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First, simplicity -- for the taxpayer and the tax administrators.

Second, objectivity -- to minimize controversy about depreciation schedules.

Third, uniformity -- to assure even-handed application of the new rules to all businesses in similar circumstances, regardless of their location or which revenue agent they deal with.

I do not need to spell out for this audience the long history of disputes between the government and business taxpayers concerning proper determination of depreciable lives. These disputes, which frequently have been prolonged and sometimes have required resort to the courts, were in large part made inevitable by the fact that Internal Revenue agents have had to use as their guide for depreciation allowances a bulletin published twenty years ago and never since modified.

Our new guidelines, and the rulings which will spell out the manner in which they are to be applied, are designed to bring to an end this debate, paperwork and controversy.

The new guideline lives will in the vast majority of cases be significantly shorter than those set forth in Bulletin F. In no case will they be longer. Because many firms are already following faster depreciation schedules than those set forth in Bulletin F, the reduction from the lives now actually in use will, of course, be less than the reduction from Bulletin F standards. But for a substantial majority of taxpayers, use of the new guideline lives will result in increased depreciation allowances.

All taxpayers -- let me repeat that -- <u>all</u> taxpayers will, <u>as a matter of right</u>, and without question by any revenue agent, be permitted to use the new depreciation timetables in preparing their tax returns for the current year. The new guidelines will, of course, apply to machinery and equipment already in use as well as assets acquired subsequently.

The fundamental concept which underlies our depreciation revision is a belief that depreciation should be realistic. Our new guidelines are rooted in reality: existing and prospective rates of change in technology, in economic obsolescence and in industry replacement practices.

But the new guidelines and rulings will seek to achieve more than a mere recognition of present-day realities. They will be designed to make sure that our tax standards do not constitute a barrier against movement toward even more rapid replacement policies on the part of industry.

Any business that has already demonstrated the appropriatenes of its use of depreciable lives which are shorter than those set forth in the new guidelines, will be allowed to continue to use them. Internal Revenue will not challenge these depreciation deductions unless -- by an objective, arithmetical standard, which will be spelled out in the Revenue Ruling -- there is a clear and convincing basis for such adjustment. This standard we call the "reserve ratio" and it will be based on the relationship of depreciation reserves to depreciable assets.

The use of such an objective standard is, of course, one of the most significant of the many meaningful changes we are making. As long as the depreciation reserves of a business do not become inordinately high in comparison to assets, the lives used by the business will not be subject to challenge at any time. Whether the reserves become unreasonably high will be easily ascertainable from tables which take into account the method of depreciation being used by the business and the rate of growth of its depreciable assets. The tables will provide for flexibility -- a range of allowable fluctuations in depreciation reserves. The ratio of depreciation reserves to depreciable assets will be considered too high only after actual replacement practices have lagged substantially behind the depreciable lives being used for tax purposes. How high is too high? This also will be spelled out in the ruling.

For a business which shifts its depreciation timetables only to, but not below, the new guideline standards, a long period of time will be allowed before use of the guidelines will be challenged. Only if its depreciation reserve ratio proves it is not, in fact, replacing equipment as rapidly as it claims for tax purposes, will any question be raised by Internal Revenue. If a business can demonstrate that it is moving toward replacement practices in keeping with its use of the new guidelines, it may be allowed the length of an entire replacement cycle to actually reach that schedule. The fact that such a shift toward more rapid replacement policy is under way will have to be demonstrated, however, within a few years.

For those who wish to move for the first time below the new guidelines, or to reduce further an already below-guideline schedule, a look at the current depreciation reserve ratio will indicate immediately whether Internal Revenue might question this change on audit. In some such cases, a move toward shorter depreciable lives may nevertheless be permitted, despite the fact that the reserve ratio test would seem to indicate the shift is not warranted. Such a decision would, of course, be a matter of judgement on the part of the Internal Revenue Service, although certain additional criteria for exceptional treatment will be developed. But note that our one probable resort to standards other than those specified in the rulings can work only <u>in favor</u> of the taxpayer.

We believe that our new guidelines and rulings will greatly diminish the area of dispute between taxpayers and the government over depreciation.

But this is not all. In the future, whenever application of the reserve ratio test indicates that a business should be shifted to the use of longer depreciable lives, there will be no penalty attached. The lives will be lengthened only to correspond to the actual replacement practices of that business. "Penalty rates" will become only an unpleasant memory.

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This move to a broad category approach to depreciation will also, we believe, eliminate controversy between Internal Revenue and business taxpayers. The class approach we are working on is designed for simplicity. For most industries, a single class life will be established covering all machinery and equipment used in production. Items in general use, such as office equipment and furnishings, automobiles and trucks, will be covered in separate guideline classes to be used by all industries.

Buildings are a special case. As you are aware, the tax bill now pending before the Congress contains a section providing for correct tax treatment, as ordinary income, of gains realized on the sale of depreciable machinery and equipment. By closing the existing loophole in taxation of these gains, the legislation provides the safeguards necessary to permit our planned shift to more liberal and flexible treatment of depreciation of such property. But the legislation does not, at present, contain a similar provision applicable to buildings. I would be less than candid, therefore, if I did not tell you that we are not now contemplating a revision of Bulletin F so far as buildings are concerned. If, however, the Congress enacts legislation closing existing loopholes in the tax treatment of depreciable real estate, Bulletin F revisions covering buildings will follow.

Our depreciation revision as a whole will, indeed be meaningful to American industry and to the entire American economy. Can anyone any longer doubt this?

Depreciation revision has proved to be a monumental task -- requiring long hours of work over a period of many months on the part of the most skilled economists, lawyers, engineers and accountants at the command of the Treasury and the Internal Revenue Service. It also, as many of you know at first hand, is requiring numberless consultations with industry technicians and management.

But we will not consider the job done when we have published our new guidelines and rulings. We know that in such an enormous undertaking, some errors of fact or judgement are perhaps inevitable -- and we will be responsive to industries or taxpayers who demonstrate the existence of such errors.

In addition, depreciation reform is, almost by definition, a job which is never done once and for all. These new standards will indeed -- and for the first time -- take into account not only past but anticipated obsolescence. But what about the technological breakthroughs which lie just beyond the ones we can now glimpse over the horizon? We do not know what they will be -- but we do know that they will be. Periodic review and revision of our guidelines will, therefore, be essential if our depreciation policies are to keep pace with the changing world. Such review and revision is planned, for we must never again allow our tax practices to fall behind our industrial practices.

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114

The Secretary will return to New York the 19th of May, and go the following day to Philadephia, where he is to ~~speak~~ and receive an honorary degree at the commencement exercises of the University of Pennsylvania on the morning of Monday, May 21.

date, not only on what we are doing to promote our growth at home in an environment of fiscal and financial stability, but on our efforts and progress to achieve equilibrium in our balance of payments. In the field of balance of payments, the measures that we take ourselves must be complemented by the cooperative action of the surplus countries in order to ensure the smooth functioning of the international monetary system. It is the role of our friends abroad that I particularly want to discuss at these meetings."

The Secretary will be accompanied to Rome by Mrs. Dillon, and by Dixon Donnelley, Assistant to the Secretary for Public Affairs; Charles A. Sullivan, Special Assistant to the Secretary; Theodore L. Eliot, Jr., Special Assistant to the Secretary; George H. Willis, Director, Office of Internat Finan; Mrs. Dorothy de Borchgrave, Confidential Assistant to the Secretary; and by Earl C. Cocke, Jr., United States Alternate Executive Director of the International Bank for Reconstruction and Development. Mr. Dillon will be joined in London by Robert V. Roosa, Under Secretary of the Treasury for Monetary Affairs.

(Info letterhead)

116

May 11, 1962

FOR RELEASE A.M. NEWSPAPERS

SATURDAY, MAY 12, 1962

SECRETARY DILLON TO ATTEND MONETARY CONFERENCE

Secretary of the Treasury Douglas Dillon will leave New York on Saturday, May 12, at 10:00 A.M. to attend the annual monetary conference of the American Bankers Association in Rome from May 15 to 18.

En route, the Secretary will spend ~~the weekend~~ two days in London, where he will confer with United States representatives and meet informally with British financial officials.

Mr. Dillon will address the closing luncheon of the American Bankers Association monetary conference on May 18.

Prior to his departure for Rome, the Secretary issued the following statement: "The Monetary Conference of the American Bankers Association will give me an opportunity to meet and talk with financial people from the various European centers who will be in Rome, and to get first-hand, from members of the European private financial community, their views on current developments.

"It will also give me an opportunity to bring them up to

D-456

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 11, 1962

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"It will also give me an opportunity to bring them up to date, not only on what we are doing to promote our growth at home in an environment of fiscal and financial stability, but on our efforts and progress to achieve equilibrium in our balance of payments. In the field of balance of payments, the measures that we take ourselves must be complemented by the cooperative action of the surplus countries in order to ensure the smooth functioning of the international monetary system. It is the role of our friends abroad that I particularly want to discuss at these meetings."

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The Secretary will return to New York the 19th of May.

D-486

May 14, 1962

FOR RELEASE A. M. NEWSPAPERS, Tuesday, May 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 February 15, 1 and the other series to be dated May 17, 1962, which were offered on May 9, were opene the Federal Reserve Banks on May 14. Tenders were invited for $1,200,000,000, or ther of 91-day bills and for $600,000,000, or thereabouts, of 182-day bills. The details o two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 16, 1962		182-day Treasury bills maturing November 15, 1962	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.337	2.623%	98.620 a/	2.730%
Low	99.329	2.655%	98.606	2.757%
Average	99.331	2.646% 1/	98.613	2.744% 1/

a/ Excepting one tender of $100,000
35 percent of the amount of 91-day bills bid for at the low price was accepted
51 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	$ 24,727,000	$ 14,727,000	$ 11,313,000	$ 11,100,000
New York	1,646,543,000	854,543,000	909,351,000	458,911,000
Philadelphia	30,524,000	15,524,000	9,270,000	4,270,000
Cleveland	24,114,000	24,114,000	27,110,000	11,856,000
Richmond	12,229,000	12,229,000	2,717,000	2,470,000
Atlanta	25,711,000	22,581,000	9,353,000	9,003,000
Chicago	240,648,000	128,348,000	100,347,000	62,857,000
St. Louis	30,309,000	23,984,000	7,630,000	5,630,000
Minneapolis	18,421,000	12,921,000	6,284,000	5,314,000
Kansas City	46,958,000	35,883,000	16,360,000	11,331,000
Dallas	15,787,000	15,587,000	4,314,000	4,114,000
San Francisco	65,011,000	39,806,000	34,673,000	13,183,000
TOTALS	$2,180,982,000	$1,200,247,000 b/	$1,138,722,000	$600,039,000 c/

b/ Includes $221,105,000 noncompetitive tenders accepted at the average price of 99.331
c/ Includes $60,363,000 noncompetitive tenders accepted at the average price of 98.613
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.70%, for the 91-day bills, and 2.82%, 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-487

TREASURY DEPARTMENT

WASHINGTON, D.C.

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Exchanges for 3-5/8% Notes of Series B-1966

Federal Reserve District	3% Ctfs., Series A-1962	4% Notes, Series E-1962	2-1/4% Bonds of 6/15/62	Total for B-1966 Notes
Boston	$ 47,494,000	$ 67,964,000	$ 16,447,000	$ 131,905,0
New York	491,174,000	382,860,000	717,627,000	1,591,661,0
Philadelphia	27,572,000	19,173,000	13,548,000	60,293,0
Cleveland	114,277,000	91,658,000	26,769,000	232,704,0
Richmond	19,629,000	17,827,000	10,183,000	47,639,0
Atlanta	29,482,000	18,463,000	20,889,000	68,834,0
Chicago	174,004,000	97,696,000	167,351,000	439,051,0
St. Louis	13,402,000	21,169,000	18,254,000	52,825,0
Minneapolis	25,686,000	20,055,000	17,216,000	62,957,0
Kansas City	41,866,000	29,304,000	28,757,000	99,927,0
Dallas	36,744,000	22,164,000	33,262,000	92,170,0
San Francisco	111,917,000	53,020,000	65,167,000	230,104,0
Treasury	2,628,000	918,000	769,000	4,315,0
Total	$1,135,875,000	$842,271,000	$1,136,239,000	$3,114,385,0

Exchanges for 3-7/8% Bonds of 1971

Federal Reserve District	3% Ctfs., Series A-1962	4% Notes, Series E-1962	2-1/4% Bonds of 6/15/62	Total for Bonds of 197
Boston	$ 4,096,000	$ 13,501,000	$ 5,457,000	$ 23,054,0
New York	305,127,000	168,805,000	281,706,500	755,638,5
Philadelphia	4,472,000	10,218,000	10,715,500	25,405,5
Cleveland	9,533,000	7,484,000	19,782,000	36,799,0
Richmond	6,167,000	1,776,000	4,204,500	12,147,5
Atlanta	14,359,000	10,962,000	3,751,500	29,072,5
Chicago	78,057,000	22,624,000	38,632,000	139,313,0
St. Louis	1,741,000	9,019,000	7,242,000	18,002,0
Minneapolis	10,360,000	16,906,000	5,079,000	32,345,0
Kansas City	7,844,000	12,379,000	10,072,000	30,295,0
Dallas	10,596,000	3,493,000	2,522,500	16,611,5
San Francisco	12,634,000	6,468,000	64,946,000	84,048,0
Treasury	-	38,000	1,323,500	1,361,5
Total	$464,986,000	$283,673,000	$455,434,000	$1,204,093,0

Maturing Issues	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% Ctfs., A-1962	$3,823	$1,686	1.8	2.6
4% Notes, E-1962	2,069	142	7.1	7.5
$2\frac{1}{4}$% Bonds of 6/15/62	3,547	416	10.7	11.9
Total	$9,439	$2,244	5.8	7.2

FOR IMMEDIATE RELEASE

SUBSCRIPTION FIGURES FOR CURRENT EXCHANGE OFFERING

The results of the Treasury's current exchange offering of

3-1/4% certificates of indebtedness dated May 15, 1962, maturing May 15, 1963,
3-5/8% notes dated May 15, 1962, maturing February 15, 1966, and
3-7/8% bonds of 1971 dated May 15, 1962, maturing November 15, 1971,

are summarized in the following tables.

Maturing Issues	Eligible for Exchange	Exchanged For 3-1/4% Ctfs.	3-5/8% Notes	3-7/8% Bonds	Total	For Cash Redemption
		(In millions)				
3% Ctfs., A-1962	$ 5,509	$3,807	$1,136	$ 465	$ 5,408	$101
4% Notes, B-1962	2,211	929	842	284	2,055	156
2¼% Bonds of 6/15/62	3,963	1,949	1,136	455	3,540	423
Total	$11,683	$6,685	$3,114	$1,204	$11,003	$680

Exchanges for 3-1/4% Certificates of Series B-1963

Federal Reserve District	3% Ctfs., Series A-1962	4% Notes, Series B-1962	2-1/4% Bonds of 6/15/62	Total for B-1963 Ctfs.
Boston	$ 86,888,000	$ 40,702,000	$ 27,677,000	$ 155,267,0
New York	2,718,312,000	507,625,000	1,340,306,000	4,566,243,0
Philadelphia	85,230,000	22,006,000	22,324,000	129,560,0
Cleveland	57,745,000	56,497,000	62,864,000	177,106,0
Richmond	24,054,000	16,106,000	25,064,000	65,224,0
Atlanta	63,448,000	29,468,000	35,568,000	128,484,0
Chicago	301,287,000	93,557,000	189,579,000	584,423,0
St. Louis	70,800,000	33,579,000	30,101,000	134,480,0
Minneapolis	20,204,000	13,015,000	15,555,000	48,774,0
Kansas City	84,232,000	25,763,000	63,842,000	173,837,0
Dallas	38,658,000	17,250,000	32,578,000	88,486,0
San Francisco	248,243,000	70,993,000	102,295,000	421,531,0
Treasury	7,699,000	2,201,000	1,412,000	11,312,0
Total	$3,806,800,000	$928,762,000	$1,949,165,000	$6,684,727,0

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 15, 1962

R IMMEDIATE RELEASE

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Total	$3,806,800,000	$928,762,000	$1,949,165,000	$6,684,727,000

-488

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123

Exchanges for 3-5/8% Notes of Series B-1966

ederal Reserve istrict	3% Ctfs., Series A-1962	4% Notes, Series E-1962	2-1/4% Bonds of 6/15/62	Total for B-1966 Notes
oston	$ 47,494,000	$ 67,964,000	$ 16,447,000	$ 131,905,000
ew York	491,174,000	382,860,000	717,627,000	1,591,661,000
iladelphia	27,572,000	19,173,000	13,548,000	60,293,000
leveland	114,277,000	91,658,000	26,769,000	232,704,000
ichmond	19,629,000	17,827,000	10,183,000	47,639,000
tlanta	29,482,000	18,463,000	20,889,000	68,834,000
icago	174,004,000	97,696,000	167,351,000	439,051,000
t. Louis	13,402,000	21,169,000	18,254,000	52,825,000
inneapolis	25,686,000	20,055,000	17,216,000	62,957,000
ansas City	41,866,000	29,304,000	28,757,000	99,927,000
allas	36,744,000	22,164,000	33,262,000	92,170,000
an Francisco	111,917,000	53,020,000	65,167,000	230,104,000
reasury	2,628,000	918,000	769,000	4,315,000
Total	$1,135,875,000	$842,271,000	$1,136,239,000	$3,114,385,000

Exchanges for 3-7/8% Bonds of 1971

ederal Reserve istrict	3% Ctfs., Series A-1962	4% Notes, Series E-1962	2-1/4% Bonds of 6/15/62	Total for Bonds of 1971
oston	$ 4,096,000	$ 13,501,000	$ 5,457,000	$ 23,054,000
ew York	305,127,000	168,805,000	281,706,500	755,638,500
iladelphia	4,472,000	10,218,000	10,715,500	25,405,500
leveland	9,533,000	7,484,000	19,782,000	36,799,000
ichmond	6,167,000	1,776,000	4,204,500	12,147,500
lanta	14,359,000	10,962,000	3,751,500	29,072,500
icago	78,057,000	22,624,000	38,632,000	139,313,000
. Louis	1,741,000	9,019,000	7,242,000	18,002,000
inneapolis	10,360,000	16,906,000	5,079,000	32,345,000
ansas City	7,844,000	12,379,000	10,072,000	30,295,000
llas	10,596,000	3,493,000	2,522,500	16,611,500
an Francisco	12,634,000	6,468,000	64,946,000	84,048,000
reasury	-	38,000	1,323,500	1,361,500
Total	$464,986,000	$283,673,000	$455,434,000	$1,204,093,000

Maturing Issues	Eligible for Exchange		For Cash Redemption	
	Publicly Held	Federal Reserve Banks and Government Accounts	% of Total Outstanding	% of Public Holdings
	(In millions)			
Ctfs., A-1962	$3,823	$1,686	1.8	2.6
Notes, E-1962	2,069	142	7.1	7.5
Bonds of 6/15/62	3,547	416	10.7	11.9
Total	$9,439	$2,244	5.8	7.2

Again, the contrast with the alternative proposals before this Committee is striking. In each case, those bills would provide increases, this year in excess of amounts that can be justified on the basis of ~~the~~ national trends in productivity. Moreover, at the lower work levels, the increases cannot be justified on the basis of equity. They would, in areas of the country where the Federal Government is a major factor in local labor markets, incite competitive wage increases in private employment. They would provide a most unfortunate example for labor and private industry generally. In sum, they would not only throw our budget out of balance, but they would jeopardize the whole approach of the Administration toward encouraging wage restraint and price stability. They would in the end entail grave risks for our balance of payments -- risks that cannot be justified by any appeal to equity or hardships. ¶ For these ~~On this score,~~ reasons, the ~~opposition of the~~ Treasury Department is opposed to these alternative bills~~. is unqualified.~~ I hope that this Committee, in its deliberations, will instead carefully consider the implications of the ~~guideline~~ principle set forth by the President in his Message when he emphasized the importance of the Federal Government adhering firmly "to its own precepts with respect to pay adjustments in the economy as a whole."

The spacing of the salary increases provided for in the Administration bill ~~would~~ will insure that they meet the over-all test of consistency with productivity gains in the whole private economy. (As a footnote, I should add that we have no reliable measure of productivity gains within Government itself -- although I am convinced, from my own experience within the Treasury, that these gains are very real. In fact, when I see the vast progress made in the application of electronic computers to our own operations, I see no reason to believe that gains in efficiency in Government are lagging behind those for other sectors of the economy.)

There has been no Federal salary increase since July 1960. The increases proposed in H.R. 10480 for January 1963 would result in an average increase of 4.5% in Federal salaries at that time, equivalent to about 1-3/4% per year since the date of the last increase. Meanwhile, national productivity has been rising since 1954 at a rate of 2.6% a year; for the postwar period as a whole, the rise has been even greater, equivalent to roughly 3.0% per year. For the entire period since 1909, the increase has been 2.4% a year. Thus, whatever set of base years might be chosen, the proposed increases are well within the guidelines.

productivity, so that labor may share in the gains achieved through greater efficiency without bringing upward pressures on over-all costs. This is an essential key to the objective of price stability that must underlie all our efforts to promote and restore equilibrium in our balance of payments.

Consistent with this basic principle, the guidelines recognize that increases in individual wage and salary rates either slower or faster than the average may be appropriate in the interests of equity. The implication is that more rapid wage increases could be accommodated, within the framework of general price stability, in those cases where existing wage rates are clearly below those generally prevailing for work of a comparable character.

On this basis, an upward adjustment in many Federal salaries could be justified immediately on the basis of wage scales prevailing currently in industry. In other words, the salary reform bill -- including those changes scheduled for 1964 and 1965 -- could be considered to be in the nature of a correction of existing inequities, and therefore consistent with the stated guidelines. But that would not recognize the budgetary priorities emphasized by the President, nor would it provide the sort of clear and unambiguous example of restraint that is necessary.

others covered in the bills, and roughly \$1-3/4 billion for these specified groups and postal workers. Each would assure a budgetary deficit -- even if full employment has been reached by the end of the next fiscal year. None is consistent with a careful appraisal of existing priorities and the urgent need to avoid any inflationary influences from Government spending.

Moreover, these costs in terms of our over-all budgetary and economic objectives would be exacted to little end. All these bills are simply pay increases; none of the alternatives to the Administration's program represents progress toward real salary reform; each would perpetuate existing maladjustments and, indeed, in many cases aggravate them.

The immediate budgetary impact of these proposals is not the only factor to be considered. Federal salaries are a part, and a very important part, of the wage and price structure of this country. A program for Federal salary reform must be consistent -- and recognized as such by all -- with our national policy of non-inflationary wage and price behavior. Government must provide leadership by example. And it must avoid the sort of competition in labor markets that could itself bring pressures for upward wage adjustments by private industry.

As you know, the Administration has developed general guidelines for wage and salary decisions in the private sector of the economy. These guidelines are based upon the fundamental principle that wage increases over time should remain in line with the over-all trend in national the necessity to maintain appropriate restraints on all our spending programs. A shortfall of revenues at a time when the economy is operating below full employment, with excess industrial capacity evident, is one thing; a rise in Federal spending that could not be covered by prospective revenues, even with the economy approaching full employment, is quite another.

There is only one way to insure that the Federal budget does not contribute to a rude awakening of inflationary forces in coming months. We must recognize that our resources are not unlimited; priorities must be established between spending programs; and those priorities must be maintained. Demands upon Government are great -- missile programs, space research, urban renewal, manpower re~~s~~training, revival of sick mass transit systems, and many other needs are crowding in upon us. All of these -- and salary adjustments too -- must be spaced out in proper sequence against the resources available to meet them. The President's budget, and within that context the proposed salary reforms, recognize these constraints; we can be oblivious to them only at our peril.

These budgetary constraints are not recognized in the large number of other pay raise bills now before this Committee. H.R. 9740, for example, would provide a large across-the-board increase in salaries; all would require that the increases proposed in them be effective immediately upon enactment or even retroactively, and ~~with~~ they make little or no allowance for existing differentials between Government and private pay at different levels of responsibility. The least expensive of these bills would cost about $1 billion in fiscal 1963 for employees under the Classification Act and total cost of approximately $1 billion on an annual basis. We cannot provide the salary scales that are necessary for any less. But neither can we make up for past neglect in one jump, and still fit the adjustments within our current budgetary program. For that reason, the full impact of the reform bill on the budget will be deferred until fiscal 1966. The cost in fiscal 1963 will be limited to only $224 million, with the first increases not to become effective until January of next year.

The increase proposed for the coming fiscal year was developed within the context of the budget submitted to the Congress in January. That budget pointed toward a narrow balance, based on assumptions that the economy and Federal revenues would continue to grow in a favorable manner. If the economy expands in line with our projections at that time, and if expenditures are held to the amount estimated, that balance can be achieved. If business activity is less buoyant than expected, the balance will, of course, be threatened. But these inevitable uncertainties over the precise economic and revenue outlook provide no release from for productive investment within a context of over-all price stability. As you know, the Administration has in place and underway a wide variety of programs to meet these challenges - depreciation reform and a related investment credit, a far-flung export drive, an increased sharing of the burdens of defense by our allies, tying of a larger proportion of our economic aid to American exports, and others. But in the end, these programs will be successful only as Government, business, and labor alike willingly accept the needed disciplines ~~imposed~~.

We must, in the last analysis, be able to produce goods and services at attractive prices. Only then will we be able to compete successfully in world markets and achieve the larger trade surplus that is necessary for all our success. That is why we must place so much emphasis on price stability in this critical period. To achieve that stability, it is imperative that we exercise restraint in shaping our wage and price policies. ~~and~~ It is equally imperative that we avoid potential~~ly~~ inflationary spending policies in shaping the Federal budget.

It is these factors that have dictated that Federal pay reform be spaced out gradually over a three-year period. When fully effective, the proposed salary increases will entail a

"The substantial costs necessarily involved in achieving this pay reform make it especially important that these improvements in our pay systems take absolute priority over general percentage or dollar increases of the kind we have seen in the past - increases which make little if any contribution to efficiency or economy in Government."

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*The full remarks of the President concerning the timing and cost of the Administration proposal in his message of February 20 are as follows:

"It is important for the Federal Government to adhere to its own precepts with respect to pay adjustments in the economy as a whole. Because of the salary lag that has developed over the past 17 years, full correction of the accrued inequities in 1 year would be unwise, involving the substantial cost of more than $1 billion. This cost would come at a time when heavy budgetary demands have been placed upon us to meet great national security needs, and when the Government is urging private labor and management to exercise self-restraint to avoid the creation of inflationary pressures. Therefore, to reduce the impact in any one year on the affected $10 billion Federal payroll, where each 1-percent increase costs $100 million, the plan that I recommend provides that the full 10 percent be distributed over three annual stages, beginning prospectively on January 1, 1963. The increase scheduled to take effect next year is clearly well within the national average productivity increase (in the private sector) which has taken place since the last Federal pay increase in July of 1960.

alike. The nature and timing of the reforms proposed by the Administration meet these criteria, so vital to all our efforts to spur growth at home, to maintain price stability, and to achieve a balance in our international accounts. ¶ This is not primarily a pay increase bill, but rather a structural reform designed to meet the continuing requirements of effective public administration. Inequities in Federal pay are apparent today, and their correction will entail a substantial cost. But, as the President stated, "full correction of the acc inequities in ~~one~~ year would be unwise . . .at a time when heavy budgetary demands have been placed upon us to meet great nationa security needs, and when the Government is urging private labor and management to exercise self-restraint to avoid the creation of inflationary pressures." *) It is this need for budgetary restraint, and the need for any salary proposals to conform - clearly and unambiguously - to non-inflationary wage guidelines developed for private industry, that must, in the last analysis, provide the benchmarks for testing the wisdom of any pay increas

proposed in the circumstances of today.

I need not review here the urgency of the balance of payments problem before this country, nor the critical importance of speeding our growth and providing a more favorable climate are frustrated in whole or in part by ~~y~~our inability to offer salaries approaching those that can be obtained elsewhere.

The Federal Government can never expect to provide salaries for its top staff personnel fully equal to those paid for comparable responsibilities in private life. The Administration's salary proposals would not accomplish this and, indeed, I do not believe they should. Such factors as devotion to public service, and enthusiasm for working on the most vital problems confronting the Nation, must always be a significant part of the attraction and rewards for Government service at those levels. Nevertheless, the discrepancies between salaries in private enterprise and in the Government cannot be allowed to become as great as they are today without doing serious and almost irreparable damage to the quality of our Federal staff. The Administration's proposal will bring a reasonable and satisfactory solution to this problem within the limitations of sound budgetary and economic policies.

The President, in his own message to you of February 20, stressed that any adjustments in Federal salary scales at this time must recognize the urgent need to exert conscious restraint over the level of Federal expenditures and over wage and salary costs, in Government and private industry determining their comparability with private industry, the development of a "pay line" and its extension to the higher grades and to statutory systems outside of the Classification Act, the plan for periodic review on the basis of similar surveys conducted annually, and all the rest.

The chief purpose of my appearance before you is to provide you with the views of the Treasury Department as to the fiscal and general economic impact of the salary reform proposals. Others who have testified and will testify are much more conversant with the full range of problems resulting from the existing Federal pay scales, including the difficulties in obtaining - and keeping - personnel competent to deal with the complex problems confronting the Government today, particularly at the higher salary grades.

Without going into detail, however, I would like to confirm that our own experience in the Treasury Department supports the general conclusions expressed to you by Chairman Macy, Deputy Budget Director Staats, and other spokesmen for the Administration, as to the vital need for correction in the Federal pay structure. We have found repeatedly that our efforts to bolster our ~~professional~~ staff with able men from business and the professions, and from universities as well,

D R A F T
PAV/JR
5/14/62

Mr. Chairman and Members of the Committee:

I am happy to appear before you today in support of H.R. 10480, "The Federal Salary Reform Bill", which has been recommended to the Congress by the President.

This legislation will go a long way toward rectifying the most serious deficiencies in Federal salary scales today. At the same time, it fully recognizes the priorities imposed by our budgetary and economic situation, and provides only those pay adjustments essential for the efficient and effective conduct of Government. It is the considered view of the Treasury Department that these priorities are not recognized by any one of several other proposals currently before this Committee, each of which would provide sizable increases at all levels of the Federal salary scale, fully effective immediately or even retroactively. Enactment of any one of these alternative measures would, in our view, be contrary to sound economic and financial policy. ~~and it would perpetuate and, in some cases, aggravate the maladjustments that the Administration's proposal is designed to remedy~~.

Others testifying before this Committee have reviewed in detail the proposals in H.R. 10480 - the internal consistency of the proposed salary scales and the method of

TREASURY DEPARTMENT
Washington

STATEMENT OF THE HONORABLE HENRY H. FOWLER

TREASURY DEPARTMENT
Washington

For Release on Delivery;

137

STATEMENT OF THE HONORABLE HENRY H. FOWLER
UNDER SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON POSTOFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
IN ~~CONNECTION WITH HEARINGS ON~~ Support of H.R. 10480,
"THE FEDERAL SALARY REFORM BILL"
TUESDAY, MAY 15, 1962, 10:00 A.M., EDT.

TREASURY DEPARTMENT
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FOR RELEASE ON DELIVERY

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The Federal Government can never expect to provide salaries for its top staff personnel fully equal to those paid for comparable responsibilities in private life. The Administration's salary proposals would not accomplish this and, indeed, I do not believe they should. Such factors as devotion to public service, and enthusiasm for working on the most vital problems confronting the Nation, must always be a significant part of the attraction and rewards for Government service at those levels. Nevertheless, the discrepancies between salaries in private enterprise and in the Government cannot be allowed to become as great as they are today without doing serious and almost irreparable damage to the quality of our Federal staff. The Administration's proposal will bring a reasonable and satisfactory solution to this problem within the limitations of sound budgetary and economic policies.

The President, in his own message to you of February 20, stressed that any adjustments in Federal salary scales at this time must recognize the urgent need to exert conscious restraint over the level of Federal expenditures and over wage and salary costs, in Government and private industry alike. The nature and timing of the reforms proposed by the Administration meet these criteria, so vital to all our efforts to spur growth at home, to maintain price stability, and to achieve a balance in our international accounts.

This is not primarily a pay increase bill, but rather a structural reform designed to meet the continuing requirements of effective public administration. Inequities in Federal pay are apparent today, and their correction will entail a substantial cost. But, as the President stated, "full correction of the accrued inequities in 1 year would be unwise . . . at a time when heavy budgetary demands have been placed upon us to meet great national security needs, and when the Government is urging private labor and management to exercise self-restraint to avoid the creation of inflationary pressures."*/ It is this need for budgetary restraint, and the need for any salary proposals to conform -- clearly and unambiguously -- to non-inflationary wage guidelines developed for private industry, that must, in the last analysis, provide the benchmarks for testing the wisdom of any pay increase proposed in the circumstances of today.

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> "It is important for the Federal Government to adhere to its own precepts with respect to pay adjustments in the economy as a whole. Because of the salary lag that has developed over the past 17 years, full correction of the accrued inequities in 1 year would be unwise, involving the substantial cost of more than $1 billion. This cost would come at a time when heavy budgetary demands have been placed upon us to meet great national security needs, and when the Government is urging private labor and management to exercise self-restraint to avoid the creation of inflationary pressures. Therefore, to reduce the impact in any one year on the affected $10 billion Federal payroll, where each 1-percent increase costs $100 million, the plan that I recommend provides that the full 10 percent be distributed over three annual stages, beginning prospectively on January 1, 1963. The increase scheduled to take effect next year is clearly well within the national average productivity increase (in the private sector) which has taken place since the last Federal pay increase in July of 1960.
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142

I need not review here the urgency of the balance of payments problem before this country, nor the critical importance of speeding our growth and providing a more favorable climate for productive investment within a context of over-all price stability. As you know, the Administration has in place and underway a wide variety of programs to meet these challenges -- depreciation reform and a related investment credit, a far-flung export drive, an increased sharing of the burdens of defense by our allies, tying of a larger proportion of our economic aid to American exports, and others. But in the end, these programs will be successful only as Government, business, and labor alike willingly accept the needed disciplines.

We must, in the last analysis, be able to produce goods, and services at attractice prices. Only then will we be able to compete successfully in world markets and achieve the larger trade surplus that is necessary for all our success. That is why we must place so much emphasis on price stability in this critical period. To achieve that stability, it is imperative that we exercise restraint in shaping our wage and price policies. It is equally imperative that we avoid potentially inflationary spending policies in shaping the Federal budget.

It is these factors that have dictated that Federal pay reform be spaced out gradually over a three-year period. When fully effective, the proposed salary increases will entail a total cost of approximately $1 billion on an annual basis. We cannot provide the salary scales that are necessary for any less.

But neither can we make up for past neglect in one jump, and still fit the adjustments within our current budgetary program. For that reason, the full impact of the reform bill on the budget will be deferred until fiscal 1966. The cost in fiscal 1963 will be limited to only $224 million, with the first increases not to become effective until January of next year.

The increase proposed for the coming fiscal year was developed within the context of the budget submitted to the Congress in January. That budget pointed toward a narrow balance, based on assumptions that the economy and Federal revenues would continue to grow in a favorable manner. If the economy expands in line with our projections at that time, and if expenditures are held to the amount estimated, that balance can be achieved. If business activity is less buoyant than expected, the balance will, of course, be threatened. But these inevitable uncertainties over the precise economic and revenue outlook provide no release from the necessity to maintain appropriate restraints on all our spending programs. A shortfall of revenues at a time when the economy is operating below full employment, with excess industrial capacity evident, is one thing; a rise in Federal spending that could not be covered by prospective revenues, even with the economy approaching full employment, is quite another.

There is only one way to insure that the Federal budget does not contribute to a rude awakening of inflationary forces in coming months. We must recognize that our resources are not unlimited; priorities must be established between spending programs; and those priorities must be maintained. Demands upon Government are great -- missile programs, space research, urban renewal, manpower retraining, revival of sick mass transit systems, and many other needs are crowding in upon us. All of these -- and salary adjustments too -- must be spaced out in proper sequence against the resources available to meet them. The President's budget, and within that context the proposed salary reforms, recognize these constraints; we can be oblivious to them only at our peril.

These budgetary constraints are not recognized in the large number of other pay raise bills now before this Committee. H.R. 9740, for example, would provide a large across-the-board increase in salaries; all would require that the increases proposed in them be effective immediately upon enactment or even retroactively; and they make little or no allowance for existing differentials between Government and private pay at different levels of responsibility. The least expensive of these bills would cost about $1 billion in fiscal 1963 for employees under the Classification Act and others covered in the bills, and roughly $1-3/4 billion for these specified groups and postal workers. Each would assure a budgetary deficit -- even if full employment has been reached by the end of the next fiscal year. None is consistent with a careful appraisal of existing priorities and the urgent need to avoid any inflationary influences from Government spending.

Moreover, these costs in terms of our over-all budgetary and economic objectives would be exacted to little end. All these bills are simply pay increases; none of the alternatives to the Administration's program represent progress toward real salary reform; each would perpetuate existing maladjustments and, indeed, in many cases aggravate them.

The immediate budgetary impact of these proposals is not the only factor to be considered. Federal salaries are a part, and a very important part, of the wage and price structure of this country. A program for Federal salary reform must be consistent -- and recognized as such by all -- with our national policy of non-inflationary wage and price behavior. Government must provide leadership by example. And it must avoid the sort of competition in labor markets that could itself bring pressures for upward wage adjustments by private industry.

As you know, the Administration has developed general guidelines for wage and salary decisions in the private sector of the economy. These guidelines are based upon the fundamental principle that wage increases over time should remain in line with the over-all trend in national productivity, so that labor may share in the gains achieved through greater efficiency without bringing upward pressures on over-all costs. This is an essential key to the objective of price stability that must underlie all our efforts to promote exports and restore equilibrium in our balance of payments.

Consistent with this basic principle, the guidelines recognize that increases in individual wage and salary rates either slower or faster than the average may be appropriate in the interests of equity. The implication is that more rapid wage increases could be accommodated, within the framework of general price stability, in those cases where existing wage rates are clearly below those generally prevailing for work of a comparable character.

On this basis, an upward adjustment in many Federal salaries could be justified immediately in terms of wage scales prevailing currently in industry. In other words, the salary reform bill -- including those changes scheduled for 1964 and 1965 -- could be considered to be in the nature of a correction of existing inequities, and therefore consistent with the stated guidelines. But that would not recognize the budgetary priorities emphasized by the President, nor would it provide the sort of clear and unambiguous example of restraint that is necessary.

The spacing of the salary increases provided for in the Administration bill will insure that they meet the over-all test of consistency with productivity gains in the whole private economy. (As a footnote, I should add that we have no reliable measure of productivity gains within Government itself -- although I am convinced, from my own experience within the Treasury, that these gains are very real. In fact, when I see the vast progress made in the application of electronic computers to our own operations, I see no reason to believe that gains in efficiency in Government are lagging behind those for other sectors of the economy.)

There has been no Federal salary increase since July 1960. The increases proposed in H.R. 10480 for January 1963 would result in an average increase of 4.5% in Federal salaries at that time, equivalent to about 1-3/4% per year since the date of the last increase. Meanwhile, national productivity has been rising since 1954 at a rate of 2.6% a year; for the postwar period as a whole, the rise has been even greater, equivalent to roughly 3.0% per year. For the entire period since 1909, the increase has been 2.4% a year. Thus, whatever set of base years might be chosen, the proposed increases are well within the guidelines.

Again, the contrast with the alternative proposals before this Committee is striking. In each case, those bills would provide increases this year in excess of amounts that can be justified on the basis of national trends in productivity. Moreover, at the lower work levels, the increases cannot be justified on the basis of equity. They would, in areas of the country where the Federal Government is a major factor in local labor markets, incite competitive wage increases in private employment. They would provide a most unfortunate example for labor and private industry generally. In sum, they would not only throw our budget out of balance, but they would jeopardize the whole approach of the Administration toward encouraging wage restraint and price stability. They would in the end entail grave risks for our balance of payments -- risks that cannot be justified by any appeal to equity or hardships.

For these reasons, the Treasury Department is opposed to these alternative bills. I hope that this Committee, in its deliberations, will instead carefully consider the implications of the principle set forth by the President in his Message when he emphasized the importance of the Federal Government adhering firmly "to its own precepts with respect to pay adjustments in the economy as a whole."

oOo

MAY 4 1962

MEMORANDUM TO OFFICE OF FISCAL ASSISTANT SECRETARY:

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

Purchases	$36,682,900.00
Sales	18,479,000.00
Net Purchases	$18,203,900.00

TREASURY DEPARTMENT

180 WASHINGTON, D.C.

May 16, ~~April 16~~, 1962

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN ~~MARCH~~ April

During ~~March~~ April 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 $~~18,878,450~~ 18,203,500.

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~~D-462~~

D-489

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 16, 1962

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN APRIL

During April 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 $18,203,500.

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D-489

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.

~~RELAxxXMORXXXXED~~

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 February 23, 1962 ~~x(17)x~~, (91 ~~(18)~~ days remaining until maturity date on August 23, 1962 ~~x(19)x~~) and noncompetitive tenders for $100,000 ~~x(20)x~~ or less for the 183 ~~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 Banks on May 24, 1962 ~~(22)x~~, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 24, 1962 ~~x(23)x~~. Cash

~~Exhibit 2-A~~

~~XXXXXXXXXXXXXX~~

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE May 16, 1962

~~XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX (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 $1,900,000,000 ~~(2)~~, or thereabouts, for cash and in exchange for Treasury bills maturing May 24, 1962 ~~(3)~~, in the amount of $ 1,802,351,000 ~~(4)~~, as follows:

91 ~~(5)~~ -day bills (to maturity date) to be issued May 24, 1962 ~~(6)~~, in the amount of $1,300,000,000 ~~(7)~~, or thereabouts, representing an additional amount of bills dated February 23, 1962 ~~(8)~~, and to mature August 23, 1962 ~~(9)~~, originally issued in the amount of $ 600,937,000 ~~(10)~~, the additional and original bills to be freely interchangeable.

183 ~~(11)~~ -day bills, for $ 600,000,000 (12), or thereabouts, to be dated May 24, 1962 ~~(13)~~, and to mature November 23, 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 Daylight Saving ~~Standard~~ time, Monday, May 21, 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

2-490

TREASURY DEPARTMENT

WASHINGTON, D.C.
May 16, 1962

FOR IMMEDIATE RELEASE

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91-day bills (to maturity date) to be issued May 24, 1962, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated February 23, 1962, and to mature August 23, 1962, originally issued in the amount of $ 600,937,000, 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.

D-490

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 February 23, 1962,(91-days remaining until maturity date on August 23, 1962) and noncompetitive tenders for $100,000 or less for the 183-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 May 24, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 24, 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 hereunde: 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 thi: notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained f: any Federal Reserve Bank or Branch.

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May 16, 1962 155

For Immediate Release

~~PRESS RELEASE DICTATED BY MR. ROOSA FROM ROME, ITALY.~~

Treasury to Increase the Offering of 3-Month by $100 million Next Week

The Treasury announced today that it would increase the amount of its offering of 3-month Treasury bills by $100 million next week, bringing the total offering of 3-month bills to $1.3 billion. ~~while~~ The offering of 6-month bills will be $600 million, as has been customary in recent weeks.

This marks the first step in the Treasury's acquisition of funds to meet its expected seasonal cash requirements through the beginning of the next fiscal year. Decisions on whether or not to continue raising additional funds in this manner will be made from week to week, depending on conditions in the market. This action does not reflect any change in the Treasury's estimates of its over-all cash requirements.

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 16, 1962

FOR IMMEDIATE RELEASE

TREASURY TO INCREASE THE OFFERING OF
3-MONTH BILLS BY $100 MILLION NEXT WEEK

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D-491

TREASURY DEPARTMENT
WASHINGTON

May 17, 1962

FACT SHEET FOR THE PRESS ON ITALIAN DEBT PREPAYMENT

Loans arising out of six agreements are covered by the arrangements concluded today between the Treasury Minister of Italy, Roberto Tremelloni and United States Treasury Secretary Douglas Dillon, for prepayment of $178.6 million of Italy's outstanding indebtedness to the United States.

Three of the six loans involved funds which were advanced to the Government of Italy under the Economic Cooperation Administration and the Mutual Security Administration of the United States. These loans, for $67 million, $6 million, and $22.6 million, represented assistance provided as part of the "Marshall Plan" assistance to Italy in the early post-war period. The remaining three loans, which are being prepaid by the Government of Italy, were made with the proceeds of sales of surplus agricultural commodities to the Government of Italy made under the authority of the Agricultural Trade and Development Assistance Act of 1954, as amended.

The prepayments agreed upon cover all of the loans of the United States to the Government of Italy arising from Marshall Plan assistance and proceeds of the sale of surplus agricultural commodities.

In his letter to Minister Tremelloni Secretary Dillon stated "The spirit with which your Government has entered into these discussions is most gratifying and is further evidence of the kind of cooperation which is an essential factor in the strength and stability of the international financial system. Your ability to prepay these obligations is a reflection of the sound position of the Italian economy in which you must take deep satisfaction and of the strength of your balance of payments position."

Details of the prepayment remain to be worked out. It is expected that the payment will be made as of July 1, 1962. As of that date, the amount which the Italian government will owe to the United States on the three Marshall Plan loans will be $85,627,179.44. The amount of the obligation resulting from the loans of the proceeds of surplus agricultural commodity sales will be approximately $93 million.

The prepayment arrangements do not cover Italian obligations arising from U. S. sales of merchant ships to Italian government or surplus property agreements concluded at the end of World War II. Italian debts to the U. S. government under these obligations are approximately $40 million.

(15)

-3- UNNUMBERED, MAY 16, (SECTION FOUR OF FOUR) FROM ROME

CURRENCIES AND MORES WOULD SURELY HAVE A FIRMER FOUNDATION THAN ONE BASED ON ARTIFICIAL DEVICES. AT THE LEAST, I SUGGEST, THERE IS FOOD FOR THOUGHT IN SUCH A POSSIBILITY -- AND THAT, ALONG WITH THE EXCELLENT CUISINE, IS WHAT I HAVE UNDERSTOOD TO BE THE PROVOCATIVE AIM OF THESE MEETINGS.

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AMONG MONETARY AUTHORITIES OF THE TYPE THAT HAS BEEN SO SUCCESSFULLY DEVELOPED OVER THE PAST YEAR OR SO. IT IS CLEAR THAT THE ATTRIBUTES OF A KEY CURRENCY INVOLVE MANY THINGS -- ITS USE IN INTERNATIONAL TRADE, ITS RELATIONSHIP TO GOLD AS THE ULTIMATE RESERVE, THE EXISTENCE OF BROAD AND DEEP CAPITAL AND MONEY MARKETS. IN ALL THESE RESPECTS THE DOLLAR IS NOW UNIQUE, ALTHOUGH WE HOPE TO SEE FURTHER PROGRESS IN THE FREEING UP OF EUROPEAN MONEY AND CAPITAL MARKETS. BUT WHAT MAKES A CURRENCY GOOD BASICALLY IS THE WAY THE COUNTRY MANAGES ITS ECONOMY. WHERE THERE ARE A NUMBER OF STRONG COUNTRIES -- AS THERE ARE TODAY -- A PLAUSIBLE CASE WOULD SEEM TO EXIST FOR SOME SHARING OF THE BURDENS PLACED ON THE KEY CURRENCY.

IT MAY BE, TOO, THAT A SYSTEM SUCH AS I HAVE OUTLINED WOULD BE A SENSIBLE WAY TO PROVIDE FOR ANY LARGE INCREASE IN LONG-RUN LIQUIDITY REQUIREMENTS. LONG BEFORE THERE CAN BE ANY AGREEMENT ON ANY OF THIS, HOWEVER, THERE ARE MANY KNOTTY PROBLEMS THAT WILL HAVE TO BE RESOLVED BY OUR OWN POLICY MAKERS AND THROUGH INTERNATIONAL CONSULTATIONS -- THROUGH THE BASLE GROUP, THROUGH THE OECD, AND THROUGH THE IMF. BUT EXPLORATIONS ALONG THESE LINES ARE FAR PREFERABLE, IT SEEMS TO ME, TO THE OFTEN PROPOSED TYPES OF ACTION (INVOLVING STILL MORE DIFFICULT DECISIONS AND NEGOTIATIONS) THAT BASICALLY INVOLVE AN OATH OF ALLEGIANCE BY ALL GOVERNMENTS AND CENTRAL BANKS TO A SYNTHETIC CURRENCY DEVICE, CREATED BY AN EXTRA-NATIONAL AUTHORITY BEARING NEITHER THE RESPONSIBILITIES NOR THE DISCIPLINES OF SOVEREIGNTY.

ON THE OTHER HAND, A SYSTEM WHERE COUNTRIES MAINTAIN SOME MUTUAL HOLDINGS OF FOREIGN EXCHANGE HAS THE EXTREME ADVANTAGE OF USING EXISTING INSTITUTIONS AND PRACTICES. WITHIN SUCH A SYSTEM THE PATTERNS OF REFERENCE ARE KNOWN TO ALL; NO ONE WILL BE ASKED TO DO THINGS THAT FALL OUTSIDE THE REALM OF HIS EXPERIENCE. A SYSTEM ERECTED ON ESTABLISHED

INCOMING TELEGRAM *Department of State* (13)

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FROM: ROME

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TO: Secretary of State

NO: UNNUMBERED, MAY 16, (SECTION FOUR OF FOUR)

PLEASE PASS URGENTLY TO TREASURY FOR STEVE MANNING FROM DONNELLY.

PASS ALSO USIA.

OF SHIFTS IN RESERVES AMONG OTHER CENTRAL BANKS WOULD BE LIFTED FROM THE UNITED STATES GOLD STOCK. WITH SUCH A SYSTEM WE MIGHT PERHAPS BE ABLE TO VIEW IN BETTER PERSPECTIVE OUR GOLD LOSS OF THE PAST FIVE YEARS AS A BASIC AND HEALTHY REDISTRIBUTION OF AVAILABLE WORLD GOLD RESERVES, A REDISTRIBUTION THAT HAS ADDED TO THE STRENGTH OF THE INTERNATIONAL FINANCIAL COMMUNITY.

WHAT I AM SUGGESTING IS THAT WE NEED TO BUILD FURTHER THE OUTER DEFENSES AROUND THE LIQUIDITY OF THE INTERNATIONAL MONETARY FUND, WHICH WILL BE SUBSTANTIALLY AUGMENTED BY THE STAND-BY AGREEMENT ON WHICH PROGRESS TOWARD RATIFICATION IS GOING AHEAD WITH GRATIFYING DESPATCH. WE NEED TO PROVIDE A MEANS OF FURTHER ECONOMIZING ON GOLD RESERVES, WHILE ENSURING THAT THE LIQUIDITY NEEDS OF OUR EXPANDING WORLD ECONOMY WILL BE MET IN A MANNER CONSISTENT WITH THE SOVEREIGNTY OF INDIVIDUAL COUNTRIES AND WITH HEAVY RELIANCE ON THE DISCIPLINE PROVIDED BY THE BALANCE OF PAYMENTS.

THE NET EFFECT, IF THIS LINE OF DEVELOPMENT SHOULD BE FOLLOWED, WOULD BE TO MULTILATERALIZE A PART OF THE ROLE PERFORMED NOW BY THE TWO KEY CURRENCIES, WITHIN A FRAMEWORK THAT WOULD PLACE GREAT STRESS ON STILL FURTHER COOPERATION

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OF COURSE, AND THE RELATIVE SIZE OF ANY SUCH HOLDINGS WOULD PRESUMABLY BE COMPARATIVELY SMALL. NOR WOULD THERE BE ANY LESSENING OF THE NEEDED BALANCE OF PAYMENTS DISCIPLINES UPON US OR UPON OTHERS. FOR CHANGES IN OUR COMBINED RESERVES OF GOLD AND FOREIGN EXCHANGE WOULD THEN BECOME AS SIGNIFICANT TO THE DETERMINATION OF OUR POLICIES AS CHANGES IN GOLD ALONE HAVE BEEN OVER RECENT YEARS.

IF SUCH A SYSTEM WERE BOLSTERED BY SUITABLE INTERNATIONAL ARRANGEMENTS TO ENSURE A STEADY AND ORDERLY DISTRIBUTION OF NEWLY-MINED GOLD INTO MONETARY RESERVES, MUCH OF THE PRESSURE -- BOTH PSYCHOLOGICAL AND REAL -- THAT ARISES FROM THE ACCIDENT

GDW

taken together with changes in our short-term liabilities to foreigners,

AVOID THEM, BUT CERTAINLY AVOID CONDITIONS THAT EXAGGERATE THEM. UNDER PRESENT PROCEDURES, WE CANNOT BE SURE THAT GOLD WILL RETURN TO US WHEN WE MOVE INTO SURPLUS -- AND WE MUST AND WILL HAVE SURPLUSES FROM TIME TO TIME.

THIS KIND OF CONSIDERATION LEADS DIRECTLY INTO MY SECOND MAIN THEME -- THE POTENTIAL USES OF FOREIGN EXCHANGE HOLDINGS BY A KEY CURRENCY COUNTRY. AS I HAD MENTIONED EARLIER, OUR EXCHANGE OPERATIONS TO DATE HAVE BEEN LARGELY DICTATED BY CLEAR, CURRENT OPPORTUNITIES AND NEEDS. WE HAVE ACTED IN RESPONSE TO MARKET DEVELOPMENTS AND HAVE NOT SOUGHT TO BECOME PERMANENT AND REGULAR PARTICIPANTS IN THE MARKET FOR ANY CURRENCY. OUR SPOT EXCHANGE HOLDINGS -- WHICH, ON THE LATEST PUBLISHED FIGURES WERE ABOUT $150 MILLION, BUILT UP PARTLY FROM BORROWING AND PARTLY FROM PURCHASES IN THE EASIER MARKETS THAT HAVE PREVAILED FOR SOME CURRENCIES SO FAR THIS YEAR -- HAVE MAINLY BEEN ACQUIRED TO BACK UP OUR FORWARD SALES. BUT LOOKING AHEAD TO THE FUTURE, THERE MAY WELL BE GOOD REASON FOR MORE OR LESS CONTINUOUS HOLDING BY THE UNITED STATES OF SOME MODERATE AMOUNTS OF THE CONVERTIBLE EXCHANGE OF VARIOUS LEADING COUNTRIES.

WHILE IT IS PREMATURE TO SEE CLEARLY WHERE WE MAY BE HEADING SO FAR AS THE CURRENCY HOLDINGS OF THE UNITED STATES ARE CONCERNED, IT MAY WELL TURN OUT THAT SOME CONTRIBUTION TOWARD RESOLVING A PART OF OUR PROBLEM MAY BE FOUND IN BUILDING UP -- IN TIME OF SURPLUS -- HOLDINGS OF OTHER CURRENCIES THAT ARE NOT THOUGHT OF AS RESERVE CURRENCIES IN THE SAME WAY THAT THE DOLLAR AND THE POUND STERLING ARE VIEWED. SHOULD WE DO THAT, EITHER WITH OPEN HOLDINGS OR THROUGH HEDGED FORWARD POSITIONS, OUR EXCHANGE HOLDINGS MIGHT BE ABLE SUBSEQUENTLY TO HANDLE A CONSIDERABLE PART OF THE NORMAL SWINGS IN PAYMENT PATTERNS, LEAVING THE GOLD RESERVES AVAILABLE TO COVER MORE FUNDAMENTAL AND LASTING ADJUSTMENTS. THERE WOULD BE NO COMMITMENT TO HOLD ANY PARTICULAR CURRENCY,

ADVANCE COPY

DOLLAR HOLDINGS IN THE HANDS OF PRIVATE FOREIGNERS, WE MUST MAKE SURE THAT SPECULATIVE FORCES ARE NOT FED BY UNCERTAINTY ABOUT EITHER THE ABILITY OR THE DETERMINATION OF THE UNITED STATES TO STAND FIRMLY BEHIND THE INTER-CONVERTIBILITY OF THE DOLLAR WITH GOLD AT THE FIXED PRICE OF $35.00 PER FINE OUNCE.

A CLEAR DISTINCTION HAS TO BE DRAWN -- AND IT IS NOT ALWAYS EASY TO CONVEY THIS READILY -- BETWEEN THE ABSOLUTE AND UNCONDITIONAL AVAILABILITY OF GOLD TO FOREIGN MONETARY AUTHORITIES FOR LEGITIMATE MONETARY PURPOSES AND THE COMPULSION ON US -- IN COOPERATION WITH FOREIGN MONETARY AUTHORITIES -- TO AVOID ANY UNNECESSARY DISPERSIONS OF THE UNITED STATES GOLD RESERVE, ON WHICH OUR EXISTING INTERNATIONAL SYSTEM, IN THE LAST ANALYSIS, DEPENDS. THE UNITED STATES WOULD, IN FACT, BE JUST AS DERELICT IN ITS DUTY TO HELP SUPPORT AND SUSTAIN A GROWING AND VIABLE INTERNATIONAL ECONOMY IF IT FAILED TO DEFEND THE GOLD STOCK THROUGH IMPROVED TECHNIQUES OF MONETARY COOPERATION AS IT WOULD BE IF IT FAILED TO MAKE GOLD AVAILABLE TO FOREIGN MONETARY AUTHORITIES ON DEMAND.

A SOLUTION OF THE BALANCE OF PAYMENTS DEFICIT IS FUNDAMENTAL IF WE ARE TO WARD OFF A STEADY ATTRITION OF THE UNITED STATES GOLD STOCK. BUT, THE PROBLEM GOES EVEN BEYOND THIS. THE UNITED STATES IS A READY SELLER OF GOLD ON DEMAND, BUT OTHER COUNTRIES ARE NOT NECESSARILY SELLERS TO US WHEN THEY HAVE EXCHANGE DEFICITS, PARTLY INDEED BECAUSE THEIR OWN GOLD RESERVE IS CUSHIONED - IN MANY CASES SUBSTANTIALLY -- BY DOLLAR RESERVES.

IT IS CONSEQUENTLY A MATTER OF FIRST PRIORITY FOR US TO DEVELOP METHODS THAT WILL MINIMIZE OUR GOLD LOSSES WHENEVER OUR BALANCE OF PAYMENTS SWINGS INTO DEFICIT -- BY NO MEANS

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FROM: ROME

TO: Secretary of State

NO: UNNUMBERED, MAY 16 (SECTION THREE OF FOUR)

PLEASE PASS URGENTLY TO TREASURY FOR STEVE MANNING FROM DONNELLY.

PASS ALSO USIA.

ENCOURAGE FOREIGN PRIVATE INVESTORS TO STAY INVESTED IN DOLLARS (OR TO INCREASE THEIR HOLDINGS) AND THUS RESTRAIN THE PILING UP OF DOLLARS IN CENTRAL BANKS ABROAD.

AS LONG AS THE UNITED STATES CONTINUES TO RUN A SIZEABLE DEFICIT IN ITS BALANCE OF PAYMENTS IT IS UNLIKELY THAT WE CAN OR SHOULD EXPECT THAT SOME PART OF THE DOLLARS PUMPED INTO THE INTERNATIONAL FINANCIAL STREAM WILL NOT REACH CENTRAL BANK HANDS. NOR SHOULD WE EXPECT TO AVOID SOME RESULTING DRAIN ON OUR GOLD STOCK. AND THE DISCIPLINES WHICH SUCH MOVEMENTS IMPLY ARE FUNDAMENTAL AND CLEAR.

AT THE SAME TIME WE MUST BE CONSTANTLY MINDFUL THAT THE DOLLAR IS NOT JUST ANOTHER CURRENCY, BUT THAT IT IS A KEY RESERVE CURRENCY -- NOT ONLY FOR FOREIGN MONETARY AUTHORITIES BUT ALSO FOR FOREIGN PRIVATE BANKS AND CORPORATIONS. WE MUST REMEMBER THAT FOREIGN MONETARY AUTHORITIES ADJUST THEIR OWN BALANCE OF PAYMENTS POSITION DAY-BY-DAY AND WEEK-BY-WEEK BY THE PURCHASE AND SALE OF DOLLARS IN THE EXCHANGE MARKET. IRRESPECTIVE OF OUR BALANCE OF PAYMENTS POSITION THE SHIFT OF DOLLARS FROM COUNTRIES WITH TRADITIONALLY LOW GOLD RATIOS TO COUNTRIES WITH HIGH RATIOS CAN RESULT IN A GOLD DRAIN FOR THE UNITED STATES. SIMILARLY, WITH 8-1/2 BILLION OF LIQUID

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-4- UNNUMBERED, MAY 16, (SECTION TWO OF FOUR) FROM ROME

ALL IN ALL, TOTAL FORWARD EXCHANGE OPERATIONS UNDERTAKEN BY THE TREASURY IN THE FOUR CURRENCIES THAT I HAVE MENTIONED, INCLUDING THE ROLL-OVER OF MATURING CONTRACTS IN SOME CASES, HAVE AMOUNTED TO ABOUT $1-1/2 BILLION IN THE 14-MONTH PERIOD.

ONE OF THE MAIN RESULTS OF THESE SALES OF FORWARD EXCHANGE, AS IS OBVIOUS FROM WHAT I HAVE SAID SO FAR, HAS BEEN TO

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UNCERTAINTY IN THE MARKETS AND THERE WERE WIDESPREAD EXPECTATIONS THAT FURTHER APPRECIATION OF THESE, AND PERHAPS OTHER, CURRENCIES WOULD SHORTLY BE FORTH-COMING. IN THESE CIRCUMSTANCES FORWARD RATES MOVED TO SUBSTANTIAL PREMIUMS, THE DM ~~TOUCHING~~ approaching A 4 PERCENT PER ANNUM PREMIUM FOR A TIME, AND INCENTIVES WERE CREATED FOR HEAVY FLOWS OF FUNDS OUT OF THE DOLLAR AND INTO THE MARK. ACTUALLY, IN PROVIDING MARKS TO THE FORWARD MARKET, WE MADE IT POSSIBLE FOR THE RECIPIENTS TO CONTINUE HOLDING THEIR DOLLARS, WHILE ASSURED OF LATER CONVERTIBILITY INTO MARKS IF THEIR ACQUISITIONS DID IN FACT PROVE TO BE SUSTAINED. OUR OWN FORWARD SALES OF MARKS REACHED A PEAK OF ABOUT ~~$320~~ $350 MILLION IN MID-JUNE AND AGGREGATED CONSIDERABLY MORE AS SOME INITIAL CONTRACTS WERE ROLLED OVER ONCE OR TWICE MORE. BUT NOW, THEY HAVE ALL BEEN PAID OFF, AS THE EXCESSIVE FLOW OF FUNDS INTO GERMANY FIRST SUBSIDED AND THEN WAS REVERSED WHEN THE BERLIN SITUATION DETERIORATED DURING THE LATE SUMMER OF 1961 AND EXPECTATIONS OF FURTHER APPRECIATION DISAPPEARED.

~~SIMILAR~~ OPERATIONS WERE UNDERTAKEN IN SWISS FRANCS BEGINNING IN MAY 1961 ON A SMALL SCALE, AND ACCELERATING IN JULY WHEN THE BERLIN CRISIS ENCOURAGED A STEPPED UP FLOW OF FUNDS INTO SWITZERLAND. THE SWISS WERE ANXIOUS TO ENCOURAGE AN OUTWARD FLOW OF SHORT-TERM SWISS CAPITAL TO OFFSET INFLOWS FROM OTHER SOURCES THAT WERE CREATING DOMESTIC PROBLEMS OF EXCESSIVE BANK LIQUIDITY AND INFLATIONARY PRESSURES, AND THE UNITED STATES WAS GLAD TO COOPERATE, SINCE WE WERE EQUALLY ANXIOUS TO DEFEND THE DOLLAR BY LESSENING THE PRESSURE ON THE SWISS NATIONAL BANK TO ABSORB MORE DOLLARS. EARLY THIS YEAR, FOR ROUGHLY SIMILAR REASONS, FORWARD SALES OF GUILDERS AND ITALIAN LIRE WERE MADE. TO GIVE YOU AN IDEA OF THE MAGNITUDES INVOLVED, SALES OF FORWARD SWISS FRANCS REACHED A MAXIMUM OF SOMETHING OVER $150 MILLION, ~~GUILDER SALES WERE QUITE MODEST, WHI~~LE SALES OF ITALIAN LIRE ~~HAVE APPROACHED THE MAGNITUDE OF THE EARLIER OPERATIONS IN GERMAN MARKS~~.

have been larger, guilder sales have quite

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STATES HELD NO RESERVES OF CONVERTIBLE FOREIGN EXCHANGE -- AND THE BALANCE OF PAYMENTS WAS IN DEFICIT. AS A RESULT, THERE WAS NO OPPORTUNITY TO SUPPORT THE DOLLAR IN THE EXCHANGE MARKET THROUGH SPOT SALES OF OTHER CURRENCIES IN THE WAY THAT EUROPEAN MONETARY AUTHORITIES CUSTOMARILY DO WHEN THEIR OWN CURRENCIES COME UNDER PRESSURE.

SOME MINOR LIMITED SELLING OPERATIONS IN THE SPOT MARKET HAVE BEEN UNDERTAKEN MORE RECENTLY TO ALLEVIATE TEMPORARY PRESSURES, USING FOREIGN EXCHANGE ACQUIRED BY BORROWING IN SWITZERLAND AND ITALY (OR LIMITED AMOUNTS ACQUIRED AT TIMES WHEN THE RATE WOULD NOT BE ADVERSELY AFFECTED). OPERATIONS HAVE BEEN MAINLY CONCENTRATED, HOWEVER, IN FORWARD EXCHANGE, ~~WHERE~~ MARKETS CAN AT TIMES BE QUITE THIN The AND EVEN A RELATIVELY LIMITED VOLUME OF DEMAND CAN HAVE market AN EXCESSIVE IMPACT ON RATES, WHICH ARE NOT SUBJECT TO LIMITATIONS UNDER IMF REGULATIONS BUT WHICH CAN GENERATE GREAT PRESSURES UPON THE SPOT RATES. WHEN THE FORWARD RATE -- WHETHER BECAUSE OF EXPECTATIONS CONCERNING FUTURE CURRENCY VALUES OR FOR OTHER REASONS -- MOVES CONSPICUOUSLY OUT OF LINE WITH ITS INTEREST PARITY, SHORT-TERM PRIVATE CAPITAL MOVEMENTS CAN BE SET OFF THAT MAY BE DISTURBING TO BOTH THE COUNTRY RECEIVING AND THE COUNTRY LOSING FUNDS. IT IS USEFUL TO HAVE FACILITIES FOR TESTING OUT WHETHER THE PARTICULAR DEVELOPMENTS ARE IN FACT DEEPLY ROOTED AND SUSTAINED, OR WHETHER THEY ARE SHORT-LIVED AND MAY SOON BE REVERSED.

IT WAS PRECISELY THIS SORT OF SITUATION, IN FACT, THAT PROVIDED THE IMMEDIATE MOTIVATION FOR TREASURY OPERATIONS -- IN CONJUNCTION WITH THE BUNDESBANK (AND ACTUALLY IN RESPONSE TO A VERY CONSTRUCTIVE INITIATIVE ON THE PART OF THE BUNDESBANK) -- IN THE FORWARD MARKET FOR DEUTSCHEMARKS IN MARCH 1961. YOU WILL RECALL THAT THE REVALUATION OF THE MARK AND THE GUILDER AT THAT TIME LED TO A STATE OF GREAT

AT THIS EARLY STAGE TO BE SUGGESTED, CONCERNING THE ACCUMULATION BY A KEY CURRENCY COUNTRY OF BALANCES IN THE CONVERTIBLE CURRENCIES OF OTHER LEADING COUNTRIES?

OTHER COUNTRIES HAVE LONG ACCEPTED DIRECT INTERVENTION IN THE EXCHANGE MARKETS AS A CUSTOMARY WAY OF LIFE. AT THE LEAST, THEY MUST BE BUYERS OR SELLERS AS EXCHANGE QUOTATIONS REACH THE ACCEPTABLE LIMITS OF VARIATION AROUND THEIR OWN FIXED EXCHANGE RATES. THE UNITED STATES, ON THE OTHER HAND, WAS -- AND STILL IS -- THE ONLY COUNTRY THAT MAINTAINS COMPLETE INTER-CONVERTIBILITY BETWEEN GOLD AND ITS OWN CURRENCY AT A FIXED PRICE, AND, UNTIL RECENTLY, WAS CONTENT TO LEAVE ALL OPERATIONS CONCERNING THE EXCHANGE RELATIONS BETWEEN THE DOLLAR AND OTHER CURRENCIES TO THE OFFICIALS OF THOSE OTHER COUNTRIES. THE RECENT DECISION TO PARTICIPATE IN THE INTERNATIONAL MARKETS IN COOPERATION WITH OTHER FINANCIAL AUTHORITIES REFLECTS, AS DO MANY OTHER GOVERNMENTAL AND PRIVATE ACTIONS, A GROWING AWARENESS WITHIN THE UNITED STATES OF THE DUAL NATURE OF OUR OWN BALANCE OF PAYMENTS PROBLEM.

WE MUST NOT ONLY RESPECT AND FULFILL THE BALANCE OF PAYMENTS DISCIPLINES TO WHICH OTHER COUNTRIES HAVE BEEN ACCUSTOMED FOR SO LONG; BUT WE MUST DO THIS WHILE ALSO KEEPING OUR OWN CURRENCY AND GOLD EQUALLY AND ALTERNATIVELY AVAILABLE AS RESERVES FOR ALL OTHER COUNTRIES. WE MUST GAIN AND KEEP THE INITIATIVE FOR INFLUENCING THE FACTORS THAT AFFECT OUR BALANCE OF PAYMENTS, BUT WE MUST DO SO IN THE IMPECCABLE MANNER THAT ASSURES AND RETAINS BANKERS' CONFIDENCE. THIS MEANS THAT, BOTH AS TRADER AND AS BANKER, THE UNITED STATES HAS TO KEEP ITS MARKETS OPEN AND FREE. WE HAVE THEREFORE A MAJOR STAKE, WHICH THE WESTERN WORLD SHARES WITH US, IN RESOLVING OUR BALANCE OF PAYMENTS PROBLEM WITHIN THE FRAMEWORK OF A FREE INTERNATIONAL ECONOMY, WITH STABLE EXCHANGE RATES AND AN IMMUTABLE GOLD PRICE OF $35 AN OUNCE.

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DEPEND UPON THE PRODUCTIVITY, PRODUCTION, AND COMPETITIVENESS OF THE AMERICAN ECONOMY. BUT IN WHAT WE HAVE BEEN DOING, BOTH BASICALLY AND PERIPHERALLY, TO DEFEND THE DOLLAR, WE HAVE ALSO BEEN DEFENDING, IN CONCERT WITH OTHERS, THE WHOLE SYSTEM OF CONVERTIBILITY AT STABLE EXCHANGE RATES THAT HAS BEEN SO PAINSTAKINGLY RECONSTRUCTED SINCE THE END OF WORLD WAR II. AND THE EFFECTIVE FUNCTIONING OF THAT SYSTEM IS, IN TURN, ESSENTIAL FOR DIVERSIFIED GROWTH AND INTEGRATION AMONG THE FREE, CAPITALIST ECONOMIES OF THE WORLD.

IN ADDITION TO THE SHORT-RUN OBJECTIVES OF OUR FOREIGN EXCHANGE OPERATIONS, ON WHICH I SHALL SAY A BIT MORE IN A MOMENT, THERE ARE LONGER-RUN IMPLICATIONS AND POTENTIALITIES OF AN APPROACH IN WHICH A KEY CURRENCY COUNTRY BECOMES AN ACTIVE PARTICIPANT IN THE INTERNATIONAL EXCHANGE MARKETS. AS WE GO ALONG WE ARE ALSO, THEREFORE, TRYING TO THINK THROUGH SOME OF THESE POSSIBLE IMPLICATIONS FOR THE LONG-RUN -- CAN SUCH PARTICIPATION AID IN ASSURING THE STABILITY OF THE INTERNATIONAL FINANCIAL MECHANISM? CAN IT, IF PROPERLY EXECUTED, REINFORCE THE FUNDAMENTAL WORK OF THE INTERNATIONAL MONETARY FUND? DOES IT AFFORD A HELPFUL MEANS TOWARD PROVIDING SUFFICIENT INTERNATIONAL LIQUIDITY FOR THE CONTINUED GROWTH OF THE WORLD ECONOMY? DOES IT STRENGTHEN THE ROLE OF GOLD AS THE BASE OF OUR INTERNATIONAL RESERVE ARRANGEMENTS?

THESE ARE THE KINDS OF QUESTIONS THAT CENTRAL BANKERS, AND COMMERCIAL BANKERS AND TREASURIES CAN USEFULLY PONDER TOGETHER, IN OUR JOINT EFFORTS TO FIND THE COMBINATION OF PRIVATE AND GOVERNMENTAL MONETARY FACILITIES THAT A FLOURISHING CAPITALISM NEEDS. WHILE I CANNOT PRESUME TO SUGGEST ANY OF THE ANSWERS, IT MAY BE OF SOME HELP AS BACKGROUND FOR OTHERS WHO CAN, IF I DISCUSS TWO THEMES THAT SEEM TO RUN THROUGH OUR AMERICAN EXPERIENCE OF THESE RECENT MONTHS. FIRST, WHAT HAS THUS FAR BEEN THE NATURE OF OUR FOREIGN EXCHANGE OPERATIONS WITHIN THE FRAMEWORK OF THE SYSTEM OF CONVERTIBILITY BASED ON FIXED EXCHANGE RATES? SECOND, WHAT POSSIBILITIES SEEM

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FROM: ROME

TO: Secretary of State

NO: UNNUMBERED, MAY 16 (SECTION ONE OF FOUR)

PLEASE PASS URGENTLY TO TREASURY FOR STEVE MANNING FROM DONNELLY.

PASS ALSO USIA.

FOLLOWS ROOSA TEXT AT ABA MEETING:

"OVER THE PAST FOURTEEN MONTHS THE UNITED STATES HAS, FOR THE FIRST TIME SINCE THE LATER 1930'S, ENTERED INTO FOREIGN EXCHANGE TRANSACTIONS FOR MONETARY PURPOSES -- AS DISTINCT FROM THE MORE OR LESS ROUTINE HANDLING OF FOREIGN EXCHANGE TO MEET THE GOVERNMENT'S OPERATING NEEDS ABROAD. THE TREASURY BEGAN LIMITED OPERATIONS IN MARCH 1961, ACTING THROUGH THE FEDERAL RESERVE BANK OF NEW YORK AS ITS FISCAL AGENT. IN FEBRUARY OF THIS YEAR THE FEDERAL RESERVE SYSTEM ANNOUNCED ITS DECISION TO ENTER THE EXCHANGE MARKETS FOR ITS OWN ACCOUNT.

TO DATE, UNITED STATES ACTION IN THE FOREIGN EXCHANGE MARKETS HAS BEEN LARGELY EXPLORATORY IN CHARACTER, DESIGNED TO PROBE AND POSSIBLY TO LIMIT TEMPORARY DISTURBANCES IN THE EXCHANGE MARKETS. ALL OPERATIONS HAVE BEEN CARRIED OUT IN CLOSE CONSULTATION WITH, AND USUALLY JOINTLY WITH, THE FINANCIAL AUTHORITIES OF THE OTHER COUNTRIES INVOLVED.

THESE ACTIVITIES IN THE FOREIGN EXCHANGE MARKETS HAVE SOMETIMES BEEN REFERRED TO AS THE FINANCIAL COMPONENT IN THE OUTER PERIMETER DEFENSES OF THE DOLLAR. THIS IS PROBABLY A GOOD CHARACTERIZATION, SINCE OF COURSE THE INNER DEFENSES

TREASURY DEPARTMENT
Washington

168

AFTER 10:00 AM., EDT
FOR RELEASE ~~XXxXXXXXXX~~

REMARKS OF THE HONORABLE ROBERT V. ROOSA
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS,
AT THE MONETARY CONVERENCE OF THE AMERICAN BANKERS ASSOCIATION,
ROME, ITALY, THURSDAY, MAY 17, 1962

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TREASURY DEPARTMENT
Washington

FOR RELEASE AFTER 10:00 A.M., EDT

REMARKS OF THE HONORABLE ROBERT V. ROOSA
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS,
AT THE
MONETARY CONFERENCE OF THE AMERICAN BANKERS ASSOCIATION,
ROME, ITALY, THURSDAY, MAY 17, 1962

Over the past fourteen months the United States has, for the first time since the later 1930's, entered into foreign exchange transactions for monetary purposes -- as distinct from the more or less routine handling of foreign exchange to meet the Government's operating needs abroad. The Treasury began limited operations in March 1961, acting through the Federal Reserve Bank of New York as its fiscal agent. In February of this year the Federal Reserve System announced its decision to enter the exchange markets for its own account.

To date, United States action in the foreign exchange markets has been largely exploratory in character, designed to probe and possibly to limit temporary disturbances in the exchange markets. All operations have been carried out in close consultation with, and usually jointly with, the financial authorities of the other countries involved.

These activities in the foreign exchange markets have sometimes been referred to as the financial component in the outer perimeter defenses of the dollar. This is probably a good characterization, since of course the inner defenses depend upon the productivity, production, and competitiveness of the American economy. But in what we have been doing, both basically and peripherally, to defend the dollar, we have also been defending, in concert with others, the whole system of convertibility at stable exchange rates that has been so painstakingly reconstructed since the end of World War II. And the effective functioning of that system is, in turn, essential for diversified growth and integration among the free, capitalist economies of the World.

In addition to the short-run objectives of our foreign exchange operations, on which I shall say a bit more in a moment, there are longer-run implications and potentialities of an approach in which a key currency country becomes an active participant in the international exchange markets. As we go along we are also, therefore, trying to think through some of these possible implications for the long-run -- can such participation aid in assuring the stability of the international financial mechanism? Can it, if properly executed, reinforce the fundamental work of the International Monetary Fund? Does it afford a helpful means toward providing sufficient international liquidity for the continued growth of the world economy? Does it strengthen the role of gold as the base of our international reserve arrangements?

These are the kinds of questions that central bankers, and commercial bankers and treasuries can usefully ponder together, in our joint efforts to find the combination of private and governmental monetary facilities that a flourishing capitalism needs. While I cannot presume to suggest any of the answers, it may be of some help as background for others who can, if I discuss two themes that seem to run through our American experience of these recent months. First, what has thus far been the nature of our foreign exchange operations within the framework of the system of convertibility based on fixed exchange rates? Second, what possibilities seem at this early stage to be suggested, concerning the accumulation by a key currency country of balances in the convertible currencies of other leading countries?

Other countries have long accepted direct intervention in the exchange markets as a customary way of life. At the least, they must be buyers or sellers as exchange quotations reach the acceptable limits of variation around their own fixed exchange rates. The United States, on the other hand, was -- and still is -- the only country that maintains complete inter-convertibility between gold and its own currency at a fixed price, and, until recently, was content to leave all operations concerning the exchange relations between the dollar and other currencies to the officials of those other countries. The recent decision to participate in the international markets in cooperation with other financial authorities reflects, as do many other governmental and private actions, a growing awareness within the United States of the dual nature of our own balance of payments problem.

We must not only respect and fulfill the balance of payments disciplines to which other countries have been accustomed for so long; but we must do this while also keeping our own currency and gold equally and alternatively available as reserves for all other countries. We must gain and keep the initiative for influencing the factors that affect our balance of payments, but we must do so in the impeccable manner that assures and retains bankers' confidence. This means that, both as trader and as banker, the United States has to keep its markets open and free. We have therefore a major stake, which the Western World shares with us, in resolving our balance of payments problem within the framework of a free international economy, with stable exchange rates and an immutable gold price of $35 an ounce.

Let me make it absolutely clear, again, that there is no thought that foreign exchange operations can provide the solution to the United States balance of payments deficit. More fundamental correctives are necessary for this end, and I know that you are all familiar with the many-sided program of American business, finance and government that is moving forward toward a restoration of equilibium, and surplus, in the American balance of payments.

Our foreign exchange operations have so far been mainly designed to help in providing a breathing space during which these basic programs could have a chance to become effective. In our judgment, they have been most helpful in deterring unwarranted speculation and unwanted capital flows, and in reducing the drain on our gold stock, which stands as the bulwark of the whole international currency system.

I should emphasize that our operations have not at any time involved an attempt to "rig" markets or "peg" prices. Within the relatively narrow band which is, in any event, permitted for exchange fluctuations under the rules of the International Monetary Fund, there must be room for market prices to demonstrate the basic strength or weakness of any currency. We could not, of course, have pegged exchange rates even if we had wanted to. In March 1961, the United States held no reserves of convertible foreign exchange -- and the balance of payments was in deficit. As a result, there was no opportunity to support the dollar in the exchange market through spot sales of other currencies in the way that European monetary authorities customarily do when their own currencies come under pressure.

Some minor limited selling operations in the spot market have been undertaken more recently to alleviate temporary pressures, using foreign exchange acquired by borrowing in Switzerland and Italy (or limited amounts acquired at times when the rate would not be adversely affected). Operations have been mainly concentrated, however, in forward exchange. These markets can at times be quite thin and even a relatively limited volume of market demand can have an excessive impact on rates, which are not subject to limitations under IMF regulations but which can generate great pressures upon the spot rates. When the forward rate -- whether because of expectations concerning future currency values or for other reasons -- moves conspicuously out of line with its interest parity, short-term private capital movements can be set off that may be disturbing to both the country receiving and the country losing funds. It is useful to have facilities for testing out whether the particular developments are in fact deeply rooted and sustained, or whether they are short-lived and may soon be reversed.

It was precisely this sort of situation, in fact, that provided the immediate motivation for Treasury operations -- in conjunction with the Bundesbank (and actually in response to a very constructive initiative on the part of the Bundesbank) -- in the forward market for deutschemarks in March 1961. You will recall that the revaluation of the mark and the guilder at that time led to a state of great uncertainty in the markets and there were widespread expectations that further appreciation of these, and perhaps other, currencies would shortly be forth-coming. In these circumstances forward rates moved to substantial premiums, the deutschemarks approaching a 4 per cent per annum premium for a time, and incentives were created for heavy flows of funds out of the dollar and into the mark. Actually, in providing marks to the forward market, we made it possible for the recipients to continue holding their dollars, while assured of later convertibility into marks if their acquisitions did in fact prove to be sustained. Our own forward sales of marks reached a peak of about $350 million in mid-June and aggregated considerably more as some initial contracts were rolled over once or twice more. But now, they have all been paid off, as the excessive flow of funds into Germany first subsided and then was reversed when the Berlin situation deteriorated during the late summer of 1961 and expectations of further appreciation disappeared.

Operations were also undertaken in Swiss francs beginning in May 1961 on a small scale, and accelerating in July when the Berlin crisis encouraged a stepped up flow of funds into Switzerland. The Swiss were anxious to encourage an outward flow of short-term Swiss capital to offset inflows from other sources that were creating domestic problems of excessive bank liquidity and inflationary pressures, and the United States was glad to cooperate, since we were equally anxious to defend the dollar by lessening the pressure on the Swiss National Bank to absorb more dollars. Early this year, for roughly similar reasons, forward sales of guilders and Italian lire were made. To give you an idea of the magnitudes involved, sales of forward Swiss francs reached a maximum of something over $150 million. Sales of Italian lire have been larger, while guilder sales have been quite modest. All in all, total forward exchange operations undertaken by the Treasury in the four currencies that I have mentioned, including the roll-over of maturing contracts in some cases, have amounted to about $1-1/2 billion in the 14-month period.

One of the main results of these sales of forward exchange, as is obvious from what I have said so far, has been to encourage foreign private investors to stay invested in dollars (or to increase their holdings) and thus restrain the piling up of dollars in central banks abroad.

As long as the United States continues to run a sizeable deficit in its balance of payments it is unlikely that we can or should expect that some part of the dollars pumped into the international financial stream will not reach central bank hands. Nor should we expect to avoid some resulting drain on our gold stock. And the disciplines which such movements imply are fundamental and clear.

At the same time we must be constantly mindful that the dollar is not just another currency, but that it is a key reserve currency -- not only for foreign monetary authorities but also for foreign private banks and corporations. We must remember that foreign monetary authorities adjust their own balance of payments position day-by-day and week-by-week by the purchase and sale of dollars in the exchange market. Irrespective of our balance of payments position the shift of dollars from countries with traditionally low gold ratios to countries with high ratios can result in a gold drain for the United States. Similarily, with 8-1/2 billion of liquid dollar holdings in the hands of private foreigners, we must make sure that speculative forces are not fed by uncertainty about either the ability or the determination of the United States to stand firmly behind the inter-convertibility of the dollar with gold at the fixed price of $35.00 per fine ounce.

A clear distinction has to be drawn -- and it is not always easy to convey this readily -- between the absolute and unconditional availability of gold to foreign monetary authorities for legitimate monetary purposes and the compulsion on us -- in cooperation with foreign monetary authorities -- to avoid any unnecessary dispersions of the United States gold reserve, on which our existing international system, in the last analysis, depends. The United States would, in fact, be just as derelict in its duty to help support and sustain a growing and viable international economy if it failed to defend the gold stock through improved techniques of monetary cooperation as it would be if it failed to make gold available to foreign monetary authorities on demand.

A solution of the balance of payments deficit is fundamental if we are to ward off a steady attrition of the United States gold stock. But, the problem goes even beyond this. The United States is a ready seller of gold on demand, but other countries are not necessarily sellers to us when they have exchange deficits, partly indeed because their own gold reserve is cushioned -- in many cases substantially -- by dollar reserves.

It is consequently a matter of first priority for us to develop methods that will minimize our gold losses whenever our balance of payments swings into deficit -- by no means avoid them, but certainly avoid conditions that exaggerate them. Under present procedures, we cannot be sure that gold will return to us when we move into surplus -- and we must and will have surpluses from time to time.

This kind of consideration leads directly into my second main theme -- the potential uses of foreign exchange holdings by a key currency country. As I had mentioned earlier, our exchange operations to date have been largely dictated by clear, current opportunities and needs. We have acted in response to market developments and have not sought to become permanent and regular participants in the market for any currency. Our spot exchange holdings -- which, on the latest published figures were about $150 million, built up partly from borrowing and partly from purchases in the easier markets that have prevailed for some currencies so far this year -- have mainly been acquired to back up our forward sales. But looking ahead to the future, there may well be good reason for more or less continuous holding by the United States of some moderate amounts of the convertible exchange of various leading countries.

While it is premature to see clearly where we may be heading so far as the currency holdings of the United States are concerned, it may well turn out that some contribution toward resolving a part of our problem may be found in building up -- in time of surplus -- holdings of other currencies that are not thought of as reserve currencies in the same way that the dollar and the pound sterling are viewed. Should we do that, either with open holdings or through hedged forward positions, our exchange holdings might be able subsequently to handle a considerable part of the normal swings in payment patterns, leaving the gold reserves available to cover more fundamental and lasting adjustments. There would be no commitment to hold any particular currency, of course, and the relative size of any such holdings would presumably be comparatively small. Nor would there by any lessening of the needed balance of payments disciplines upon us or upon others. For changes in our combined reserves of gold and foreign exchange,taken together with changes in our short-term liabilities to foreigners, would then become as significant to the determination of our policies as changes in gold alone have been over recent years.

If such a system were bolstered by suitable international arrangements to ensure a steady and orderly distribution of newly-mined gold into monetary reserves, much of the pressure -- both psychological and real -- that arises from the accident of shifts in reserves among other central banks would be lifted from the United States gold stock. With such a system we might perhaps be able to view in better perspective our gold loss of the past five years as a basic and healthy redistribution of available world gold reserves, a redistribution that has added to the strength of the international financial community.

What I am suggesting is that we need to build further the outer defenses around the liquidity of the International Monetary Fund, which will be substantially augmented by the stand-by agreement on which progress toward ratification is going ahead with gratifying despatch. We need to provide a means of further economizing on gold reserves, while ensuring that the liquidity needs of our expanding world economy will be met in a manner consistent with the sovereignty of individual countries and with heavy reliance on the discipline provided by the balance of payments.

The net effect, if this line of development should be followed, would be to multilateralize a part of the role performed now by the two key currencies, within a framework that would place great stress on still further cooperation among monetary authorities of the type that has been so successfully developed over the past year or so. It is clear that the attributes of a key currency involve many things -- its use in international trade, its relationshpp to gold as the ultimate reserve, the existence of broad and deep capital and money markets. In all these respects the dollar is now unique, although we hope to see further progress in the freeing up of European money and capital markets. But what makes a currency good basically is the way the country manages its economy. Where there are a number of strong countries -- as there are today -- a plausible case would seem to exist for some sharing of the burdens placed on the key currency.

It may be, too, that a system such as I have outlined would be a sensible way to provide for any large increase in long-run liquidity requirements. Long before there can be any agreement on any of this, however, there are many knotty problems that will have to be resolved by our own policy makers and through international consultations -- through the Basle Group, through the Organization for Economic Cooperation and Development, and through the International Monetary Fund. But explorations along these lines are far preferable, it seems to me, to the often proposed types of action (involving still more difficult decisions and negotiations) that basically involve an oath of allegiance by all Governments and Central Banks to a synthetic currency device, created by an extra-national authority bearing neither the responsibilities nor the disciplines of sovereignty.

On the other hand, a system where countries maintain some mutual holdings of foreign exchange has the extreme advantage of using existing institutions and practices. Within such a system the patterns of reference are known to all; no one will be asked to do things that fall outside the realm of his experience. A system erected on established currencies and mores, would surely have a firmer foundation than one based on artificial devices. At the least, I suggest, there is food for thought in such a possibility -- and that, along with the excellent cuisine, is what I have understood to be the provocative aim of these meetings.

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~~3 3068~~, MAY 18 FROM ROME

OUR ARRANGEMENTS FOR RAISING AND DISTRIBUTING CAPITAL WITHIN THE FREE WORLD ARE IN STEP WITH OUR PROGRESS TOWARD FREER TRADE AND HIGHER STANDARDS OF LIVING. I, FOR ONE, SHALL BE UNEASY SO LONG AS VIRTUALLY ALL THE WORLD -- SURPLUS AND DEFICIT COUNTRIES ALIKE -- THOSE CAPABLE OF GENERATING A HIGH LEVEL OF SAVINGS INTERNALLY AND THOSE OPERATING CLOSE TO SUBSISTENCE LEVELS -- MUST LOOK TO THE UNITED STATES AS THEIR PRINCIPAL, IF NOT ONLY, SOURCE OF MARGINAL CAPITAL.

PROGRESS IN THIS AREA CANNOT COME WITH DRAMATIC SPEED. MARKETS HAVE BEEN INSULATED TOO LONG. THE WHOLE PSYCHOLOGY OF A GENERATION OF INVESTORS MUST BE CHANGED. NEW INSTITUTIONAL STRUCTURES MUST BE DEVELOPED. BUT AS I LOOK AT THE DEVELOPMENT OF WESTERN EUROPE FROM A DISTANCE, IT SEEMS TO ME THAT THE LOGIC OF INTERNAL GROWTH AND DEVELOPMENT POINTS IN THIS DIRECTION.

MORE EFFICIENT CAPITAL MARKETS WILL BE ESSENTIAL TO SUSTAIN GROWTH -- AND SHOULD THEMSELVES TEND TO REINFORCE OTHER FACTORS THAT COULD BRING ABOUT A LOWER LEVEL OF LONG-TERM INTEREST RATES MORE IN LINE WITH THOSE TYPICAL OF THE AMERICAN MARKET. ALREADY, SOME TENDENCY IN THAT DIRECTION HAS DEVELOPED. IN THIS INTERDEPENDENT WORLD OF OURS, I WOULD EXPECT THAT TENDENCY TO CONTINUE

I AM NOT CALLING TODAY FOR ANY RADICAL NEW DEPARTURES IN POLICY. I AM ASKING ONLY THAT WE WILLINGLY ACCEPT THE LOGIC OF OUR EVOLVII WORLD ECONOMY, AND PRESS AHEAD WITH ALL OUR VIGOR TO CAST OFF THOSE RESTRICTIONS THAT STILL IMPEDE THE FREE FLOW OF CAPITAL, BOTH WITHIN AND BETWEEN NATIONS. THIS IS CLEARLY NOT A JOB FOR GOVERNMENTS ALONE, BUT FOR BANKING LEADERSHIP AND BANKING STATESMANSHIP AS WELL. I SUBMIT IT AS A SPECIAL CHALLENGE FOR ALL OF YOU WHO HAVE A VITAL INTEREST IN EXPANDED TRADE BETWEEN NATIONS, GROWTH AT HOME, A DURABLE PAYMENTS SYSTEM, AND A STRONG FREE ENTERPRISE ECONOMY. (END)

~~REINHARDT~~

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NORMALLY BE ABLE TO FIND THE NEEDED FUNDS WITHOUT HAVING TO CROSS THE ATLANTIC.

IT IS TRUE THAT A LARGE PROPORTION OF THE EUROPEAN ISSUES THAT HAVE BEEN PUBLICLY FLOATED IN NEW YORK HAVE ULLTIMATELY BEEN TAKEN UP BY EUROPEAN INVESTORS, WHICH, AMONG OTHER THINGS, SHOWS THAT THESE INVESTORS ARE PREPARED TO LEND THEIR MONEY LONG-TERM AT LOWER RATES THAN ARE CURRENTLY QUOTED IN THEIR OWN CAPITAL MARKETS. THUS, THE BURDEN ON OUR INTERNATIONAL ACCOUNTS HAS NOT BEEN AS LARGE AS IT MAY HAVE APPEARED FROM SIMPLE TOTAL OF THE VOLUME OF NEW ISSUES SOLD IN NEW YORK. BUT THE BURDEN IS NONETHELESS REAL. AND SO LONG AS THE IMBALANCE IN FACILITIES AND CONTROLS REMAINS, SO WILL THE THREAT THAT AN ACCELERATING FLOW OF THESE ISSUES COULD UNDERMINE OUR EFFORTS IN OTHER DIRECTIONS. AND AS LONG AS CONTINENTAL WESTERN EUROPE CONTINUES TO OPERATE WITH INADEQUATE AND OUT-MODED CAPITAL MARKETS IT CAN HAVE NO SOLID ASSURANCE THAT THE CAPITAL REQUIRED TO ENSURE STEADY AND RAPID GROWTH WILL, IN FACT, BE AVAILABLE. I AM GLAD THAT THE OECD HAS NOW RECOGNIZED THE IMPORTANCE OF THIS PROBLEM AND HAS COMMENCED TO WORK ACTIVELY IN THIS FIELD. WE SHOULD ALL OF US GIVE THIS EFFORT OUR FULL SUPPORT.

I RECOGNIZE THAT PROGRESS TOWARD RELAXING SOME OF THE FORMAL CONTROLS ON EXTERNAL CAPITAL FLOWS IS ALREADY EVIDENT IN MOST INDUSTRIALIZED COUNTRIES. NEVERTHELESS, RESIDENTS OF ONLY A FEW WESTERN EUROPEAN COUNTRIES HAVE FREEDOM TODAY TO INVEST ABROAD WHEREVER THEY MAY WISH, AND IN WHATEVER FORM THEY MAY DESIRE. SOME TYPE OF OFFICIAL AUTHORIZATION AND APPROVAL IS STILL COMMONPLACE, AND OUTRIGHT PROHIBITION IS NOT INFREQUENT. THE VOLUME OF FOREIGN BONDS OFFERED IN WESTERN EUROPEAN COUNTRIES IN RECENT YEARS HAS, EXCEPT IN ONE OR TWO OF THE SMALLER COUNTRIE BEEN NEGLIGIBLE -- AND IN SOME COUNTRIES, NON-EXISTENT. AND, IT STILL APPEARS THAT BANK FUNDS ARE READILY AVAILABLE TO FOREIGN BORROWERS, IN SUBSTANTIAL VOLUME AND WITHOUT TIES TO EXPORTS, ONLY WHEN THEY ARE IN THE FORM OF U.S. DOLLARS.

THUS, WE HAVE A LONG WAY TO GO BEFORE WE CAN BE SATISFIED THAT

176 WD

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SIXTH AND LAST PART OF SEVERAL

...PLENTY OF EVIDENCE THAT A LARGE PART OF THE CURRENT EUROPEAN BORROWING IN NEW YORK IS AS MUCH A REFLECTION OF THE GREATER AND MORE READY AVAILABILITY OF FUNDS IN THE NEW YORK CAPITAL MARKET AS IT IS OF INTEREST RATES. IN OTHER WORDS, THE INDICATIONS ARE THAT MANY OF THE CURRENT EUROPEAN BORROWERS WOULD BE COMING TO NEW YORK EVEN IF OUR INTEREST RATE STRUCTURE WERE SOMEWHAT HIGHER. THEY WOULD BE COMING BECAUSE THEY FIND MORE DIFFICULT TO RAISE THE NEEDED FUNDS IN EUROPE THAN IN NEW YORK. A CASE IN POINT IS THE CURRENT [illegible] 25 MILLION BORROWING BY THE EUROPEAN COAL AND STEEL COMMUNITY.

THIS DOES NOT SEEM TO ME TO BE A VERY EFFICIENT USE OF THE WORLD CAPITAL RESOURCES. THE YEARS TO COME WILL CERTAINLY SEE A GROWI DEMAND FOR CAPITAL FROM COUNTRIES WHICH CANNOT BE EXPECTED TO DEVELOP THEIR OWN CAPITAL MARKETS. SUCH COUNTRIES HAVE TRADITIONALLY LOOKED TO THE CAPITAL MARKETS OF NEW YORK AND LONDON TO RAISE THEIR FUNDS. THIS IS A NORMAL PROCEDURE AND SHOULD CONTINUE. BUT IT WILL BE MORE DIFFICULT FOR THESE COUNTRIES TO MEET THEIR NEEDS IF THEY MUST COMPETE IN THE NEW YORK MARKET FOR NECESSARILY LIMITED FUNDS WITH CONTINENTAL EUROPEAN BORROWER WHO, GIVEN FULLY ADEQUATE EUROPEAN CAPITAL MARKETS, SHOULD

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IS NOT TAX-INDUCED. WE DO, HOWEVER, WANT TO MAKE SURE THAT OUR TAX SYSTEM DOES NOT UNWITTINGLY -- AND ARTIFICIALLY -- SPUR THIS OUTFLOW. WE WISH ONLY TO ELIMINATE MARGINAL FOREIGN INVESTMENT THAT IS INDUCED PRIMARILY BY TAX CONSIDERATIONS. WHILE THERE IS NO EXPECTATION THAT SUCH ACTION WILL DRAMATICALLY REDUCE THE OUTFLOW OF DIRECT INVESTMENT FUNDS FROM THE U.S., IT WILL BE OF SOME HELP -- AND EVERY BIT COUNTS IN THE EFFORT TO ELIMINATE OUR PAYMENTS DEFICIT.

IN THE FIELD OF PORTFOLIO INVESTMENT, I AM NOT INTERESTED IN THE PURCHASE OF FOREIGN EQUITIES BY AMERICAN INVESTORS, A PROCESS THAT IS AN ESSENTIAL ELEMENT OF FREE CAPITAL MOVEMENT. WHAT I AM CONCERNED WITH IS THE INCREASING USE OF THE VARIOUS MECHANISMS OF THE NEW YORK CAPITAL MARKET BY EUROPEAN BORROWERS TO RAISE FUNDS FOR THEIR OWN INTERNAL PURPOSES. TODAY, THE PLAIN FACT IS THAT UNDERWRITING AND DISTRIBUTING FACILITIES IN THE INDUSTRIALIZED COUNTRIES OF CONTINENTAL WESTERN EUROPE, ARE GENERALLY INADEQUATE TO MEET THE FORESEEABLE NEEDS OF DOMESTIC BORROWERS -- MUCH LESS THOSE FROM ABROAD. THAT IS NOT A HEALTHY ENVIRONMENT FOR LONG-TERM DOMESTIC GROWTH. IT INEVITABLY MEANS HIGHER BORROWING COSTS AND A SHORTAGE OF FUNDS FOR FIRMS AND INDUSTRIES THAT LACK THEIR OWN INTERNAL SOURCES OF CAPITAL. AND, WHEN COMBINED WITH CONTROLS AND RESTRICTIONS ON CAPITAL MOVEMENTS LINGERING ON FROM EARLIER DAYS, IT HAS THE INCONGRUOUS EFFECT OF SHUNTING TO THE NEW YORK MARKET NEW ISSUES FROM THE SURPLUS COUNTRIES, EVEN AS WE IN THE UNITED STATES ARE ENDEAVORING TO ERASE DEFICIT.

WHILE THE CURRENT RELATIVELY FAVORABLE INTEREST RATES IN THE NEW YORK MARKET ARE OF COURSE, ATTRACTIVE TO FOREIGN BORROWERS, THERE IS PLENTY OF

(MORE COMING)

REINHARDT

BAP

VARIOUS EFFORTS TO CORRECT OUR BALANCE OF PAYMENTS SHOULD SERVE TO MAINTAIN OR IMPROVE THESE RESULTS AS THE YEAR PROGRESSES.

WE SHOULD NOT, HOWEVER, CENTER ALL OUR ATTENTION AND ALL OUR EFFORTS ON OUR TRADE BALANCE. A DANGER WILL REMAIN SO LONG AS THE UNITED STATES STANDS VIRTUALLY ALONE IN PROVIDING A FREE AND EFFECTIVE CAPITAL MARKET, ABSORBING THE BULK OF THE MARGINAL DEMANDS FOR FUNDS FROM OTHER COUNTRIES, SURPLUS AND DEFICIT ALIKE. THEN, THE DOLLARS SAVED IN DEFENSE AND AID, AND THE DOLLARS EARNED IN TRADE, COULD TOO EASILY BE DRAINED AWAY IN AN ACCELERATING OUTFLOW OF AMERICAN CAPITAL.

I AM NOT REFERRING TO SUDDEN AND MASSIVE SHIFTS OF LIQUID FUNDS IN RESPONSE TO INTEREST RATE DIFFERENTIALS, TO SPECULATIVE CONSIDERATIONS, OR TO OTHER FACTORS. THAT DIFFICULT PROBLEM HAS ALREADY RECEIVED MUCH ATTENTION, AND OUR MUTUAL DEFENSES ARE BEING STRENGTHENED. I AM REFERRING TO THE BASIC WORLD MARKET FOR LONG-TERM CAPITAL.

THIS LONG-TERM CAPITAL MARKET HAS TWO MAJOR FACTS: DIRECT INVESTMENT AND PORTFOLIO INVESTMENT. IT IS THE LATTER, OR RATHER A PORTION OF THE LATTER, WHICH IS MY CHIEF INTEREST TODAY, ALTHOUGH I WILL SAY A FEW WORDS FIRST ON THE SUBJECT OF DIRECT INVESTMENT.

THE UNITED STATES HAS CONSISTENTLY FAVORED FREE CAPITAL MOVEMENT, THE ABILITY OF INDIVIDUALS OR COMPANIES TO INVEST THEIR FUNDS WHERE THEY WILL. THERE HAS BEEN NO CHANGE IN THAT VIEW. WE ARE, HOWEVER, ASKING OUR CONGRESS TO END THE TAX INDUCEMENTS TO NEW AMERICAN INVESTMENT IN OTHER INDUSTRIALIZED COUNTRIES, PARTICULARLY THE INDUCEMENTS WHICH FLOW FROM THE MUSHROOMING USE OF SO-CALLED TAX HAVENS. THE OBJECT IS NOT TO DISCOURAGE CAPITAL FROM GOING ABROAD IN SEARCH OF HIGHER GROSS RETURN. THAT SORT OF INVESTMENT WILL, IN THE LONG RUN, SERVE THE INVESTOR, THE UNITED STATES, AND THE RECIPIENT COUNTRY ALIKE. WE RECOGNIZE THAT THE GREAT BULK OF OUR FOREIGN INVESTMENT IS OF THIS TYPE AND

14
179

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PART FIVE OF SEVERAL

~~TRADE SURPLUS~~

FOR THE UNITED STATES IN THE YEARS AHEAD, A SURPLUS ACHIEVED NOT BY RETREAT TO CONTROLS OR DEFLATION, BUT FIRMLY GROUNDED IN THE ABILITY OF AMERICAN BUSINESS TO POUR OUT INTO WORLD MARKETS NEW AND IMPROVED PRODUCTS AT ATTRACTIVE PRICES. OUR TRADE SURPLUS IS ALREADY LARGE. BUT IT IS NOT QUITE LARGE ENOUGH TO COVER OUR COMMITMENTS FOR DEFENSE AND AID, AS WELL AS OUR CURRENT VOLUME OF PRIVATE INVESTMENT ABROAD. HOWEVER, THE NEEDED MARGIN IS WITHIN REACH -- AND REACH IT WE MEAN TO DO.

THE PRELIMINARY RESULTS FROM THE FIRST QUARTER OF 1962 CLEARLY SHOW THAT OUR EFFORTS ARE BEGINNING TO BEAR FRUIT. DESPITE AN INCREASE OF $550 MILLION IN OUR IMPORTS AS COMPARED TO THE UNUSUALLY DEPRESSED LEVEL OF THE FIRST QUARTER OF 1961 - AN INCREASE THAT IS THE NATURAL REFLECTION OF OUR ECONOMIC RECOVERY OUR OVERALL DEFICIT FOR THE QUARTER WAS JUST $100 MILLION ~~DOLLARS~~ LARGER THAN IN THE SAME QUARTER LAST YEAR. LEAVING IMPORTS ASIDE THIS REPRESENTS A SOLID IMPROVEMENT OF $450 MILLION IN ALL THE OTHER ELEMENTS OF OUR BALANCE OF PAYMENTS. OVERALL, THESE RESULT SHOW AN IMPROVEMENT OF A BILLION DOLLARS OVER THE DEFICIT INCURRED DURING THE FOURTH QUARTER. DURING THE FIRST QUARTER OF THIS YEAR OUR BASIC DEFICIT RAN AT AN ANNUAL RATE APPROXIMATELY $1.2 BILLION, AND OUR OVERALL DEFICIT AT AN ANNUAL RATE OF $1.8 BILLION. THE CONTINUING AND GROWING EFFECT OF OUR

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-3- 3068, MAY 18, FROM ROME

WHAT IS ONE TO CONCLUDE IN VIEW OF THE FACT THAT TWO COUNTRIES - FRANCE AND GERMANY -- WHICH, USING OUR BASIS OF BUDGETARY ACCOUNTING, HAVE HAD RELATIVELY LARGE BUDGETARY DEFICITS IN RECENT YEARS, HAVE ALSO HAD THE LARGEST SURPLUSES IN THEIR INTERNATIONAL ACCOUNTS?

CERTAINLY NOT THAT LARGE DEFICITS ARE THE ROAD TO SALVATION.

WE ALL KNOW THAT THE WRONG DEFICIT AT THE WRONG TIME CAN PAVE THE ROAD TO INFLATION. BUT, IN DISCUSSING BUDGET POLICY, WE TOO OFTEN FALL INTO THE TRAP OF FORGETTING THAT IT IS INFLATION WHICH IS THE REAL ENEMY. WE SHOULD ALWAYS BEAR IN MIND THAT MODERATE BUDGET DEFICITS INCURRED DURING PERIODS OF INADEQUATE DEMAND AND WHICH DO NOT EXERT UPWARD PRESSURES ON PRICE LEVELS -- ARE QUITE DIFFERENT IN THEIR ECONOMIC EFFECT FROM DEFICITS INCURRED WHEN THE ECONOMY IS OPERATING AT FULL CAPACITY.

IN THIS CONNECTION, THE RELATIONSHIP OF THE FEDERAL DEBT TO THE GROSS NATIONAL PRODUCT -- IN OTHER WORDS, THE ABILITY OF THE NATIONAL ECONOMY TO CARRY THE DEBT BURDEN -- IS ALSO PERTINENT. IN THIS AREA, THE RECORD OF THE UNITED STATES HAS BEEN AND CONTI TO BE VERY GOOD. FROM A SITUATION AT THE END OF THE WAR WHEN THE FEDERAL DEBT AMOUNTED TO ABOUT 125 PER CENT OF OUR GROSS NATIONAL PRODUCT, THE PERCENTAGE HAS CONTINUALLY DECLINED AND TODAY STANDS AT ABOUT 53 PERCENT. THIS COMPARES WITH A RATIO OF 56 PERCENT JUST ONE YEAR AGO, AND A RATIO OF ABOUT 50 PERCENT IN 1941, BEFORE WARTIME EXPENDITURES SENT OUR DEBT SOARING. THE ADDITION OF OUR GROWING STATE AND LOCAL DEBT WOULD MODIFY THESE PERCENTAGES ONLY SLIGHTLY. THE GENERAL PICTURE WOU NOT BE CHANGED.

PRICE STABILITY -- INVESTMENT IN MODERN MACHINERY -- AN EXPORT-MINDED GOVERNMENT AND INDUSTRY -- THESE ARE THE KEYS TO AN EXPANDING TRADE SURPLUS (MORE COMING)

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-2- 3068, MAY 18, FROM ROME

WHATEVER THE PRECISE BUDGETARY OUTCOME 14 MONTHS HENCE, THE REALLY CRUCIAL FACT IS THAT THE ECONOMIC EFFECT OF ANY PARTICULAR SURPLUS OR DEFICIT CAN BE JUDGED ONLY IN THE CONTEXT OF THE EXISTING BUSINESS ENVIRONMENT. IF OUR ECONOMY FAILS TO SUSTAIN THE MOMENTUM WE ANTICIPATE, LABOR WILL REMAIN FREELY AVAILABLE AND INDUSTRY WILL CONTINUE TO OPERATE WELL BELOW CAPACITY. UNDER SUCH CIRCUMSTANCES, EXPERIENCE SHOWS THAT A MODERATE DEFICIT WOULD NOT BE INFLATIONARY, JUST AS THE RATHER SUBSTANTIAL DEFICIT OF THE PAST TWELVE MONTHS, WITH MANPOWER AND GOODS IN AMPLE SUPPLY, HAS NOT BEEN INFLATIONARY -- AND, FOR THAT MATTER, JUST AS THE MUCH LARGER DEFICIT IN FISCAL 1959 WAS NOT ACCOMPANIED BY ANY GENERAL PRICE INCREASE. AND HERE I WOULD LIKE TO SAY THAT OUR DEFICIT FOR THE CURRENT FISCAL YEAR ENDING ON JUNE 30TH IS TODAY ESTIMATED AT $7 BILLION, EXACTLY THE SAME AS OUR OFFICIAL ESTIMATES OF LAST OCTOBER AND LAST JANUARY.

THE FACT THAT THERE IS NO AUTOMATIC RELATIONSHIP BETWEEN BUDGETARY DEFICITS AND PRICE INFLATION, OR BETWEEN BUDGET DEFICITS AND THE BALANCE OF PAYMENTS, IS BROUGHT HOME FORCEFULLY BY A RECENT STUDY COMPARING THE BUDGETS OF THE UNITED STATES with THOSE OF THE THREE LARGEST EUROPEAN COUNTRIES. I DO NOT RECOMMEND IT FOR LIGHT READING. IT IS A HIGHLY TECHNICAL STATISTICAL EXERCISE DESIGNED TO ADJUST THE DATA TO A COMMON BASIS SO THAT THEY ACCURATELY REFLECT THE NET IMPACT OF CENTRAL GOVERNMENT OPERATIONS. BUT THE CONCLUSION STANDS OUT CLEARLY AND UNAMBIGUOUSLY: BRITAIN, FRANCE, AND GERMANY HAVE ALL BEEN MORE "DEFICIT-PRONE" THAN THE UNITED STATES. CONVERTING EUROPEAN BUDGETS TO THE MORE RIGOROUS STANDARDS OF AMERICAN BUDGET ACCOUNTING, WE FIND THAT GERMANY, FOR EXAMPLE, HAS HAD A DEFICIT EVER SINCE DEFENSE SPENDING BECAME A SIGNIFICANT PORTION OF ITS BUDGET FOUR YEARS AGO, AND THAT FRANCE HAS HAD A DEFICIT IN EVERY YEAR OF THE PAST DECADE. MOREOVER, THE DEFICITS OF ALL THREE OF THESE EUROPEAN COUNTRIES HAVE, MUCH OF THE TIME, BEEN CONSIDERABLY LARGER, RELATIVE TO GROSS NATIONAL PRODUCT, THAN THAT OF THE UNITED STATES.

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PART FOUR OF SEVERAL

...PROGRAMMED A BALANCED BUDGET ON THE PRESUMPTION THAT THE ECONOMY WILL CONTINUE TO EXPAND VIGOROUSLY, APPROACHING FULL EMPLOYMENT BY THE END OF THE FISCAL YEAR.

UNDER SUCH CONDITIONS, OUR BUDGET WOULD GRADUALLY, AND QUITE PROPERLY, EXERT INCREASING RESTRAINT ON DEMAND AS THE YEAR PROGRESSES. THIS IS BETTER ILLUSTRATED BY THE PROJECTED SURPLUS OF $1.8 BILLION IN THE OVERALL CASH ACCOUNT WHICH, IN CONTRAST WITH THE ADMINISTRATIVE BUDGET. REFLECTS ALL THE ACTIVITIES OF THE FEDERAL GOVERNMENT.

WHETHER OR NOT OUR BUDGET TARGET WILL, IN FACT, BE REACHED, CANNOT BE FORETOLD WITH CERTAINTY TODAY. WE WON'T KNOW THE ANSWER UNTIL TIME HAS TESTED THE BASIC ASSUMPTIONS THAT UNDERLIE THE REVENUE ESTIMATES. BUT AS YOU ALL KNOW, GOVERNMENT RECEIPTS IN THE UNITED STATES ARE VERY SENSITIVE TO BUSINESS CONDITIONS BECAUSE OF THE HEAVY RELIANCE ON THE INCOME TAX. I CAN ASSURE YOU THAT EXPENDITURES ARE BEING KEPT WITHIN THE LIMITS OF THE REVENUE ESTIMATES. I WOULD BE LESS THAN FRANK IF I DID NOT ADMIT THAT OUR FIRST QUARTER RESULTS WERE DISAPPOINTING, ALTHOUGH THE SHORTFALL WAS NOT SO GREAT THAT IT CANNOT BE MADE UP IN THE MONTHS AHEAD. CERTAINLY MY OWN READINGS OF THE LATEST BUSINESS NEWS AND PROFITS FIGURES SUGGEST THAT IT IS STILL PREMATURE TO CONCLUDE THAT WE CANNOT ATTAIN OUR GOAL.

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10

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AS YOU KNOW, WE HAVE SUCCEEDED THIS YEAR IN KEEPING THE DEFICIT IN OUR FEDERAL BUDGET FAR BELOW THE LEVEL OF FISCAL YEAR 1959 -- THE LAST SIMILAR RECOVERY PERIOD. THIS HAS BEEN OF MAJOR ASSISTANCE IN OUR EFFORT TO FORESTALL ANY SIGNIFICANT TIGHTENING OF THE CREIT MARKETS, WITH GOVERNMENT DRAINING OFF RESOURCES AND FUNDS THAT MIGHT BETTER BE DEVOTED TO PRODUCTIVE INVESTMENT. FOR THE FISCAL YEAR BEGINNING NEXT JULY, WE HAVE PROGRAMMED A

(MORE COMING)

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9

184

CAREFULLY SPELLED OUT ITS IMPLICATIONS FOR COLLECTIVE BARGAINING AND PRICING DECISIONS. THE OBJECT IS SIMPLY THIS: TO ENSURE THAT LABOR AND BUSINESS ALIKE, IN WEIGHING ALL THE COMPLEX PRESSURES THAT ENTER INTO ANY WAGE PRICE DECISION, ARE ALSO FULLY AWARE OF THE OVERALL NATIONAL INTEREST.

THE PAST YEAR HAS SEEN SOME SUCCESS IN THESE EFFORTS. DESPITE OUR ECONOMIC RECOVERY THE VERY SIGNIFICANT FACT IS THAT WHOLESALE PRICES IN THE UNITED STATES ARE LOWER TODAY THAN THEY WERE A YEAR AGO. THEY HAVE NOW REMAINED STATIONARY FOR FOUR YEARS. THIS PRICE STABILITY HAS SERVED TO IMPROVE THE COMPETITIVE POSITION OF THE UNITED STATES VERSUS OUR FRIENDS IN EUROPE, REVERSING THE TREND OF EARLIER YEARS. WE WILL CONTINUE TO DO EVERYTHING IN OUR POWER TO SEE THAT THIS NEW TREND CONTINUES. IMPORTANT AMONG OUR EFFORTS IS THE PROMOTION OF A MORE FAVORABLE ENVIRONMENT FOR INVESTMENT. AN INVESTMENT TAX CREDIT, INCLUDED WITHIN A BROADER PROGRAM OF TAX REFORM NOW BEFORE OUR CONGRESS, IS A KEY ELEMENT IN OUR APPROACH. AND UPDATING AND SIMPLIFICATION OF OUTMODED DEPRECIATION GUIDELINES TO TAKE FULL ACCOUNT OF THE IMPACT OF SWIFTLY CHANGING TECHNOLOGY ON THE USEFUL LIFE OF EQUIPMENT IS ANOTHER. TOGETHER, THESE MEASURES WILL PROVIDE INCENTIVES FOR INVESTMENT IN NEW EQUIPMENT COMPARABLE TO THOSE THAT HAVE LONG EXISTED IN OTHER LEADING INDUSTRIALIZED NATIONS.

MONETARY AND DEBT MANAGEMENT POLICIES ARE BEING CONDUCTED IN A MANNER TO ENSURE THAT AMPLE FUNDS ARE AVAILABLE, AT REASONABLE COST TO FINANCE NEW CAPITAL OUTLAYS. FISCAL POLICY, TOO, HAS BEEN CLOSELY ATTUNED TO THE NEED TO ENCOURAGE INVESTMENT -- AND TO AVOID THE SORT OF DEMAND PRESSURES THAT COULD MENACE PRICE STABILITY.

DOES NOT INCLUDE SHORT TERM CAPITAL FLOWS. THIS IS A TALL ORDER. BUT IT IS ONE WE CAN, AND MUST, ACHIEVE. LAST YEAR, WHEN CIRCUMSTANCES WERE PARTICULARLY FAVORABLE FOR OUR TRADE ACCOUNT, OUR COMMERCIAL TRADE SURPLUS AMOUNTED TO $3 BILLION. THIS REFLECTED THE ABNORMALLY LOW IMPORTS OF THE FIRST SIX MONTHS OF 1961, WHICH RESULTED FROM THE SLOWDOWN IN OUR ECONOMY. WE MUST, HOWEVER, ACCEPT THIS AS A MINIMUM TARGET FOR THE FUTURE AND STRIVE TO DO EVEN BETTER. SUCH A TARGET WILL NOT BE EASY TO ACHIEVE. BUT IT IS FEASIBLE AND REALISTIC - IF WE AMERICANS CONTINUE TO APPLY OURSELVES TO THE TASK WITH ALL THE VIGOR AND IMAGINATION IT REQUIRES.

I WILL NOT REVIEW IN DETAIL HERE ALL THE MEASURES WE HAVE UNDERTAKEN TO MAKE AMERICANS EXPORT-CONSCIOUS AS NEVER BEFORE, TO SUPPORT INDUSTRY WITH SHORT TERM CREDIT INSURANCE COMPARABLE TO THAT AVAILABLE IN OTHER INDUSTRIALIZED COUNTRIES, AND TO PROVIDE COMPREHENSIVE AND SPEEDY INFORMATION ON FOREIGN MARKETS. I AM CERTAIN, HOWEVER, THAT ALL OF YOU HERE WILL SEE VISIBLE RESULTS FROM THESE EFFORTS IN THE MONTHS AND YEARS AHEAD, AS AMERICAN BUSINESSMEN MOVE MORE AGGRESSIVELY TO PARTICIPATE IN GROWING WORLD MARKETS.

ALL OF THIS EFFORT WILL, OF COURSE, AVAIL US NOTHING IF AMERICAN INDUSTRY CANNOT OR DOES NOT DELIVER ITS GOODS AT ATTRACTIVE PRICES. RESTRAINT ON COSTS AND STABLE PRICES MUST LIE AT THE VERY HEART OF AMERICAN EFFORTS TO SHARPEN OUR COMPETITIVE DRIVE IN WORLD MARKETS.

OUR OVER-ALL APPROACH TO THIS OBJECTIVE IS, I BELIEVE, CLEAR: THE THOUGHT THAT PRICE STABILITY DEPENDS ON KEEPING WAGE RATES IN LINE WITH NATIONAL TRENDS IN PRODUCTIVITY IS HARDLY NEW. BUT NEVER BEFORE HAS AN AMERICAN ADMINISTRATION ASSUMED THE RESPONSIBILITY FOR DEFINING THAT PRINCIPLE IN SUCH CLEAR TERMS -- AND NEVER BEFORE HAS AN AMERICAN ADMINISTRATION SO

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PART THREE OF SEVERAL

~~...AND SERVICE~~.

AND IN TERMS OF THE FUNDS BEING COMMITTED AT THE PRESENT TIME, THE PORTION FURNISHED BY OUR OWN GOODS AND SERVICES IS EVEN HIGHER AND IS STILL INCREASING. BUT JUST AS IN THE CASE OF DEFENSE SPENDING OVERSEAS, THERE ARE LIMITS TO THE FURTHER DOLLAR SAVINGS THAT CAN SAFELY BE MADE IN THIS AREA. THE NEEDS OF THE DEVELOPING COUNTRIES ARE LIKELY TO RISE IN THE YEARS AHEAD, NOT DECLINE. HENCE, MUCH REMAINS TO BE DONE IN SHARING THIS BURDEN MORE EQUITABLY AMONG ALL THE COUNTRIES ABLE TO BEAR IT. I AM HOPEFUL THAT CONTINUED PROGRESS CAN BE MADE ALONG THOSE LINES THIS YEAR.

ON BALANCE, A REALISTIC APPRAISAL OF ACTIONS NOW UNDERWAY SUGGESTS THAT THE TOTAL DRAIN ON OUR BALANCE OF PAYMENTS FROM AID AND DEFENSE WILL BE REDUCED BY SOMETHING OVER A BILLION DOLLARS A YEAR, TO A FIGURE ON THE ORDER OF $3 BILLION.

THIS MEANS THAT THE UNITED STATES MUST HAVE A CONTINUING SURPLUS OF ABOUT $3 BILLION A YEAR IN THE OTHER ELEMENTS OF OUR BASIC BALANCE -- TRADE, SERVICES, AND LONG-TERM CAPITAL MOVEMENTS IF WE ARE TO ACHIEVE A BALANCE IN THIS ACCOUNT WHICH, AS YOU KNOW,

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187

03352
MAY 18, 1962
7:48 AM

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-3- 3068, MAY 18 (PART 2 OF SEVERAL) FROM ROME

AND SERVICES FROM THE UNITED STATES. THIS NOT ONLY ASSISTS THE U.S. BALANCE OF PAYMENTS -- IT ALSO STRENGTHENS THE MILITARY CAPABILITIES OF OUR ALLIES, FOR WE ARE USUALLY IN A POSITION TO PRODUCE THE NEEDED EQUIPMENT FASTER AND AT LESS COST THAN IT CAN BE PRODUCED IN EUROPE.

AS A FIRST AND MOST IMPORTANT STEP IN THIS EFFORT, AGREEMENT HAS BEEN REACHED ON THE ESTABLISHMENT OF A COOPERATIVE LOGISTICS SYSTEM WHEREBY THE ARMED FORCES OF THE FEDERAL REPUBLIC OF GERMANY WILL INCREASE THE LEVEL OF MILITARY PROCUREMENT IN THE UNITED STATES AND WILL UTILIZE AMERICAN SUPPLY LINES, DEPOTS AND MAINTENANCE AND SUPPORT FACILITIES. BY THIS MEANS THE FEDERAL REPUBLIC OF GERMANY WILL FULLY OFFSET THE DOLLAR COSTS OF MAINTAINING U.S. TROOPS IN GERMANY DURING 1961 AND 1962. DISCUSSIONS ARE UNDER WAY, OR WILL SOON BE INITIATED, WITH CERTAIN OF OUR OTHER NATO ALLIES. OUR OBJECTIVE DURING 1962 FOR TOTAL MILITARY CASH RECEIPTS IS APPROXIMATELY DLR 1.2 BILLION. I BELIEVE THAT WE WILL BE SUCCESSFUL IN ATTAINING THIS OBJECTIVE.

IT IS OUR VIEW THAT SUCH MILITARY OFFSET ARRANGEMENTS ARE BOTH EQUITABLE AND MUTUALLY BENEFICIAL. THEY PROVIDE A MEANS WHEREBY OUR ALLIES CAN STRENGTHEN THEIR OWN MILITARY FORCES AT MINIMUM COST AND IN WAYS THAT OFTEN WOULD NOT OTHERWISE BE POSSIBLE, WHILE AT THE SAME TIME OFFSETTING THE DOLLAR COSTS WHICH WE INCUR IN MAINTAINING OUR FORCES ON THEIR TERRITORY IN THE JOINT DEFENSE OF THE PRECIOUS HERITAGE OF FREEDOM. THUS, THESE AGREEMENTS, AT ONE AND THE SAME TIME, BUILD UP BOTH THE MILITARY AND ECONOMIC DEFENSES OF THE WEST.

THE DIMENSIONS OF THE ACTUAL DRAIN ON OUR BALANCE OF PAYMENTS FROM ECONOMIC AID - WHILE IMPORTANT - ARE CURRENTLY MUCH SMALLER THAN MANY HAVE ASSUMED. A SIZABLE FRACTION OF OUR DLR 4 BILLION EXPENDITURE FOR AID - OVER TWO-THIRDS IN 1961 - IS FURNISHED IN THE FORM OF U.S. GOODS AND SERVICES. (MORE COMING)

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-2- 3068, MAY 18 (PART 2 OF SEVERAL) FROM ROME

OUR DOLLAR COSTS FOR DEFENSE ARE HEAVIEST IN GERMANY, WHERE THEY AMOUNT TO ABOUT DLR 700 MILLION A YEAR. IN FRANCE, THEY ARE MORE THAN DLR 300 MILLION PER YEAR; IN THE UNITED KINGDOM ABOUT DLR 250 MILLION, AND IN ITALY, ABOUT DLR 100 MILLION.

THESE EXPENDITURES REPRESENT THE DOLLAR COST OF MAINTAINING U.S. FORCES OVERSEAS, AND THE HEAVY EXPENDITURES IN NATO COUNTRIES RESULT FROM THE FACT THAT OUR LARGEST OVERSEAS TROOP DEPLOYMENTS ARE HERE IN THE NATO AREA.

THERE CAN BE NO DOUBT OF THE NECESSITY TO MAINTAIN LARGE U.S. FORCES OVERSEAS FOR OUR OWN SECURITY, FOR THAT OF OUR NATO ALLIES, AND FOR THE ENTIRE FREE WORLD. NOR CAN THERE BE ANY DOUBT OF OUR FIRM DETERMINATION TO MEET IN FULL OUR RESPONSI-BILITES FOR THE DEFENSE OF NATO AND THE FREE WORLD. AS PRESIDENT KENNEDY HAS STATED, THE UNITED STATES IS PREPARED TO MAKE ANY SACRIFICE NECESSARY FOR FREE WORLD SECURITY. WE ARE PREPARED TO MAINTAIN FULLY EFFECTIVE MILITARY FORCES OVERSEAS -- WHEREVER NECESSARY AND FOR AS LONG AS NEEDED. EVEN AS WE MEET TODAY, AMERICAN TROOPS ARE DEPLOYING IN THAILAND IN RESPONSE TO A REQUEST FOR ASSISTANCE BY THE ROYAL THAI GOVERNMENT AS A RESULT OF RENEWED COMMUNIST AGGRESSION IN LAOS. BUT AT THE SAME TIME THAT WE FULFILL THESE MILITARY RESPONSIBILITIES WE MUST EXERCISE ALL PRUDENCE TO ENSURE THAT THE ADVERSE IMPACT ON OUR BALANCE OF PAYMENTS IS MINIMIZED.

THE UNITED STATES MUST TRIM ALL NON-ESSENTIAL FOREIGN EXCHANGE EXPENDITURES FROM ITS DEFENSE PROGRAMS, THEREFORE, WE ARE EMPHASIZING U.S., RATHER THAN FOREIGN PROCUREMENT. WE ARE ECONOMIZING IN MANPOWER WHEREVER POSSIBLE WITHOUT LOSS OF MILITARY STRENGTH AND WE ARE ENCOURAGING OUR FORCES TO HOLD DOWN THE LEVEL OF THEIR PERSONAL EXPENDITURES OVERSEAS. BUT THIS CAN ONLY ACCOMPLISH A RELATIVELY SMALL PART OF THE JOB.

MORE IMPORTANT IS OUR EFFORT TO WORK OUT ARRANGEMENTS IN COOPERATION WITH OUR NATO ALLIES FOR OFFSETTING OUR DEFENSE EXPENDITURES BY INCREASING THEIR PROCUREMENT OF MILITARY EQUIPMENT

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MAY 18, 1962
7:17 AM

ROME

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3068, MAY 18 (PART 2 OF SEVERAL)

PRIORITY

FOLLOWS DILLON TEXT AT AMERICAN BANKERS ASSOCIATION MONETARY CONFERENCE FOR RELEASE AT 12:30 ROME TIME. PLEASE PASS URGENTLY TO STEVE MANNING TREASURY.

~~...MOBILIZATION~~ OF CAPITAL. BECAUSE OF BALANCE OF PAYMENTS REALITIES, AS WELL AS OUR OWN COMPETING DOMESTIC NEEDS, THE AMOUNT OF CAPITAL THAT WE WILL BE ABLE TO FURNISH IS SIMPLY NOT ENOUGH TO GO AROUND. IF EUROPE IS TO HAVE ADEQUATE FUNDS FOR THE EXPANSION THAT IS NOW WITHIN ITS GRASP, IT MUST DEVELOP UP TO DATE MECHANISMS TO MOBILIZE ITS OWN CAPITAL RESOURCES - MECHANISMS THAT DO NOT EXIST TODAY IN MOST OF CONTINENTAL EUROPE.

TO RETURN TO OUR BALANCE OF PAYMENTS AND TO PUT IT INTO PROPER PERSPECTIVE, LET ME REVIEW THE BROAD STRATEGY THAT LIES BEHIND ALL OF OUR EFFORTS TO RESTORE A BALANCE IN OUR INTERNATIONAL ACCOUNTS.

AS YOU KNOW, SPENDING FOR THE DEFENSE AND ECONOMIC SUPPORT OF THE FREE WORLD IMPOSES A UNIQUELY HEAVY BURDEN ON THE UNITED STATES BALANCE OF PAYMENTS. THE ANNUAL DOLLAR COST OF OUR DEFENSE EXPENDITURES OVERSEAS HAS BEEN ROUGHLY DLR 3 BILLION IN RECENT YEARS, SUBSTANTIALLY MORE THAN OUR AVERAGE BASIC PAYMENTS DEFICIT. I WOULD LIKE TO EMPHASIZE THAT THE DLR 3 BILLION FIGURE IS THE BALANCE OF PAYMENTS IMPACT -- NOT THE BUDGETARY COST TO THE UNITED STATES, WHICH IS SEVERAL TIMES HIGHER.

-2- 3068, MAY 18 (PART 1 OF SEVERAL)

APPROXIMATELY DLR 2 BILLION OF THIS IS SPENT IN NATO COUNTRIES.

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COUNTRIES, HAVE BOTH THE FACILITIES AND FREEDOM TO PLACE THEIR FUNDS ABROAD WITHOUT RESTRICTION, ON A BASIS COMPARABLE TO - AND SOMETIMES EVEN MORE FAVORABLE THAN - DOMESTIC INVESTMENT.

THESE CONDITIONS ARE AN ANOMALY IN A WORLD OF CONVERTIBLE CURRENCIES -- A WORLD IN WHICH BARRIERS TO TRADE HAVE BEEN STEADILY REDUCED -- A WORLD CHARACTERIZED BY AMERICAN DEFICITS AND EUROPEAN SURPLUSES. I AM NOT SUGGESTING THAT THE UNITED STATES, AS THE RICHEST AND MOST PRODUCTIVE NATION ON EARTH, SHOULD CEASE TO EXPORT CAPITAL. NOR DO I SUGGEST THAT ACTION TO FREE THE FLOW OF INVESTMENT FUNDS FROM OTHER COUNTRIES WOULD RELIEVE THE UNITED STATES OF ITS RESPONSIBILITIES FOR VIGOROUS AND EFFECTIVE ACTION IN OTHER DIRECTIONS TO REDUCE ITS PAYMENTS DEFICIT. BUT PROGRESS TOWARD A BROADER, MORE FLUID INTERNATIONAL MARKET FOR CAPITAL DOES SEEM TO ME TO BE AN ESSENTIAL PART OF OUR AMERICAN EFFORT TO ACHIEVE AND SUSTAIN INTERNATIONAL PAYMENTS EQUILIBRIUM. AT THE SAME TIME, MORE EFFECTIVE MEANS OF MOBILIZING THE HUGE POTENTIAL FOR SAVINGS IMPLICIT IN THE DRAMATIC ECONOMIC EXPANSION OF WESTERN EUROPE MUST BE DEVELOPED IF EUROPE IS TO FULFILL ITS HOPES FOR CONTINUED RAPID ECONOMIC GROWTH IN THE YEARS AHEAD.

WESTERN EUROPE IS IN A PERIOD OF ECONOMIC GROWTH THAT CAN AND SHOULD LEAD TO STANDARDS OF LIVING COMPARABLE TO THOSE IN THE UNITED STATES. BUT WE IN THE UNITED STATES WOULD NOT HAVE BEEN ABLE TO ACHIEVE OUR PRESENT STANDARD WITHOUT THE DEVELOPMENT OF A CAPITAL MARKET WHOSE BREADTH AND FLEXIBILITY REMAIN UNPARALLELED. THE PLAIN FACT IS THAT WESTERN EUROPE WILL NOT BE ABLE TO APPROACH THE AMERICAN STANDARD OF LIVING UNTIL IT DEVELOPS WAYS AND MEANS OF MOBILIZING ITS OWN EXTENSIVE SAVINGS AND CAPITAL THAT ARE FULLY AS EFFECTIVE AS THOSE OF THE NEW YORK MARKET. THIS IS AN AREA WHERE THE INTERESTS OF THE UNITED STATES AND WESTERN EUROPE COINCIDE COMPLETELY. WESTERN EUROPEAN ECONOMIC GROWTH WILL REQUIRE AN ENORMOUS MOBILIZATION OF
(MORE COMING)

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BE READILY CONVERTIBLE INTO GOLD UPON DEMAND AT THE FIXED PRICE OF ~~DLR~~ $35 AN OUNCE.

IT FURTHER MEANS THAT ALL OF US -- EVERY NATION WITH A STAKE IN A STABLE INTERNATIONAL FINANCIAL MECHANISM -- HAVE A STRONG INTEREST IN THE ELIMINATION OF THE LINGERING UNITED STATES PAYMENTS DEFICIT.

THE CHIEF RESPONSIBLITY FOR RIGHTING THAT DEFICIT RESTS, OF COURSE, WITH THE UNITED STATES. WE RECOGNIZE THIS RESPONSIBILITY, AND WE ARE PREPARED TO DO WHAT IS NECESSARY TO ELIMINATE THE DEFICIT AND TO PRESERVE THE VALUE OF THE-DOLLAR. BUT THE NATURE OF THE EVENTUAL SOLUTION -- AND THE SPEED WITH WHICH IT IS REACHED -- ALSO DEPENDS UPON THE DEGREE TO WHICH THE SURPLUS COUNTRIES OF WESTERN EUROPE ACCEPT A COMPLEMENTARY RESPONSIBILITY.

RECOGNITION OF THE NEED FOR COORDINATED, COOPERATIVE ACTION HAS BEEN APPARENT IN MANY AREAS OVER THE PAST YEAR. THIS PROVIDES SOLID GROUND FOR CONFIDENCE AS WE LOOK AHEAD. NEVERTHELESS, MUCH REMAINS TO BE DONE. AND THIS IS NOWHERE MORE TRUE THAN IN ONE AREA OF DIRECT CONCERN TO EVERYONE IN THIS ROOM: THE ARRANGEMENTS FOR RAISING AND DISTRIBUTING CREDIT AND CAPITAL IN WORLD MARKETS. POTENTIAL INVESTMENT FUNDS ARE STILL TOO OFTEN DAMMED UP BEHIND NATIONAL BOUNDARIES BY LEGAL RESTRICTIONS OR INSTITUTIONAL BARRIERS -- EVEN WHEN ANY NEED FOR THESE RESTRICTIONS HAS LONG SINCE PASSED. CAPITAL DOES NOT - AS IT SHOULD - FLOW FREELY FROM THOSE WITH AMPLE RESOURCES TO THE POINTS OF GREATEST NEED. BENEFITS AND BURDENS OFTEN BEAR LITTLE RELATIONSHIP TO CURRENT PATTERNS OF TRADE OR TO THE UNDERLYING PAYMENTS POSITION OF A COUNTRY.

THIS IS REFLECTED IN THE FACT THAT MOST GOVERNMENTS OR BUSINESSES, WHEN RAISING FUNDS OUTSIDE THEIR OWN COUNTRY, STILL LOOK TO THE UNITED STATES AS THE ONLY READILY AVAILABLE SOURCE. CONVERSELY, AMERICAN INVESTORS, UNLIKE THOSE IN MOST OTHER

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ROME

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3068, MAY 18 (PART I OF SEVERAL)

PRIORITY

[FOLLOWS DILLON TEXT AT AMERICAN BANKERS ASSOCIATION MONETARY CONFERENCE FOR RELEASE AT 12:30 ROME TIME. PLEASE PASS URGENTLY TO STEVE MANNING TREASURY.]

I AM DELIGHTED TO JOIN WITH YOU IN THIS NINTH ANNUAL MONTARY CONFERENCE, WHICH HAS BROUGHT TOGETHER SO MANY OF THOSE WHO, AS PUBLIC OFFICIALS OR PRIVATE CITIZENS, SHARE RESPONSIBILITY FOR THE FINANCIAL POLICIES OF THE FREE WORLD. OUR COMMON OBJECTIVE OF A DURABLE INTERNATIONAL PAYMENTS SYSTEM, CAPABLE OF SUPPORTING AND NOURISHING ECONOMIC GROWTH AND EXPANDED TRADE, CANNOT BE ACHIEVED BY NATIONS WORKING IN ISOLATION. LASTING PROGRESS DEPENDS UPON CONCERTED ACTION BY ALL OF OUR GOVERNMENTS AND BY LABOR, BUSINESS, AND FINANCE WITHIN EACH COUNTRY. SUCH COOPERATION CAN FLOURISH ONLY IN AN ATMOSPHERE OF FRANK DISCUSSION -- THE SORT OF ATMOSPHERE PROVIDED BY THIS MEETING. THE OPPORTUNITY WHICH WE AMERICANS HAVE HAD TO MEET IN SUCH PLEASANT SURROUNDINGS WITH OUR EMINENT EUROPEAN COLLEAGUES HAS BEEN MOST USEFUL IN GIVING US A CLEARER APPRECIATION OF OUR COMMON PROBLEMS. I AM THANKFUL TO THE AMERICAN BANKERS ASSOCIATION AND TO OUR ITALIAN HOSTS FOR MAKING THIS POSSIBLE.

THE FREE WORLD'S MONETARY SYSTEM, AS IT HAS EVOLVED SINCE WORLD WAR II, RESTS INESCAPABLY ON THE FULL ACCEPTABILITY OF THE DOLLAR AS A SUPPLEMENT TO GOLD IN FINANCING WORLD TRADE. NO PRACTICABLE ALTERNATIVE IS IN SIGHT. THIS MEANS THAT THE DOLLAR HOLDINGS OF CENTRAL BANKS MUST CONTINUE, IN THE FUTURE AS IN THE PAST TO

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TREASURY DEPARTMENT
WASHINGTON

FOR RELEASE AFTER 7:30 A.M., EDT
FRIDAY, MAY 18, 1962

REMARKS OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
AT THE
NINTH ANNUAL MONETARY CONFERENCE
OF THE
AMERICAN BANKERS ASSOCIATION
ROME, ITALY, FRIDAY, MAY 18, 1962

I am delighted to join with you in this Ninth Annual Monetary Conference, which has brought together so many of those who, as public officials or private citizens, share responsibility for the financial policies of the free world. Our common objective of a durable international payments system, capable of supporting and nourishing economic growth and expanded trade, cannot be achieved by nations working in isolation. Lasting progress depends upon concerted action by all of our governments and by labor, business, and finance within each country. Such cooperation can flourish only in an atmosphere of frank discussion -- the sort of atmosphere provided by this meeting. The opportunity which we Americans have had to meet in such pleasant surroundings with our eminent European colleagues has been most useful in giving us a clearer appreciation of our common problems. I am thankful to the American Bankers Association and to our Italian hosts for making this possible.

The Free World's monetary system, as it has evolved since World War II, rests inescapably on the full acceptability of the dollar as a supplement to gold in financing world trade. No practicable alternative is in sight. This means that the dollar holdings of central banks must continue, in the future as in the past,to be readily convertible into gold upon demand at the fixed price of $35 an ounce.

It further means that all of us -- every nation with a stake in a stable international financial mechanism -- have a strong interest in the elimination of the lingering United States payments deficit.

The chief responsibility for righting that deficit rests, of course, with the United States. We recognize this responsibility, and we are prepared to do what is necessary to eliminate the deficit and to preserve the value of the dollar. But the nature of the eventual solution -- and the speed with which it is reached -- also depends upon the degree to which the surplus countries of Western Europe accept a complementary responsibility.

Recognition of the need for coordinated, cooperative action has been apparent in many areas over the past year. This provides solid ground for confidence as we look ahead. Nevertheless, much remains to be done. And this is nowhere more true than in one area of direct concern to everyone in this room: the arrangements for raising and distributing credit and capital in world markets. Potential investment funds are still too often dammed up behind national boundaries by legal restrictions or institutional barriers -- even when any need for these restrictions has long since passed. Capital does not -- as it should -- flow freely from those with ample resources to the points of greatest need. Benefits and burdens often bear little relationship to current patterns of trade or to the underlying payments position of a country.

This is reflected in the fact that most governments or businesses, when raising funds outside their own country, still look to the United States as the only readily available source. Conversely, American investors, unlike those in most other countries, have both the facilities and freedom to place their funds abroad without restriction, on a basis comparable to -- and sometimes even more favorable than -- domestic investment.

These conditions are an anomaly in a world of convertible currencies -- a world in which barriers to trade have been steadily reduced -- a world characterized by American deficits and European surpluses. I am not suggesting that the United States, as the richest and most productive nation on earth, should cease to export capital. Nor do I suggest that action to free the flow of investment funds from other countries would relieve the United States of its responsibilities for vigorous and effective action in other directions to reduce its payments deficit. But progress toward a broader, more fluid international market for capital does seem to me to be an essential part of our American effort to achieve and sustain international payments equilibrium. At the same time, more effective means of mobilizing the huge potential for savings implicit in the dramatic economic expansion of Western Europe must be developed if Europe is to fulfill its hopes for continued rapid economic growth in the years ahead.

Western Europe is in a period of economic growth that can and should lead to standards of living comparable to those in the United States. But we in the United States would not have been able to achieve our present standard without the development of a capital market whose breadth and flexibility remain unparalleled. The plain fact is that Western Europe will not be able to approach the American standard of living until it develops ways and means of mobilizing its own extensive savings and capital that are fully as effective as those of the New York market. This is an area where the interests of the United States and Western Europe coincide completely. Western European economic growth will require an enormous mobilization of capital. Because of balance of payments realities, as well as our own competing domestic needs, the amount of capital that we will be able to furnish is simply not enough to go around. If Europe is to have adequate funds for the expansion that is now within its grasp, it must develop up to date mechanisms to mobilize its own capital resources --mechanisms that do not exist today in most of continental Europe.

To return to our balance of payments and to put it into proper perspective, let me review the broad strategy that lies behind all of our efforts to restore a balance in our international accounts.

As you know, spending for the defense and economic support of the Free World imposes a uniquely heavy burden on the United States balance of payments. The annual dollar cost of our defense expenditures overseas has been roughly $3 billion in recent years, substantially more than our average basic payments deficit. I would like to emphasize that the $3 billion figure is the balance of payments impact -- not the budgetary cost to the United States, which is several times higher.

Approximately $2 billion of this is spent in NATO countries. Our dollar costs for defense are heaviest in Germany, where they amount to about $700 million a year. In France, they are more than $300 million per year; in the United Kingdom about $250 million, and in Italy, about $100 million.

These expenditures represent the dollar cost of maintaining U. S. Forces overseas, and the heavy expenditures in NATO countries result from the fact that our largest overseas troop deployments are here in the NATO area.

There can be no doubt of the necessity to maintain large U. S. Forces overseas for our own security, for that of our NATO allies, and for the entire Free World. Nor can there be any doubt of our firm determination to meet in full our responsibilities for the defense of NATO and the Free World. As President Kennedy has stated the United States is prepared to make any sacrifice necessary for Free World security. We are prepared to maintain fully effective military forces overseas -- wherever necessary and for as long as needed. Even as we meet today, American troops are deploying in Thailand in response to a request for assistance by the Royal Thai Government as a result of renewed communist aggression in Laos.But at the same time that we fulfill these military responsibilities we must exercise all prudence to ensure that the adverse impact on our balance of payments is minimized.

The United States must trim all non-essential foreign exchange expenditures from its defense programs. Therefore, we are emphasizing U. S., rather than foreign procurement. We are economizing in manpower wherever possible without loss of military strength and we are encouraging our forces to hold down the level of their personal expenditures overseas. But this can only accomplish a relatively small part of the job.

More important is our effort to work out arrangements in cooperation with our NATO allies for offsetting our defense expenditures by increasing their procurement of military equipment and services from the United States. This not only assists the U. S. balance of payments -- it also strengthens the military capabilities of our allies, for we are usually in a position to produce the needed equipment faster and at less cost than it can be produced in Europe.

As a first and most important step in this effort, agreement has been reached on the establishment of a cooperative logistics system whereby the armed forces of the Federal Republic of Germany will increase the level of military procurement in the United States and will utilize American supply lines, depots and maintenance and support facilities. By this means the Federal Republic of Germany will fully offset the dollar costs of maintaining U. S. troops in Germany during 1961 and 1962. Discussions are under way, or will soon be initiated, with certain of our other NATO allies. Our objective during 1962 for total military cash receipts is approximately $1.2 billion. I believe that we will be successful in attaining this objective.

It is our view that such military offset arrangements are both equitable and mutually beneficial. They provide a means whereby our allies can strengthen their own military forces at minimum cost and in ways that often would not otherwise be possible, while at the same time offsetting the dollar costs which we incur in maintaining our forces on their territory in the joint defense of the precious heritage of freedom. Thus, these agreements, at one and the same time, build up both the military and economic defenses of the West.

The dimensions of the actual drain on our balance of payments from economic aid -- while important -- are currently much smaller than many have assumed. A sizable fraction of our $4 billion expenditure for aid -- over two-thirds in 1961 -- is furnished in the form of U. S. goods and services. And in terms of the funds being committed at the present time, the portion furnished by our own goods and services is even higher and is still increasing. But just as in the case of defense spending overseas, there are limits to the further dollar savings that can safely be made in this area. The needs of the developing countries are likely to rise in the years ahead, not decline. Hence, much remains to be done in sharing this burden more equitably among all the countries able to bear it. I am hopeful that continued progress can be made along those lines this year.

On balance, a realistic appraisal of actions now underway suggests that the total drain on our balance of payments from aid and defense will be reduced by something over a billion dollars a year, to a figure on the order of $3 billion.

This means that the United States must have a continuing surplus of about $3 billion a year in the other elements of our basic balance -- trade, services, and long-term capital movements if we are to achieve a balance in this account which, as you know, does not include short term capital flows. This is a tall order. But it is one we can, and must, achieve. Last year, when circumstances were particularly favorable for our trade account, our commercial trade surplus amounted to $3 billion. This reflected the abnormally low imports of the first six months of 1961, which resulted from the slowdown in our economy. We must, however, accept this as a minimum target for the future and strive to do even better. Such a target will not be easy to achieve. But it is feasible and realistic -- if we Americans continue to apply ourselves to the task with all the vigor and imagination it requires.

I will not review in detail here all the measures we have undertaken to make Americans export-conscious as never before, to support industry with short term credit insurance comparable to that available in other industrialized countries, and to provide comprehensive and speedy information on foreign markets. I am certain, however, that all of you here will see visible results from these efforts in the months and years ahead, as American businessmen move more aggressively to participate in growing world markets.

All of this effort will, of course, avail us nothing if American industry cannot or does not deliver its goods at attractive prices. Restraint on costs and stable prices must lie at the very heart of American efforts to sharpen our competitive drive in world markets.

Our over-all approach to this objective is, I believe, clear: the thought that price stability depends on keeping wage rates in line with national trends in productivity is hardly new. But never before has an American Administration assumed the responsibility for defining that principle in such clear terms -- and never before has an American Administration so carefully spelled out its implications for collective bargaining and pricing decisions. The object is simply this: to ensure that Labor and Business alike, in weighing all the complex pressures that enter into any wage price decision, are also fully aware of the overall national interest.

The past year has seen some success in these efforts. Despite our economic recovery the very significant fact is that wholesale prices in the United States are lower today than they were a year ago. They have now remained stationary for four years. This price stability has served to improve the competitive position of the United States versus our friends in Europe, reversing the trend of earlier years. We will continue to do everything in our power to see that this new trend continues. Important among our efforts is the promotion of a more favorable environment for investment. An investment tax credit, included within a broader program of tax reform now before our Congress, is a key element in our approach. And updating and simplification of outmoded depreciation guidelines to take full account of the impact of swiftly changing technology on the useful life of equipment is another. Together, these measures will provide incentives for investment in new equipment comparable to those that have long existed in other leading industrialized nations.

Monetary and debt management policies are being conducted in a manner to ensure that ample funds are available, at reasonable cost, to finance new capital outlays. Fiscal policy, too, has been closely attuned to the need to encourage investment -- and to avoid the sort of demand pressures that could menace price stability.

As you know, we have succeeded this year in keeping the deficit in our Federal budget far below the level of fiscal year 1959 -- the last similar recovery period. This has been of major assistance in our effort to forestall any significant tightening of the credit markets, with government draining off resources and funds that might better we devoted to productive investment. For the fiscal year beginning next July, we have programmed a balanced budget on the presumption that the economy will continue to expand vigorously, approaching full employment by the end of the fiscal year.

Under such conditions, our budget would gradually, and quite properly, exert increasing restraint on demand as the year progresses. This is better illustrated by the projected surplus of $1.8 billion in the overall cash account which, in contrast with the administrative budget, reflects all the activities of the Federal government.

Whether or not our budget target will, in fact, be reached, cannot be foretold with certainty today. We won't know the answer until time has tested the basic assumptions that underlie the revenue estimates. But as you all know, government receipts in the United States are very sensitive to business conditions because of the heavy reliance on the income tax. I can assure you that expenditures are being kept within the limits of the revenue estimates. I would be less than frank if I did not admit that our first quarter results were disappointing, although the shortfall was not so great that it cannot be made up in the months ahead. Certainly my own readings of the latest business news and profits figures suggest that it is still premature to conclude that we cannot attain our goal.

Whatever the precise budgetary outcome 14 months hence, the really crucial fact is that the economic effect of any particular surplus or deficit can be judged only in the context of the existing business environment. If our economy fails to sustain the momentum we anticipate, labor will remain freely available and industry will continue to operate well below capacity. Under such circumstances, experience shows that a moderate deficit would not be inflationary, just as the rather substantial deficit of the past twelve months, with manpower and goods in ample supply, has not been inflationary -- and, for that matter, just as the much larger deficit in fiscal 1959 was not accompanied by any general price increase. And here I would like to say that our deficit for the current fiscal year ending on June 30th is today estimated at $7 billion, exactly the same as our official estimates of last October and last January.

The fact that there is no automatic relationship between budgetary deficits and price inflation, or between budget deficits and the balance of payments, is brought home forcefully by a recent study comparing the budgets of the United States with those of the three largest European countries. I do not recommend it for light reading. It is a highly technical statistical exercise designed to adjust the data to a common basis so that they accurately reflect the net impact of central government operations. But the conclusion stands out clearly and unambiguously: Britain, France, and Germany have all been more "deficit-prone" than the United States. Converting European budgets to the more rigorous standards of American budget accounting, we find that Germany, for example, has had a deficit ever since defense spending became a significant portion of its budget four years ago, and that France has had a deficit in every year of the past decade. Moreover, the deficits of all three of these European countries have, much of the time, been considerably larger, relative to gross national product, than that of the United States.

What is one to conclude in view of the fact that two countries - France and Germany -- which, using our basis of budgetary accounting, have had relatively large budgetary deficits in recent years, have also had the largest surpluses in their international accounts?

Certainly not that large deficits are the road to salvation.

We all know that the wrong deficit at the wrong time can pave the road to inflation. But, in discussing budget policy, we too often fall into the trap of forgetting that it is inflation which is the real enemy. We should always bear in mind that moderate budget deficits incurred during periods of inadequate demand and which do not exert upward pressures on price levels -- are quite different in their economic effect from deficits incurred when the economy is operating at full capacity.

In this connection, the relationship of the Federal debt to the gross national product -- in other words, the ability of the national economy to carry the debt burden -- is also pertinent. In this area, the record of the United States has been and continues to be very good. From a situation at the end of the war when the Federal debt amounted to about 125 percent of our gross national product, the percentage has continually declined and today stands at about 53 percent. This compares with a ratio of 56 percent just one year ago, and a ratio of about 50 percent in 1941, before wartime expenditures sent our debt soaring. The addition of our growing state and local debt would modify these percentages only slightly. The general picture would not be changed.

Price stability -- investment in modern machinery -- an export-minded government and industry -- these are the keys to an expanding trade surplus for the United States in the years ahead, a surplus achieved not by retreat to controls or deflation, but firmly grounded in the ability of American Business to pour out into world markets new and improved products at attractive prices. Our trade surplus is already large. But it is not quite large enough to cover our commitments for defense and aid, as well as our current volume of private investment abroad. However, the needed margin is within reach -- and reach it we mean to do.

The preliminary results from the first quarter of 1962 clearly show that our efforts are beginning to bear fruit. Despite an increase of $550 million in our imports as compared to the unusually depressed level of the first quarter of 1961 -- an increase that is the natural reflection of our economic recovery -- our overall deficit for the quarter was just $100 million larger than in the same quarter last year. Leaving imports aside this represents a solid improvement of $450 million in all the other elements of our balance of payments. Overall, these results show an improvement of a billion dollars over the deficit incurred during the fourth quarter. During the first quarter of this year our basic deficit ran at an annual rate approximately $1.2 billion, and our overall deficit at an annual rate of $1.8 billion. The continuing and growing effect of our various efforts to correct our balance of payments should serve to maintain or improve these results as the year progresses.

We should not, however, center all our attention and all our efforts on our trade balance. A danger will remain so long as the United States stands virtually alone in providing a free and effective capital market, absorbing the bulk of the marginal demands for funds from other countries, surplus and deficit alike. Then, the dollars saved in defense and aid, and the dollars earned in trade, could too easily be drained away in an accelerating outflow of American capital.

I am not referring to sudden and massive shifts of liquid funds in response to interest rate differentials, to speculative considerations, or to other factors. That difficult problem has already received much attention, and our mutual defenses are being strengthened. I am referring to the basic world market for long-term capital.

This long-term capital market has two major facts: direct investment and portfolio investment. It is the latter, or rather a portion of the latter, which is my chief interest today, although I will say a few words first on the subject of direct investment.

The United States has consistently favored free capital movemen the ability of individuals or companies to invest their funds where they will. There has been no change in that view. We are, however, asking our Congress to end the tax inducements to American investmen in other industrialized countries, particularly the inducements which flow from the mushrooming use of so-called tax havens. The object is not to discourage capital from going abroad in search of higher gross return. That sort of investment will, in the long run, serve the investor, the United States, and the recipient country alike. We recognize that the great bulk of our foreign investment is of this type and is not tax-induced. We do, however, want to make sure that our tax system does not unwittingly -- and artificially -- spur this outflow. We wish only to eliminate margin foreign investment that is induced primarily by tax considerations. While there is no expectation that such action will dramatically reduce the outflow of direct investment funds from the U. S., it will be of some help -- and every bit counts in the effort to eliminate our payments deficit.

In the field of portfolio investment, I am not interested in the purchase of foreign equities by American investors, a process that is an essential element of free capital movement. What I am concerned with is the increasing use of the various mechanisms of the New York capital market by European borrowers to raise funds for thei own internal purposes. Today, the plain fact is that underwriting an distributing facilities in the industrialized countries of continental Western Europe, are generally inadequate to meet the foreseeabl needs of domestic borrowers -- much less those from abroad. That is not a healthy environment for long-term domestic growth. It inevitably means higher borrowing costs and a shortage of funds for firms and industries that lack their own internal sources of capital. And, when combined with controls and restrictions on capital movements lingering on from earlier days, it has the incongruous effect of shunting to the New York market new issues from the surplus countries, even as we in the United States are endeavoring to erase deficit.

While the current relatively favorable interest rates in the New York Market are, of course, attractive to foreign borrowers, there is plenty of evidence that a large part of the current European borrowing in New York is as much a reflection of the greater and more ready availability of funds in the New York capital markets as it is of interest rates. In other words, the indications are that ma of the current European borrowers would be coming to New York even if our interest rate structure were somewhat higher. They would be coming because they find it more difficult to raise the needed funds in Europe than in New York. A case in point is the current $25 million borrowing by the European Coal and Steel Community.

This does not seem to me to be a very efficient use of the World's capital resources. The years to come will certainly see a growing demand for capital from countries which cannot be expected to develop their own capital markets. Such countries have traditionally looked to the capital markets of New York and London to raise their funds. This is a normal procedure and should continue. But it will be more difficult for these countries to meet their needs if they must compete in the New York market for necessarily limited funds with continental European borrowers who, given fully adequate European capital markets, should normally be able to find the needed funds without having to cross the Atlantic.

It is true that a large proportion of the European issues that have been publicly floated in New York have ultimately been taken up by European investors, which, among other things, shows that these investors are prepared to lend their money long-term at lower rates than are currently quoted in their own capital markets. Thus, the burden on our international accounts has not been as large as it may have appeared from a simple total of the volume of new issues sold in New York. But the burden is nonetheless real. And so long as the imbalance in facilities and controls remains, so will the threat that an accelerating flow of these issues could undermine our efforts in other directions. And as long as continental Western Europe continues to operate with inadequate and out-moded capital markets it can have no solid assurance that the capital required to ensure steady and rapid growth will, in fact, be available. I am glad that the OECD has now recognized the importance of this problem and has commenced to work actively in this field. We should all of us give this effort our full support.

I recognize that progress toward relaxing some of the formal controls on external capital flows is already evident in most industrialized countries. Nevertheless, residents of only a few Western European countries have freedom today to invest abroad wherever they may wish, and in whatever form they may desire. Some type of official authorization and approval is still commonplace, and outright prohibition is not infrequent. The volume of foreign bonds offered in Western European countries in recent years has, except in one or two of the smaller countries, been negligible -- and in some countries, non-existent. And, it still appears that bank funds are readily available to foreign borrowers, in substantial volume and without ties to exports, only when they are in the form of U. S. dollars.

Thus, we have a long way to go before we can be satisfied that our arrangements for raising and distributing capital within the Free World are in step with our progress toward freer trade and higher standards of living. I, for one, shall be uneasy so long as virtually all the world -- surplus and deficit countries alike -- those capable of generating a high level of savings internally and those operating close to subsistence levels -- must look to the United States as their principal, if not only, source of marginal capital.

Progress in this area cannot come with dramatic speed. Markets have been insulated too long. The whole psychology of a generation of investors must be changed. New institutional structures must be developed. But as I look at the development of Western Europe from a distance, it seems to me that the logic of internal growth and development points in this direction.

More efficient capital markets will be essential to sustain growth -- and should themselves tend to reinforce other factors that could bring about a lower level of long-term interest rates more in line with those typical of the American market. Already, some tendency in that direction has developed. In this interdependent world of ours, I would expect that tendency to continue.

I am not calling today for any radical new departures in policy. I am asking only that we willingly accept the logic of our evolving world economy, and press ahead with all our vigor to cast off those restrictions that still impede the free flow of capital, both within and between nations. This is clearly not a job for governments alone, but for banking leadership and banking statesmanship as well. I submit it as a special challenge for all of you who have a vital interest in expanded trade between nations, growth at home, a durable payments system, and a strong free enterprise economy.

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Free men have never found their freedom easy to achieve, to maintain or to defend. But free men have an advantage over those who are not free. The vitality and resiliency of people who choose their own path will always triumph over the rigidity of any system in which people are driven to do the will of the state. This has been, and will continue to be, the history of man -- the eventual triumph of freedom over tyranny.

Thus, we have a long way to go before we can be satisfied that our arrangements for raising and distributing capital within the Free World are in step with our progress toward freer trade and higher standards of living. I, for one, shall be uneasy so long as virtually all the world -- surplus and deficit countries alike -- those capable of generating a high level of savings internally and those operating close to subsistence levels -- must look to the United States as their principal, if not only, source of marginal capital.

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path of true progress for humanity requires that individual dignity and freedom keep pace with industrial progress.

Nevertheless, those who would spread this doctrine represent a formidable force. If we are to continue to successfully combat their efforts, we will need all the energy and all the wisdom we can muster. We must also be prepared to make the necessary sacrifices, for this struggle will continue to demand a sizable part of our human and natural resources.

Above all, business, labor, education, government, and all other elements of our diverse society, must be united in the common effort to strengthen our freedom, to advance the opportunities for our citizenry, add to improve our national well-being. Only in this way can we Americans bring to bear the latent power which will be needed if our precious heritage of human liberty is to be preserved and extended throughout the world.

farmers -- nor anyone else -- can operate independently of the public interest without doing grave injury to our nation. As President Kennedy said recently to the United Auto Workers: "It is incumbent upon all of us to consider the general welfare and the public interest because the public interest is your interest."

The struggle in which we are involved will be a long one. There are those in the world who believe that the state should make all the decisions, and this doctrine has captured the minds of one-third of the earth's population. Unquestionably, for a developing country, this sytem offers a certain temptation If the state can exercise complete control of all human and material resources, can compel the population to serve its ends to the limit of endurance, add can use the wealth created in any way it sees fit, the problems of economic development may appear to be simple. But this is only a mirage, for the into the mass, our discrimination and individuality -- the individuality which gives us our strongest motivation to remain free -- will become blunted by lack of use. The effort and reward of active involvement in the public welfare is never boring. It is a certain antidote for submersion of the individual in the mass society. Here, let me say a word about careers in government: Any of you who devote your lives to career government service, wherever it may be, will not only find yourselves in the company of a hard-working, intelligent, group of Americans, but will also obtain the reward that comes from a life of service. Such service can be rendered in many ways, at many levels of government, federal, state and local. Every type and kind of talent is required.

×For those of you who choose careers in private life, the national interest will also be ever-present as you carry out your daily tasks. For today, neither businessman, workers, debate. I would like to see every American holding strong views on significant aspects of public policy -- views based on rational conviction, rather than blind prejudice. We should not reserve our attention -- nor our concern, nor our active sense of being responsible for the outcome -- for that period every four years when we elect a president. A citizen of the United States today has the potential to be more effective in shaping the policies of his Government than has any citizen of any nation in the world. It is high time for us to exploit this potential, because today, as never before in our history, our nation needs citizens who are aroused, who are active, and who care.

For this is a critical decade. We all recognize the menace of nuclear holocaust, but there are other dangers, which are too seldom recognized. There is the danger that we may become too obsessed with materialism, and that as we merge exceed 5% of annual income. For those who need all of their income to meet expenses, this over-witholding could be met by a temporary, one-time outlay of less than 2/10 of 1% of their total savings, or less than $160 out of a capital of $80,000. I deliberately use this large figure of $80,000 because retired couples with less capital would have no problem whatsoever since they would owe no tax, and -- mark you -- witholding does not apply at all except where a tax is due.

If, by any chance, witholding should be defeated by these false arguments, and the annual evasion of over $800 million in taxes should be permitted to continue, the public interest would surely not have been served. And the flood of uninformed and prejudiced mail that is reaching the Congress will have played an important role in the decision.

This sort of thing would be impossible if public policy ~~was~~ were a subject for really widespread and truly intelligent public completely false. Their widespread acceptance is a striking example of the dangers in an uninformed public. The truth is exactly to the contrary. Witholding is not a new tax. And it will not put any burden on those who depend on their savings. It is merely an effective means of collecting taxes which have been on the books for many years. The only menace it contains is for tax evaders, who will be forced by withholding to pay up like the rest of us. This evasion in 1959 amounted to well over $800 million. It was still more in 1960 and -- unless it is halted -- will increase year by year despite every effort by the Internal Revenue Service.

As to any possible burden on recipients of interest and dividends, the fact is that thanks to a provision for prompt quarterly refunds, the most that anyone can be inconvenienced is by over-withholding in the first quarter in which the law applies. This first quarter's over-witholding would never often falsely labelled a "new tax". They helpfully gave the names and addresses -- and in some cases, even the salutation -- so that readers could write to their senators opposing this provision. So-called "ballots" requiring only the insertion of a name and address were often provided. Some of those advertisements even bore the note that they were furnished as a "public service" -- a brazen attempt to confuse the special interest of the advertiser with the overall public interest.

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The fact of the matter is that both of these changes are rests today more than ever with the people. The problem is that they use their power too seldom.

The danger of apathy on the part of the majority is that it abdicates responsibility, and allows vocal minorities -- usually representing special interests -- to exert influence far beyond their real weight. A good example is provided by a campaign currently being waged against one of the major provisions of the Administration tax bill now before the Senate Finance Committee -- the proposal to withold taxes due on income from dividends and interest, just as taxes are now witheld on wages and salaries. The campaign has set new records for distortion of the facts and has created widespread public misunderstanding. Some financial institutions which felt that this would inconvenience them, have sponsored widespread advertising campaigns to inform the public of the dangers supposedly inherent in this provision -- which they complicated to make interesting reading. Because we cannot foresee the outcome of the disarmament talks, or because we cannot fully comprehend the complexity of tax problems -- or, most often, because we feel no personal involvement -- we skip to the sports page or to the fashion column.

This public apathy, in my opinion, may well be the greatest single danger we face today. It gives rise to an automatic process in which blind prejudice is substituted for reason -- and thus all problems become over-simplified. Out of such reactions have grown both the hysterical right and the hysterical left. One contends that the real danger in the world today is subversion within our country and within our government. The other maintains that our whole society is manipulated by a small clique of businessmen, military leaders, and power-hungry politicians.

Both views are, of course, nonsense. Power in this country

And third, he must do something about it.

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A citizen of the United States has a greater duty than merely to register an uninformed personal preference at the polls, and the college graduate, in particular, has a responsibility to commit himself to some larger cause than the mere pursuit of an ever-higher standard of living for himself and his family.

The facts are available. They are given to us every day by newspapers, magazines, radio and television. But to many of us, the public business often appears to be too

210

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In our system, it is how much the ordinary citizen knows -- and even more important, how much he cares -- that will determine the outcome of large issues. Experts of course are necessary, and their advice should be heard, but in the end, it is often the non-expert who must make the decisions.

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211

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The vast changes taking place in our civilization have had one thing in common. They have often seemed to reduce the efforts of the individual citizen to insignificance. For this is certainly the age of the mass market, the mass media, the mass civilization. Out of this age, two great dangers have arisen -- mass ignorance and mass apathy.

As the industrial era has accelerated, it has been the specialist -- the market analyst, the computer systems designer, the neuro-surgeon, the nuclear scientist - in short, the expert - who has become important. Experts are indeed necessary. But with their increasing importance, we too often are tempted to say, when considering matters of public policy, "What do I know about it? I'm no expert."

must raise the level of investment, for investment creates jobs, incomes, and consumer demand.

We must also improve the ways in which we care for the poor, the aging, and the sick. Here we can take a major step forward in the next few months by enacting legislation to assure adequate medical care for the aged through our tried and proven Social Security system.

Above all, our educational system needs strengthening. We need more classrooms, more and better-paid teachers, more laboratories -- more educational facilities of every kind to keep pace with our expanding population. For in the last analysis, our strength lies not in machines, but in our people, who must be given maximum opportumity to develop their latent talents.

Finally, no catalog of our wants can exclude the need to improve the rights and opportunities of all our citizens. For to improve our competitive position in the world's marketplaces, to meet essential needs in our own country, and to help the peoples of less fortunate nations to raise their living standards.

We cannot tolerate unemployment at present levels, not only because it entails human suffering, but because it represents unused manpower. We must speed up the growth of our economy to provide the needed jobs, ~~We~~ we must also keep our prices stable, since inflation would seriusly affect the welfare of all in our society who depend on savings, and would threaten our ability to compete in today's highly competitive world. To resist inflation, business, labor, and government must all exercise self-restraint.

We must strive for greater efficiency by applying new methods, fresh research, and the fruits of the laboratory, to the development of a better industrial plant -- and ~~to~~

Latin America, too, there is impatience with the slow pace of advancement. Our Alliance for Progress, designed to speed development throughout the hemisphere, may -- if we and our Latin partners work hard enough at it -- become a model of collective aid and self-help for the entire developing world, including Africa and Asia.

These vast, complex problems are among the greatest ever faced by our country. They will not become any easier during your lifetimes. Their solution will require the best efforts of men and women trained in universities such as this. ~~--~~ they will provide plenty for youto do.

Let us look for a moment at our domestic scene, ~~we~~ WHERE we have a great deal of unfinished business:

Our economy badly needs strengthening. It must grow faster in order to support our defense establishment,

215

exports, enough to support both our overseas military establishments and our much needed programs of aid to less developed countries. That is the basic reason behind President Kennedy's programs of trade expansion, of export promotion, and of tax incentives to stimulate the constant modernization of our industrial plant.

A third great challenge is represented by the yearnings of the peoples of the less-developed world for a better life. Nearly 50 new countries have entered the familyoof nations in your lifetime. Their struggles and those of all the developing lands will do much to shape the pattern of the world for decades to come. The importance of the nations of Africa alone -- as President Houphouet-Boigny can testify -- cannot be over-estimated, either during their present striving toward a better tomorrow or as a potentially major force in international affairs.

Overriding all others is the military power -- supported by a growing economy and a passionate ideology -- of the Communist bloc. This power requires us to constantly strengthen the defenses of the Free World. At the same time, the nature of nuclear weapons demands that we do all we can to lessen international tensions and to seek ways of minimizing existing frictions. We must negotiate while maintaining our preparedness for the worst. We must ~~show~~ EMPLOY strength, patience, and diplomatic skill.

Another great challenge is presented by the growing economic strength of our European allies. While we are naturally pleased with their progress, we must redognize that we now have competition in the markets of the world such as we have not known for more than a generation. We must improve our competitive abilities so that we may earn, through our

21

SECRETARY OF THE TREASURY

ADDRESS BY THE HONORABLE DOUGLAS DILLON AT
THE UNIVERSITY OF PENNSYLVANIA, PHILADELPHIA, PA.
MAY 21, 1962, 11:00 AM.

FOR RELEASE TO AFTERNOON PAPERS, MONDAY, MAY 21, 1962

It is a pleasure to meet with you today and to join the alumni of this distinguished University. I am delighted to share in these honors with my old friend, President Houphouet-Boigny of the Republic of the Ivory Coast. He is a wise leader who has brought his people into nationhood and has made his country a beacon of hope EMPLOY for the future of Africa. His presence here today is a reminder that a great university knows no national boundaries, for peoples from every corner of the earth share in its work and contribute to its life.

Those of you who are departing this University to embark on your careers will find that our constantly changing world will become increasingly complex in the years ahead. I can assure you that there are vast challenges awaiting you.

D-494

TREASURY DEPARTMENT
WASHINGTON

FOR RELEASE P.M. NEWSPAPERS
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We must strive for greater efficiency by applying new methods, fresh research, and the fruits of the laboratory, to the development of a better industrial plant -- and must raise the level of investment, for investment creates jobs, incomes, and consumer demand.

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Finally, no catalog of our wants can exclude the need to improve the rights and opportunities of all our citizens. For our nation is distinguished by our adherence to the principle of individual liberty, by the over-riding importance which we attach to the individual citizen.

The vast changes taking place in our civilization have had one thing in common. They have often seemed to reduce the efforts of the individual citizen to insignificance. For this is certainly the age of the mass market, the mass media, the mass civilization. Out of this age, two great dangers have arisen -- mass ignorance and mass apathy.

As the industrial era has accelerated, it has been the specialist -- the market analyst, the computer systems designer, the neuro-surgeon, the nuclear scientist - in short, the expert - who has become important. Experts are indeed necessary. But with their increasing importance, we too often are tempted to say, when considering matters of public policy, "What do I know about it? I'm no expert".

I say to you that the individual, despite indications to the contrary, is more important than ever, and that the ability of our citizens to influence public policy is also more important than ever.

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Even if all he does is talk to his neighbor, a purpose will have been served, but in a nation like ours -- where only a small fraction of the population takes an active part in election campaigns beyond the act of voting -- the latitude for effective political action, if one cares to take the trouble, is extremely broad.

A citizen of the United States has a greater duty than merely to register an uninformed personal preference at the polls, and the college graduate, in particular, has a responsibility to commit himself to some larger cause than the mere pursuit of an ever-higher standard of living for himself and his family.

The facts are available. They are given to us every day by newspapers, magazines, radio and television. But to many of us, the public business often appears to be too complicated to make interesting reading. Because we cannot foresee the outcome of the disarmament talks or because we cannot fully comprehend the complexity of tax problems -- or, most often, because we feel no personal involvement -- we skip to the sports page or to the fashion column.

This public apathy, in my opinion, may well be the greatest single danger we face today. It gives rise to an automatic process in which blind prejudice is substituted for reason -- and thus all problems become over-simplified. Out of such reactions have grown both the hysterical right and the hysterical left. One contends that the real danger in the world today is subversion within our country and within our government. The other maintains that our whole society is manipulated by a small clique of businessmen, military leaders, and power-hungry politicians.

Both views are, of course, nonsense. Power in this country rests today more than ever with the people. The problem is that they use their power too seldom.

The danger of apathy on the part of the majority is that it abdicates responsibility, and allows vocal minorities -- usually representing special interests -- to exert influence far beyond their real weight. A good example is provided by a campaign currently being waged against one of the major provisions of the Administration's tax bill now before the Senate Finance Committee - the proposal to withhold taxes due on income from dividends and interest, just as taxes are now withheld on wages and salaries. The campaign has set new records for distortion of the facts and has created widespread public misunderstanding. Some financial institutions which felt that this would inconvenience them, have sponsored widespread advertising campaigns to inform the public of the dangers supposedly inherent in this provision -- which they often falsely labeled a "new tax". They helpfully gave the names and addresses -- and in some cases, even the salutation -- so that readers could write to their senators opposing this provision. So-called "ballots" requiring only the insertion of a name and address were often provided. Some of those advertisements even bore the note that they were furnished as a "public service" -- a brazen attempt to confuse the special interest of the advertiser with the overall public interest.

The tenor of this campaign is that withholding would put new and unfair burdens on the aged and on all those who depend for their livelihood on income from savings. The implication has been freely given that this proposal is a new tax. These two themes run through practically all the mail being received in the Senate.

The fact of the matter is that both of these charges are completely false. Their widespread acceptance is a striking example of the dangers in an uninformed public. The truth is exactly to the contrary. Withholding is not a new tax. And it will not put any burden on those who depend on their savings. It is merely an effective means of collecting taxes which have been on the books for many years. The only menace it contains is for tax evaders, who will be forced by withholding to pay up like the rest of us. This evasion in 1959 amounted to well over $800 million. It was still more in 1960 and -- unless it is halted -- will increase year by year despite every effort by the Internal Revenue Service.

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If, by any chance, withholding should be defeated by these false arguments, and the annual evasion of over $800 million in taxes should be permitted to continue, the public interest would surely not have been served. And the flood of uninformed and prejudiced mail that is reaching the Congress will have played an important role in the decision.

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The struggle in which we are involved will be a long one. There are those in the world who believe that the state should make all the decisions, and this doctrine has captured the minds of one-third of the earth's population. Unquestionably, for a developing country, this system offers a certain temptation. If the state can exercise complete control of all human and material resources, can compel the population to serve its ends to the limit of endurance, and can use the wealth created in any way it sees fit, the problems of economic development may appear to be simple. But this is only a mirage, for the path of true progress for humanity requires that individual dignity and freedom keep pace with industrial progress.

Nevertheless, those who would spread this doctrine represent a formidable force. If we are to continue to successfully combat their efforts, we will need all the energy and all the wisdom we can muster. We must also be prepared to make the necessary sacrifices, for this struggle will continue to demand a sizable part of our human and natural resources.

Above all, business, labor, education, government, and all other elements of our diverse society, must be united in the common effort to strengthen our freedom, to advance the opportunities for our citizenry, add to improve our national well-being. Only in this way can we Americans bring to bear the latent power which will be needed if our precious heritage of human liberty is to be preserved and extended throughout the world.

Free men have never found their freedom easy to achieve, to maintain or to defend. But free men have an advantage over those who are not free. The vitality and resiliency of people who choose their own path will always triumph over the rigidity of any system in which people are driven to do the will of the state. This has been, and will continue to be, the history of man -- the eventual triumph of freedom over tyranny.

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222

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, May 22, 1962.

May 21, 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 February 23, 1962, and the other series to be dated May 24, 1962, which were offered on May 16, were opened at the Federal Reserve Banks on May 21. Tenders were invited for $1,300,000,000, or thereabouts, of 91-day bills and for $600,000,000, or thereabouts, of 183-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 23, 1962		183-day Treasury bills maturing November 23, 1962	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.322 a/	2.682%	98.587 b/	2.780%
Low	99.312	2.722%	98.576	2.801%
Average	99.317	2.700% 1/	98.579	2.795% 1/

a/ Excepting 1 tender of $500,000; b/ Excepting 3 tenders totaling $1,012,000
13 percent of the amount of 91-day bills bid for at the low price was accepted
11 percent of the amount of 183-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	$ 24,470,000	$ 14,470,000	$ 4,071,000	$ 3,821,000
New York	1,530,553,000	847,973,000	1,024,357,000	495,183,000
Philadelphia	28,629,000	13,629,000	7,898,000	2,898,000
Cleveland	25,370,000	25,370,000	24,251,000	13,673,000
Richmond	8,920,000	8,920,000	2,838,000	2,838,000
Atlanta	21,130,000	19,730,000	4,748,000	4,648,000
Chicago	255,084,000	191,774,000	116,788,000	44,566,000
St. Louis	25,638,000	19,638,000	6,918,000	4,518,000
Minneapolis	17,527,000	13,092,000	4,755,000	2,255,000
Kansas City	21,969,000	21,969,000	6,364,000	6,075,000
Dallas	16,055,000	13,755,000	8,762,000	3,762,000
San Francisco	120,696,000	109,867,000	35,618,000	16,128,000
TOTALS	$2,096,041,000	$1,300,187,000 c/	$1,247,368,000	$600,365,000 d/

c/ Includes $194,778,000 noncompetitive tenders accepted at the average price of 99.317
d/ Includes $47,289,000 noncompetitive tenders accepted at the average price of 98.579
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 2.87%, for the 183-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-495

TREASURY DEPARTMENT

223

WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, May 22, 1962.

May 21, 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 February 23, 1962, and the other series to be dated May 24, 1962, which were offered on May 16, were opened at the Federal Reserve Banks on May 21. Tenders were invited for $1,300,000,000, or thereabouts, of 91-day bills and for $600,000,000, or thereabouts, of 183-day bills. The details of the two series are as follows:

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Richmond	8,920,000	8,920,000	2,838,000	2,838,000
Atlanta	21,130,000	19,730,000	4,748,000	4,648,000
Chicago	255,084,000	191,774,000	116,788,000	44,566,000
St. Louis	25,638,000	19,638,000	6,918,000	4,518,000
Minneapolis	17,527,000	13,092,000	4,755,000	2,255,000
Kansas City	21,969,000	21,969,000	6,364,000	6,075,000
Dallas	16,055,000	13,755,000	8,762,000	3,762,000
San Francisco	120,696,000	109,867,000	35,618,000	16,128,000
TOTALS	$2,096,041,000	$1,300,187,000 c/	$1,247,368,000	$600,365,000 d/

c/ Includes $194,778,000 noncompetitive tenders accepted at the average price of 99.317
d/ Includes $47,289,000 noncompetitive tenders accepted at the average price of 98.795
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 2.87%, for the 183-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-495

STATUTORY DEBT LIMITATION

As of April 30, 1962 Washington, May 22,1962

Section 21 of Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authorit of that Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such gua anteed 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 re demption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holdei 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 Act of March 13, 1962 (P. L. 87-414 87th Congress) provides for an additional temporary increase of $2,000,000,000, which raises the limitation to $300,000,000,000 for the period beginning on March 13, 1962 and ending on June 30, 1962.

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			$300,000,000,
Outstanding -			
Obligations issued under Second Liberty Bond Act, as amended			
Interest-bearing:			
Treasury bills	$43,441,069,000		
Certificates of indebtedness	12,370,773,000		
Treasury notes	64,511,462,000	$120,323,304,000	
Bonds -			
Treasury	77,814,882,950		
*Savings (current redemption value)	47,581,035,106		
Depositary	143,161,500		
R. E. A. series	24,741,000		
Investment series	4,777,540,000	130,341,360,556	
Certificates of Indebtedness -			
Foreign series	500,000,000		
Foreign Currency series	74,919,250	574,919,250	
Special Funds -			
Certificates of indebtedness	6,317,962,000		
Treasury notes	6,221,262,000		
Treasury bonds	29,582,524,000	42,121,748,000	
Total interest-bearing		293,361,331,806	
Matured, interest-ceased		340,411,382	
Bearing no interest:			
United States Savings Stamps	54,087,671		
Excess profits tax refund bonds	730,990		
Special notes of the United States:			
Internat'l Monetary Fund series	2,620,000,000		
Internat'l Develop. Ass'n. series	115,304,400		
Inter-American Develop. Bank series	25,000,000	2,815,123,061	
Total		296,516,866,249	
Guaranteed obligations (not held by Treasury):			
Interest-bearing:			
Debentures: F. H. A. & DC Stad. Bds.	403,970,700		
Matured, interest-ceased	1,453,775	405,424,475	
Grand total outstanding			296,922,290,7
Balance face amount of obligations issuable under above authority			3,077,709,2

Reconcilement with Statement of the Public Debt April 30, 1962
(Date)

(Daily Statement of the United States Treasury, April 30, 1962)
(Date)

Outstanding -	
Total gross public debt	296,951,858,8
Guaranteed obligations not owned by the Treasury	405,424,4
Total gross public debt and guaranteed obligations	297,357,283,3
Deduct - other outstanding public debt obligations not subject to debt limitation	434,992,6
	296,922,290,7

D-496

STATUTORY DEBT LIMITATION

As of April 30, 1962 Washington, May 22,1962

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 Act of March 13, 1962 (P. L. 87-414 87th Congress) provides for an additional temporary increase of $2,000,000,000, which raises the limitation to $300,000,000,000 for the period beginning on March 13, 1962 and ending on June 30, 1962.

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			$300,000,000,000
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Treasury bills	$43,441,069,000		
Certificates of indebtedness	12,370,773,000		
Treasury notes	64,511,462,000	$120,323,304,000	
Bonds -			
Treasury	77,814,882,950		
*Savings (current redemption value)	47,581,035,106		
Depositary	143,161,500		
R. E. A. series	24,741,000		
Investment series	4,777,540,000	130,341,360,556	
Certificates of Indebtedness -			
Foreign series	500,000,000		
Foreign Currency series	74,919,250	574,919,250	
Special Funds -			
Certificates of indebtedness	6,317,962,000		
Treasury notes	6,221,262,000		
Treasury bonds	29,582,524,000	42,121,748,000	
Total interest-bearing		293,361,331,806	
Matured, interest-ceased		340,411,382	
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Inter-American Develop. Bank series	25,000,000	2,815,123,061	
Total		296,516,866,249	
Guaranteed obligations (not held by Treasury):			
Interest-bearing:			
Debentures: F. H. A. & DC Stad. Bds.	403,970,700		
Matured, interest-ceased	1,453,775	405,424,475	
Grand total outstanding			296,922,290,724
Balance face amount of obligations issuable under above authority			3,077,709,276

Reconcilement with Statement of the Public Debt April 30, 1962
(Date)

(Daily Statement of the United States Treasury, April 30, 1962)
(Date)

Outstanding -	
Total gross public debt	296,951,858,897
Guaranteed obligations not owned by the Treasury	405,424,475
Total gross public debt and guaranteed obligations	297,357,283,372
Deduct - other outstanding public debt obligations not subject to debt limitation	434,992,648
	296,922,290,724

D-496

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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 sal 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 subjec 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 actuall 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.

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 March 1, 1962, (91 days remaining until maturity date on August 30, 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 Banks on May 31, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 31, 1962. Cash

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227

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, May 23, 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 $ 1,900,000,000 , or thereabouts, for cash and in exchange for Treasury bills maturing May 31, 1962 , in the amount of $ 1,800,815,000 , as follows:

91 -day bills (to maturity date) to be issued May 31, 1962 , in the amount of $ 1,300,000,000 , or thereabouts, representing an additional amount of bills dated March 1, 1962 , and to mature August 30, 1962 , originally issued in the amount of $ 600,231,000 , the additional and original bills to be freely interchangeable.

182 -day bills, for $ 600,000,000 , or thereabouts, to be dated May 31, 1962 , and to mature November 29, 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 Daylight Saving time, Monday, May 28, 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

D-497

228

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 23, 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 $1,900,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 31, 1962, in the amount of $1,800,815,000, as follows:

91-day bills (to maturity date) to be issued May 31, 1962, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated March 1, 1962, and to mature August 30, 1962, originally issued in the amount of $ 600,231,000, the additional and original bills to be freely interchangeable.

182-day bills, for $600,000,000, or thereabouts, to be dated May 31, 1962, and to mature November 29, 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.

D-407

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 March 1, 1962, (91-days remaining until maturity date on August 30, 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 May 31, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 31, 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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controls to keep our economy within bounds.

With all these achievements in mind, we in the Treasury have tried for the past month to devise an appropriate citation for Chairman Spence. What could we say -- what could we do for a man who has dedicated 32 years of his life to the service of his country and more especially to its financial institutions and practices? We decided that a dollar bill signed by the President of the United States and the Secretary of the Treasury would be most symbolic of the career of this remarkable man.

For the President and myself, I am delighted to present this dollar signed by both of us to you, Chairman Spence, with grateful appreciation for your services to this Nation.

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International Monetary Fund has had an equally impressive record of achievement. Since 1959, most of the great industrial nations of the free world have made their currency freely convertible. This has laid a solid financial basis for an amazing increase in world trade since that time and for the rapid development of Western Europe and Japan.

The success of these two international financial organizations led to the creation of the International Finance Corporation, International Development Association, and Inter-American Development Bank. All of these organizations were designed to supplement the authority and resources of the World Bank and to bind together the free nations of the world in their attempts to bring some measure of economic hope to the less developed areas of the world.

I shall refer only briefly to other areas of responsibility carried by the Banking and Currency Committee and by Chairman Brent Spence. This committee developed the Federal Housing Administration, the Federal National Mortgage Association, The Small Business Administration; developed the first attempts toward urban renewal and, during World War II and the Korean War, was responsible for developing a system of wartime obligations to supply "enough but not too much" credit to the commercial lifelines of the Nation. Only relatively minor readjustments have been ordered by the Congress since that date.

These three legislative developments -- the creation of the Federal Deposit Insurance Corporation and the Home Loan Bank Board and Federal Savings and Loan Insurance Corporation, and the Banking Act of 1935, effectively restored confidence in our financial institutions and gave them a solid base for constructive growth.

In the Forties, Fifties, and Sixties, the emphasis on many of our financial problems shifted from the domestic to the international scene. In 1945, as Chairman of the Banking and Currency Committee, Brent Spence was a delegate to the Bretton Woods Conference, which created the International Bank for Reconstruction and Development (commonly referred to as the World Bank) and the International Monetary Fund. You all know the part the World Bank has played in rebuilding the shattered economies of Western Europe and Japan and more recently, its efforts to improve the economic situation of the newly-developing areas of the world. The of uncertainty, and a time when the financial structure of our Nation was near collapse.

It was against this background that Brent Spence took his seat as a Member of the Banking and Currency Committee. The legislative record of this Committee over the past 32 years reflects the manner in which our Nation met the crisis of 1931 and took subsequent steps against its recurrence.

The Federal Deposit Insurance Corporation was created to insure the deposits in our commercial banks. This legislation has eliminated the spectre of bank failures and the consequent loss to depositors which had plagued the United States since the days of the first Secretary of the Treasury. The Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation were created to bring order and assurance into the affairs of our thrift institutions.

The Federal Reserve System was given a thorough examination in the Thirties and its authority and structure were overhauled by the Banking Act of 1935. Since that time, ~~the Fed evidently has met its~~

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REMARKS BY THE SECRETARY OF THE TREASURY HONORING
CHAIRMAN BRENT SPENCE AT A LUNCHEON
ON THURSDAY, May 24, 1962

Mr. Speaker, Mr. Chairman, Mrs. Sullivan, and gentlemen:

On March 4, 1931, our guest of honor, Chairman Brent Spence, was sworn in as a Member of Congress from the 6th District of Kentucky. In that Congress he was assigned to the Banking and Currency Committee and has served either as a Member or as Chairman of this vitally important committee for 32 years. There has been no period in the history of the United States when his service to our country could have been more valuable.

In 1931, the United States was sliding toward the bottom of the cruelest depression in our history. Financial institutions were in grave jeopardy, confidence in the security markets was failing, and we were approaching a crisis in our gold reserves. ~~The Federal Reserve System, which had been so painstakingly put together in 1913, was being severely criticized and questioned.~~ That was a time of crisis, a time

TREASURY DEPARTMENT
Washington

Z-34

FOR RELEASE ON DELIVERY

REMARKS BY SECRETARY OF THE TREASURY DOUGLAS DILLON
IN HONOR OF CHAIRMAN BRENT SPENCE
AT A LUNCHEON
SPEAKERS DINING ROOM AT THE CAPITOL
Washington, DC. THURSDAY, MAY 24, 1962, 12:30 P.M. EDT

Mr. Speaker, Mr. Chairman, Mrs. Sullivan, and gentlemen:

On March 4, 1931, our guest of honor, Chairman Brent Spence, was sworn in as a Member of Congress from the 6th District of Kentucky. In that Congress he was assigned to the Banking and Currency Committee and has served either as a Member or as Chairman of this vitally important Committee for thirty-two years. There has been no period in the history of the United States when his service to our country could have been more valuable.

In 1931, the United States was sliding toward the bottom of the cruelest depression in our history. Financial institutions were in grave jeopardy, confidence in the security markets was failing, and we were approaching a crisis in our gold reserves. That was a time of crisis, a time of uncertainty, and a time when the financial structure of our Nation was near collapse.

It was

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY SECRETARY OF THE TREASURY DOUGLAS DILLON
IN HONOR OF CHAIRMAN BRENT SPENCE
AT A LUNCHEON
SPEAKERS DINING ROOM AT THE CAPITOL, WASHINGTON, D. C.,
THURSDAY, MAY 24, 1962, 12:30 P.M., EDT

Mr. Speaker, Mr. Chairman, Mrs. Sullivan, and gentlemen:

On March 4, 1931, our guest of honor, Chairman Brent Spence, was sworn in as a Member of Congress from the 6th District of Kentucky. In that Congress he was assigned to the Banking and Currency Committee and has served either as a Member or as Chairman of this vitally important Committee for thirty-two years. There has been no period in the history of the United States when his service to our country could have been more valuable.

In 1931, the United States was sliding toward the bottom of the cruelest depression in our history. Financial institutions were in grave jeopardy, confidence in the security markets was failing, and we were approaching a crisis in our gold reserves. That was a time of crisis, a time of uncertainty, and a time when the financial structure of our Nation was near collapse.

It was against this background that Brent Spence took his seat as a Member of the Banking and Currency Committee. The legislative record of this Committee over the past 32 years reflects the manner in which our Nation met the crisis of 1931 and took subsequent steps against its recurrence.

The Federal Deposit Insurance Corporation was created to insure the deposits in our commercial banks. This legislation has eliminated the spectre of bank failures and the consequent loss to depositors which had plagued the United States since the days of the first Secretary of the Treasury. The Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation were created to bring order and assurance into the affairs of our thrift institutions. The Federal Reserve System was given a thorough examination in the Thirties and its authority and structure were overhauled by the Banking Act of 1935.

These three legislative developments -- the creation of the Federal Deposit Insurance Corporation and the Home Loan Bank Board and Federal Savings and Loan Insurance Corporation, and the Banking Act of 1935, effectively restored confidence in our financial institutions and gave them a solid base for constructive growth.

In the Forties, Fifties, and Sixties, the emphasis on many of our financial problems shifted from the domestic to the international scene. In 1945, as Chairman of the Banking and Currency Committee, Brent Spence was a delegate to the Bretton Woods Conference, which created the International Bank for Reconstruction and Development (commonly referred to as the World Bank) and the International Monetary Fund. You all know the part the World Bank has played in rebuilding the shattered economies of Western Europe and Japan and more recently, its efforts to improve the economic situation of the newly-developing areas of the world. The International Monetary Fund has had an equally impressive record of achievement. Since 1959, most of the great industrial nations of the free world have made their currency freely convertible. This has laid a solid financial basis for an amazing increase in world trade since that time and for the rapid development of Western Europe and Japan.

The success of these two international financial organizations led to the creation of the International Finance Corporation, International Development Association, and Inter-American Development Bank. All of these organizations were designed to supplement the authority and resources of the World Bank and to bind together the free nations of the world in their attempts to bring some measure of economic hope to the less developed areas of the world.

I shall refer only briefly to other areas of responsibility carried by the Banking and Currency Committee and by Chairman Brent Spence. This Committee developed the Federal Housing Administration, the Federal National Mortgage Association, The Small Business Administration; developed the first attempts toward urban renewal and, during World War II and the Korean War, was responsible for developing a system of wartime controls to keep our economy within bounds.

With all these achievements in mind, we in the Treasury have tried for the past month to devise an appropriate citation for Chairman Spence. What could we say -- what could we do for a man who has dedicated 32 years of his life to the service of his country and more especially to its financial institutions and practices? We decided that a dollar bill signed by the President of the United States and the Secretary of the Treasury would be most symbolic of the career of this remarkable man.

For the President and myself, I am delighted to present this dollar signed by both of us to you, Chairman Spence, with grateful appreciation for your services to this Nation.

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UNITED STATES NET MONETARY GOLD TRANSACTIONS

WITH FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS

January 1, 1962 - March 31, 1962

(in millions of dollars at $35 per fine ounce)

Negative figures represent net sales by the United States; positive figures, net purchases

Country	First Quarter 1962
Argentina	+25.0
Austria	-39.4
Belgium	-28.0
France	-45.0
Greece	- 4.0
Iceland	- 5.0
Israel	-10.0
Lebanon	- .6
Saudi Arabia	-12.6
Spain	-47.1
Switzerland	+61.6
Syria	- 1.1
Turkey	- 1.1
United Kingdom	-181.3
Other	- 2.4
Total	-291.0

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 25, 1962

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS
FOR FIRST QUARTER OF 1962

During the first quarter of 1962, the net sale of monetary gold by the United States amounted to $291 million.

The Treasury's quarterly report, made public today, summarizes net monetary gold transactions with foreign governments, central banks and international institutions for the first quarter of 1962. (Table on reverse side).

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D-498

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D-498

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Country	First Quarter 1962
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Iceland	- 5.0
Israel	-10.0
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Saudi Arabia	-12.6
Spain	-47.1
Switzerland	≠61.6
Syria	- 1.1
Turkey	- 1.1
United Kingdom	-181.3
Other	- 2.4
Total	-291.0

240

May 28, 1962

FOR RELEASE A. M. NEWSPAPERS, Tuesday, May 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 March 1, 1962, and the other series to be dated May 31, 1962, which were offered on May 23, were opened at the Federal Reserve Banks on May 28. Tenders were invited for $1,300,000,000, 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 August 30, 1962		182-day Treasury bills maturing November 29, 1962	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.335	2.631%	98.616	2.738%
Low	99.325	2.670%	98.609	2.751%
Average	99.329	2.656% 1/	98.613	2.743% 1/

7 percent of the amount of 91-day bills bid for at the low price was accepted
3 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	$ 20,362,000	$ 10,362,000	$ 8,817,000	$ 2,217,000
New York	1,806,690,000	970,410,000	1,132,997,000	516,469,000
Philadelphia	23,573,000	8,573,000	6,713,000	1,468,000
Cleveland	27,011,000	20,515,000	11,003,000	5,798,000
Richmond	6,567,000	6,467,000	2,031,000	1,692,000
Atlanta	22,774,000	18,305,000	7,223,000	4,135,000
Chicago	249,917,000	144,127,000	106,713,000	27,217,000
St. Louis	24,348,000	16,748,000	5,772,000	3,272,000
Minneapolis	18,074,000	10,344,000	5,625,000	3,125,000
Kansas City	16,962,000	14,007,000	5,160,000	4,860,000
Dallas	16,051,000	11,051,000	7,568,000	2,568,000
San Francisco	97,176,000	69,945,000	38,608,000	27,773,000
TOTALS	$2,329,505,000	$1,300,854,000 a/	$1,338,230,000	$600,594,000 b/

a/ Includes $170,924,000 noncompetitive tenders accepted at the average price of 99.329
b/ Includes $42,292,000 noncompetitive tenders accepted at the average price of 98.613
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.71%, for the 91-day bills, and 2.82%, 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.

A-499

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 28, 1962

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D-499

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 ~~(16)~~ or less for the additional bills dated March 8, 1962 ~~(17)~~, (91 ~~(18)~~ days remaining until maturity date on September 6, 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 June 7, 1962 ~~(22)~~, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 7, 1962 ~~(23)~~. Cash

~~EXHIBIT 2-A~~

~~BETA - MODIFIED~~

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE   May 29, 1962

~~XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX~~
(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 $2,000,000,000 x(2)x, or thereabouts, for cash and in exchange for Treasury bills maturing June 7, 1962 (3), in the amount of $1,800,481,000 x(4)x, as follows:

91 (5) -day bills (to maturity date) to be issued June 7, 1962 (6), in the amount of $1,300,000,000 x(7)x, or thereabouts, representing an additional amount of bills dated March 8, 1962 x(8)x, and to mature September 6, 1962 x(9), originally issued in the amount of $600,851,000 (10)x, the additional and original bills to be freely interchangeable.

182 (11) -day bills, for $700,000,000 (12)x, or thereabouts, to be dated June 7, 1962 x(13), and to mature December 6, 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, $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 Daylight Saving ~~Standard~~ time, Monday, June 4, 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

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May 29, 1962

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182-day bills, for $700,000,000, or thereabouts, to be dated June 7, 1962, and to mature December 6, 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.

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 March 8, 1962, (91-days remaining until maturity date on September 6,1962) 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 June 7, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 7, 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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245 **FORECAST OF PUBLIC DEBT OUTSTANDING FISCAL YEAR 1963, BASED ON CONSTANT OPERATING CASH BALANCE OF $4,000,000,000 (EXCLUDING FREE GOLD)**

Based on 1963 Budget Document - Plus Formal Modifications
(in billions)

	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 Pub Debt Limitati Required
June 30, 1962	$4.0	$293.7	$3.0	$296.7
July 15	4.0	297.0	3.0	300.0
July 31	4.0	297.8	3.0	300.8
August 15	4.0	299.2	3.0	302.2
August 31	4.0	299.0	3.0	302.0
Sept. 15	4.0	301.2	3.0	304.2
Sept. 30	4.0	295.7	3.0	298.7
Oct. 15	4.0	299.5	3.0	302.5
Oct. 31	4.0	300.5	3.0	303.5
Nov. 15	4.0	302.3	3.0	305.3
Nov. 30	4.0	302.1	3.0	305.1
Dec. 15	4.0	304.9	3.0	307.9
Dec. 31	4.0	301.5	3.0	304.5
Jan. 15, 1963	4.0	304.7	3.0	307.7
Jan. 31	4.0	302.1	3.0	305.1
Feb. 15	4.0	302.8	3.0	305.8
Feb. 28	4.0	302.0	3.0	305.0
Mar. 15	4.0	304.4	3.0	307.4
Mar. 31	4.0	297.9	3.0	300.9
April 15	4.0	301.0	3.0	304.0
April 30	4.0	299.4	3.0	302.4
May 15	4.0	299.4	3.0	302.4
May 31	4.0	299.6	3.0	302.6
June 15	4.0	302.0	3.0	305.0
June 30	4.0	294.0	3.0	297.0

249

Actual and estimated public debt outstanding fiscal year 1962, with estimates based on constant operating cash balance of $4,000,000,000 (excluding free gold)

Based on projection of May 24, 1962
(in billions)

	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 limitatio required
Actual				
July 15, 1961	$3.3	$289.1		
July 31	5.8	292.2		
August 15	4.2	292.1		
August 31	5.3	293.5		
September 15	3.1	293.2		
September 30	8.1	293.6		
October 15	7.0	296.0		
October 31	5.4	295.5		
November 15	4.7	296.7		
November 30	5.4	296.9		
December 15	2.8	297.0		
December 31	5.6	296.1		
January 15, 1962	3.1	296.3		
January 31	3.9	296.4		
February 15	3.0	296.3		
February 28	4.6	296.9		
March 15	2.7	297.8		
March 31	6.0	296.1		
April 15	2.2	295.8		
April 30	4.7	296.9		
May 15	5.6	296.7		
Estimated				
May 31	4.0	295.6	$3.0	$298.6
June 15	4.0	298.4	3.0	301.4
June 30	4.0	293.7	3.0	296.7

of a balanced budget in fiscal 1963. The increase is required to cover the seasonal low in receipts, which always occurs during the first half of the fiscal year. Such an increase is needed in fiscal 1963 because of the substantial deficit which has already been incurred in fiscal 1962. In other words, the increase is being requested to meet the fiscal consequences of past deficits and does not reflect THE ~~any~~ expectation of a deficit in fiscal 1963.

A temporary increase in the debt limit to $308 billion is essential if the Government's finances are to be managed in an orderly and economical manner and if we are to be able to finance our seasonal cash requirements in fiscal 1963 within the framework of a balanced budget. I earnestly recommend its approval by this Committee.

management and to cover unforeseen contingencies, including the inescapable uncertainties of revenue and expenditure projections. Such a margin is essential in the interests of economy in Government. The cause of economy in Government is not served when a debt limit is so restrictive that the Treasury is forced to resort to such devices as obtaining additional funds, at substantially higher costs, through the market borrowing of Federal agencies which are not subject to the statutory debt limit. These unsound financial practices have been resorted to in the past; we hope that they will never again be necessary in the future.

In conclusion, I wish to reemphasize that the increase in the debt ceiling to $308 billion is based on the ASSUMPTION ~~expectation~~

when the $3.5 billion figure was first used for illustrative purposes, Federal expenditures amounted to $71.4 billion. Fiscal year 1963 expenditures are expected to be some 30% larger. With larger expenditures, we require larger operating cash balances. For both of these reasons, we have used a $4 billion figure in the attached tables as a conservative figure for a constant operating balance. It should be borne in mind that our actual operating balance has averaged substantially higher than $4 billion during the past three years. Such an operating balance is needed to PERMIT ~~provide adequate flexibility so that~~ the day-to-day operations of the Treasury TO ~~can~~ be conducted in an efficient manner.

Our estimates also provide, as in the past, for a $3 billion margin to provide much-needed flexibility in debt before dropping back again to around $294 billion at the end of fiscal 1963. A $308 billion debt ceiling is the minimum needed to provide us with the usual $3 billion leeway for flexibility in debt management and for unforeseen contingencies, a margin which prudent and economic financial management requires.

For the past few years the Treasury, in its presentations at hearings on the debt limit, has assumed a $3.5 billion constant working balance. Experience has shown that this is an unrealistically low figure. Despite careful management, our average cash balance so far this year has been $4,755 million The average for fiscal year 1961 was $4,620 million and for fiscal year 1960 was $4,638 million. In addition, in 1958

I would like to emphasize that this seasonal imbalance between Federal Government receipts and expenditures is a regular feature of our financial mechanism. It is not just something that will occur in fiscal 1963. To illustrate this point, I would like to call your attention to the chart which shows semi-annual receipts and expenditures from fiscal 1958 through fiscal 1963. You will note that a pronounced seasonal pattern in revenues shows up in each and every year. It was as much in evidence in fiscal 1960, when we last ran a budget surplus, as it was in years when we ran budget deficits.

On the assumption of a constant $4.0 billion operating balance, we expect the debt to rise to about $305 billion seasonal deficit, a deficit which will be offset by a surplus during the last five months of the fiscal year.

Specifically, our ~~month-by-month~~ projections~~, as shown on the attached table,~~ indicate a seasonal budget deficit of $8.0 billion during the seven months, July through January, and ~~an~~ a seasonal $8.0 billion budget surplus during the five months, February through June, which is our peak revenue period. It is to finance the July through January deficit of $8.0 billion that we need an $8 billion increase in the temporary debt limit, even though we are striving for ~~and expect to attain~~ a balanced budget for the whole of fiscal 1963. This imbalance between receipts and expenditures is entirely attributable to the marked seasonal pattern of our tax receipts. Expenditures are projected at a fairly constant level throughout the fiscal year.

Accordingly, we have made no change in the basic assumption of a balanced budget in fiscal 1963, and our request for a $308 billion temporary debt ceiling is based squarely on that assumption.

It may seem incongruous to some that, while projecting a balanced budget for fiscal 1963, we are at the same time requesting an $8 billion increase in the temporary debt ceiling. Of course, if the timing of our receipts and expenditures were in balance throughout the year, there would be no need for this increase in the debt ceiling. Unfortunatel; this is never the case. Even with a balanced budget for fiscal 1963 as a whole, our estimates indicate that the first seven months of the fiscal year will show a substantial not so great that it cannot be made up in the months ahead. Certainly, my readings of the April economic statistics, in which new records for employment, output and income were established, suggest that it is premature to conclude that we cannot attain the economic goals upon which our budget balance for fiscal 1963, in large part, depends. As to expenditures, the best we can do is to rely on the January budget document with the realization that Congress has not yet acted on any appropriation bill, nor has it taken action on our tax bill, ~~or~~ the President's proposals on postal rates and farm price supports OR ON VARIOUS OTHER LEGISLATIVE RECOMMENDA. Until these matters are decided by Congressional action, there is no FIRM basis for any new estimate of expenditures and revenues.

For fiscal year 1963, the January budget document showed a $500 million surplus. The President has requested A FEW ~~certain~~ new programs since January, in particular a ~~new~~ CAPITAL IMPROVEMENT ~~public works~~ program for distressed areas, that would USE THE ~~eliminate~~ BULK OF this estimated surplus but still leave a balance. Whether or not this balance is actually achieved depends largely on revenue receipts which, in turn, are dependent on the state of the national economy. The January revenue estimate of $93 billion assumed that the gross national product would average $570 billion during calendar 1962 and that the economy would continue its upward trend throughout the entire fiscal year.

While the expansion of the economy in the first quarter did not measure up to our expectations, the short-fall was has been enacted prior thereto. Since the debt will substantially exceed the permanent level of $285 billion on July 1st, it is essential that there be new legislation prior to that date.

With the fiscal 1962 year now nearly concluded, I can report to you that we still expect the deficit for fiscal 1962 to be about $7 billion. Past experience has shown, however, that fiscal year-end TOTALS ~~expenditures~~ are apt to vary several hundred million dollars in either direction from the totals estimated in May. Therefore, the final DEFICIT FIGURE ~~total~~ for fiscal 1962 may prove to be somewhat less than $7 billion or it may exceed that amount by a few hundred million dollars. In order to be on the conservative side, we have used a $7-1/4 billion figure in the projections on the attached table.

Insert A - 1

Specifically, our projections indicate a seasonal budget deficit which reaches a peak of $11.2 billion on December 15, just before the receipt of the large tax payments due on that date. Succeeding peaks of $11 billion and $10.7 billion will be reached on January 15 and March 15 before the receipt of the substantial tax payments due on those dates. Thereafter, this seasonal deficit will ~~be~~ rapidly BE erased by a similarly large seasonal surplus; and by June 30, 1963 our projections show ~~that~~ the debt returning to approximately the same level as June 30, 1962.

This SEASONAL imbalance between receipts and expenditures is (ILLUSTRATED ON AN ATTACHED CHAR THE IMBALA IN FI 19 entirely attributable to the marked seasonal pattern of our tax receipts, SINCE expenditures are projected at a fairly constant level throughout ~~the~~ fiscal YEAR. It is to finance this seasonal deficit of $11 billion in tax receipts, /a deficit which will occur even with a fully balanced budg that we need the $8 billion increase ~~which we are requesting~~ in the temporary debt limit ceiling. ~~And~~ It should be borne in mind that, since ~~this~~ THE chart is base on semi-annual figures which include the heavy December 15 tax receipts, it understates by several billion dollars the seasonal swing ~~that~~ WHICH reaches its peak in mid-December.

We are ending the current fiscal year with a debt projected at about $294 billion, on the basis of $4 billion ~~cash~~ operating balance. Adding the $3 billion allowance for flexibility to this figure, gives a total of about $297 billion, $3 billion under the current temporary debt limit of $300 billion. It is because of this extra leeway of $3 billion which we will have on June 30th that we will be able to finance a seasonal deficit of $11 billion with an $8 billion increase in the debt limit.

~~TREASURY DEPARTMENT~~
~~Washington~~

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5/28/62

Statement of the Honorable Douglas Dillon
Secretary of the Treasury
before the
House Ways and Means Committee
on the
DEBT LIMIT
Thursday, May 31, 1962
10:00 A.M., EDT

The President in his Budget Message last January requested a temporary debt limit of \$308 billion for fiscal 1963. This request was based on his estimate that the fiscal 1962 deficit would amount to \$7 billion and that there would be a \$500 million surplus in fiscal 1963. I am here today to renew the request for a \$308 billion temporary debt limit for fiscal year 1963.

The present temporary limit of \$300 billion will expire ~~[illegible]~~ June 30th next. On July 1st the debt limit will revert to its permanent level of \$285 billion unless new legislation

V-501

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
ON THE
DEBT LIMIT
THURSDAY, MAY 31, 1962
10:00 A.M., EDT

The President in his Budget Message last January requested a temporary debt limit of $308 billion for fiscal 1963. This request was based on his estimate that the fiscal 1962 deficit would amount to $7 billion and that there would be a $500 million surplus in fiscal 1963. I am here today to renew the request for a $308 billion temporary debt limit for fiscal year 1963.

The present temporary limit of $300 billion will expire next June 30th. On July 1st the debt limit will revert to its permanent level of $285 billion unless new legislation has been enacted prior thereto. Since the debt will substantially exceed the permanent level of $285 billion on July 1st, it is essential that there be new legislation prior to that date.

With the fiscal year 1962 now nearly concluded, I can report to you that we still expect the deficit for fiscal 1962 to be about $7 billion. Past experience has shown, however, that fiscal year-end totals are apt to vary several hundred million dollars in either direction from the totals estimated in May. Therefore, the final deficit figure for fiscal 1962 may prove to be somewhat less than $7 billion or it may exceed that amount by a few hundred million dollars. In order to be on the conservative side, we have used a $7-1/4 billion figure in the projections on the attached table.

For fiscal year 1963, the January budget document showed a $500 million surplus. The President has requested a few new programs since January, in particular a capital improvement program for distressed areas, that would use the bulk of this estimated surplus but still leave a balance. Whether or not this balance is actually achieved depends largely on revenue receipts which, in turn, are dependent on the state of the national economy. The January revenue estimate of $93 billion assumed that the gross national product would average $570 billion during calendar 1962 and that the economy would continue its upward trend throughout the entire fiscal year.

While the expansion of the economy in the first quarter did not measure up to our expectations, the short-fall was not so great that it cannot be made up in the months ahead. Certainly, my readings of the April economic statistics, in which new records for employment, output and income were established, suggest that it is premature to conclude that we cannot attain the economic goals upon which our budget balance for fiscal 1963, in large part, depends. As to expenditures, the best we can do is to rely on the January budget document with the realization that Congress has not yet acted on any appropriation bill, nor has it taken action on our tax bill, the President's proposals on postal rates and farm price supports or on various other legislative recommendations. Until these matters are decided by Congressional action, there is no firm basis for any new estimate of expenditures and revenues.

Accordingly, we have made no change in the basic assumption of a balanced budget in fiscal 1963, and our request for a $308 billion temporary debt ceiling is based squarely on that assumption.

It may seem incongruous to some that, while projecting a balanced budget for fiscal 1963, we are at the same time requesting an $8 billion increase in the temporary debt ceiling. Of course, if the timing of our receipts and expenditures were in balance throughout the year, there would be no need for this increase in the debt ceiling. Unfortunately, this is never the case. Even with a balanced budget for fiscal 1963 as a whole, our estimates indicate that the first half of the fiscal year will show a substantial seasonal deficit, a deficit which will be offset by a surplus during the remainder of the fiscal year.

Specifically, our projections indicate a seasonal budget deficit which reaches a peak of $11.2 billion on December 15, just before the receipt of the large tax payments due on that date. Succeeding peaks of $11 billion and $10.7 billion will be reached on January 15 and March 15, before the receipt of the substantial tax payments due on those dates. Thereafter, this seasonal deficit will rapidly be erased by a similarly large seasonal surplus; and by June 30, 1963 our projections show the debt returning to approximately the same level as June 30, 1962.

This seasonal imbalance between receipts and expenditures is illustrated on an attached chart. The imbalance in fiscal 1963 is entirely attributable to the marked seasonal pattern of our tax receipts, since expenditures are projected at a fairly constant level throughout the fiscal year. It is to finance this seasonal deficit of $11 billion in tax receipts, a deficit which will occur even with a fully balanced budget, that we need the $8 billion increase in the temporary debt limit ceiling. It should be borne in mind that, since the chart is based on semi-annual figures which include the heavy December 15 tax receipts, it understates by several billion dollars the seasonal swing which reaches its peak in mid-December.

We are ending the current fiscal year with a debt projected at about $294 billion, on the basis of a $4 billion operating balance. Adding the $3 billion allowance for flexibility to this figure, gives a total of about $297 billion, $3 billion under the current temporary debt limit of $300 billion. It is because of this extra leeway of $3 billion which we will have on June 30th that we will be able to finance a seasonal deficit of $11 billion with an $8 billion increase in the debt limit.

I would like to emphasize that this seasonal imbalance between Federal Government receipts and expenditures is a regular feature of our financial mechanism. It is not just something that will occur in fiscal 1963. I would like to call your attention again to the chart which shows semi-annual receipts and expenditures from fiscal 1958 through fiscal 1963. You will note that a pronounced seasonal pattern in revenues shows up in each and every year. It was as much in evidence in fiscal 1960, when we last ran a budget surplus, as it was in years when we ran budget deficits.

On the assumption of a constant $4 billion operating balance, we expect the debt to rise to about $305 billion before dropping back again to around $294 billion at the end of fiscal 1963. A $308 billion debt ceiling is the minimum needed to provide us with the usual $3 billion leeway for flexibility in debt management and for unforeseen contingencies, a margin which prudent and economic financial management requires.

For the past few years the Treasury, in its presentations at hearings on the debt limit, has assumed a $3.5 billion constant working balance. Experience has shown that this is an unrealistically low figure. Despite careful management, our average cash balance so far this year has been $4,755 million. The average for fiscal year 1961 was $4,620 million and for fiscal year 1960 was $4,638 million. In addition, in 1958 when the $3.5 billion figure was first used for illustrative purposes, Federal expenditures amounted to $71.4 billion. Fiscal year 1963 expenditures are expected to be some 30 per cent larger. With larger expenditures, we require larger operating cash balances. For both of these reasons, we have used a $4 billion figure in the attached tables as a conservative figure for a constant operating balance. It should be borne in mind that our actual operating balance has averaged substantially higher than $4 billion during the past three years. Such an operating balance is needed to permit the day-to-day operations of the Treasury to be conducted in an efficient manner.

Our estimates also provide, as in the past, for a $3 billion margin to provide much-needed flexibility in debt management and to cover unforeseen contingencies, including the inescapable uncertainties of revenue and expenditure projections. Such a margin is essential in the interests of economy in Government. The cause of economy in Government is not served when a debt limit is so restrictive that the Treasury is forced to resort to such devices as obtaining additional funds, at substantially higher costs, through the market borrowing of Federal agencies which are not subject to the statutory debt limit. These unsound financial practices have been resorted to in the past; we hope that they will never again be necessary in the future.

In conclusion, I wish to reemphasize that the increase in the debt ceiling to $308 billion is based on the assumption of a balanced budget in fiscal 1963. The increase is required to cover the seasonal low in receipts, which always occurs during the first half of the fiscal year. Such an increase is needed in fiscal 1963 because of the substantial deficit which has already been incurred in fiscal 1962. In other words, the increase is being requested to meet the fiscal consequences of past deficits and does not reflect the expectation of a deficit in fiscal 1963.

A temporary increase in the debt limit to $308 billion is essential if the Government's finances are to be managed in an orderly and economical manner and if we are to be able to finance our seasonal cash requirements in fiscal 1963 within the framework of a balanced budget. I earnestly recommend its approval by this Committee.

Actual and estimated public debt outstanding fiscal year 1962, with estimates based on constant operating cash balance of $4,000,000,000 (excluding free gold)

Based on projection of May 24, 1962
(in billions)

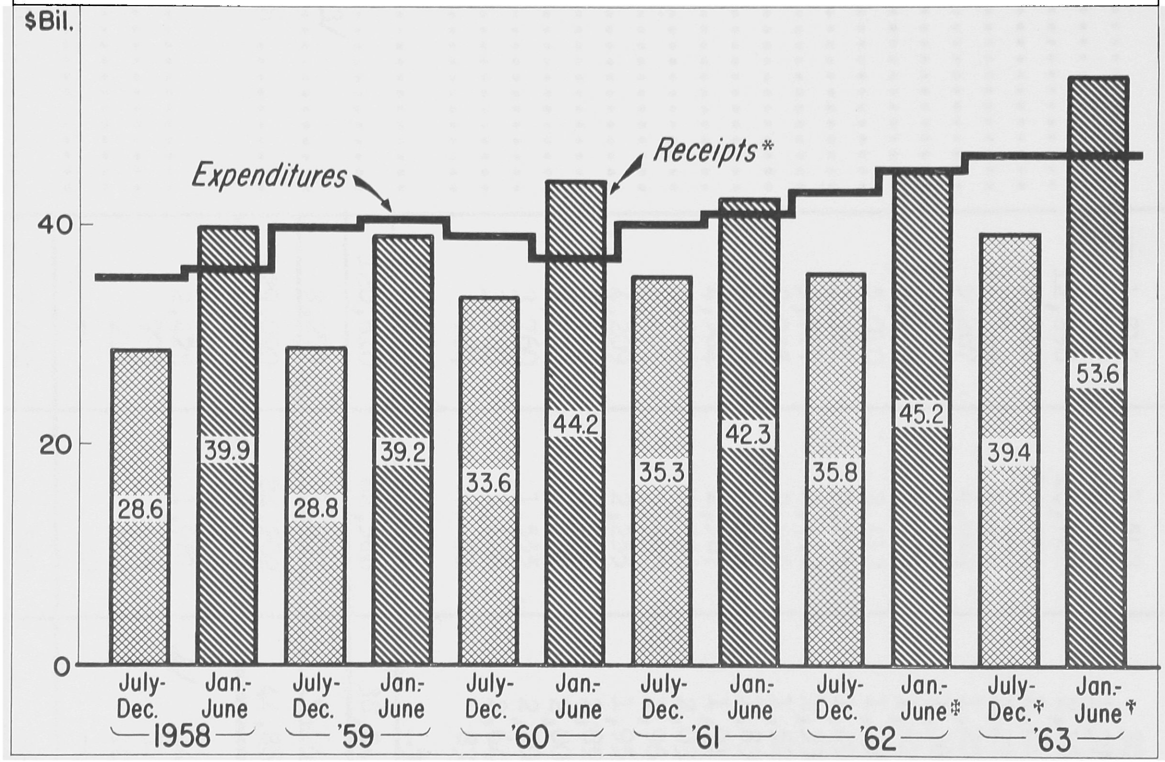
	Operating balance Federal Reserve Banks and depositaries (excluding free gold)	Public Debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation required
Actual				
July 15, 1961	$3.3	$289.1		
July 31	5.8	292.2		
August 15	4.2	292.1		
August 31	5.3	293.5		
September 15	3.1	293.2		
September 30	8.1	293.6		
October 15	7.0	296.0		
October 31	5.4	295.5		
November 15	4.7	296.7		
November 30	5.4	296.9		
December 15	2.8	297.0		
December 31	5.6	296.1		
January 15, 1962	3.1	296.3		
January 31	3.9	296.4		
February 15	3.0	296.3		
February 28	4.6	296.9		
March 15	2.7	297.8		
March 31	6.0	296.1		
April 15	2.2	295.8		
April 30	4.7	296.9		
May 15	5.6	296.7		
Estimated				
May 31	4.0	295.6	$3.0	$298.6
June 15	4.0	298.4	3.0	301.4
June 30	4.0	293.7	3.0	296.7

FORECAST OF PUBLIC DEBT OUTSTANDING FISCAL YEAR 1963, BASED ON CONSTANT OPERATING CASH BALANCE OF $4,000,000,000 (EXCLUDING FREE GOLD)

Based on 1963 Budget Document - Plus Formal Modifications
(in billions)

	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, 1962	$4.0	$293.7	$3.0	$296.7
July 15	4.0	297.0	3.0	300.0
July 31	4.0	297.8	3.0	300.8
August 15	4.0	299.2	3.0	302.2
August 31	4.0	299.0	3.0	302.0
Sept. 15	4.0	301.2	3.0	304.2
Sept. 30	4.0	295.7	3.0	298.7
Oct. 15	4.0	299.5	3.0	302.5
Oct. 31	4.0	300.5	3.0	303.5
Nov. 15	4.0	302.3	3.0	305.3
Nov. 30	4.0	302.1	3.0	305.1
Dec. 15	4.0	304.9	3.0	307.9
Dec. 31	4.0	301.5	3.0	304.5
Jan. 15, 1963	4.0	304.7	3.0	307.7
Jan. 31	4.0	302.1	3.0	305.1
Feb. 15	4.0	302.8	3.0	305.8
Feb. 28	4.0	302.0	3.0	305.0
Mar. 15	4.0	304.4	3.0	307.4
Mar. 31	4.0	297.9	3.0	300.9
April 15	4.0	301.0	3.0	304.0
April 30	4.0	299.4	3.0	302.4
May 15	4.0	299.4	3.0	302.4
May 31	4.0	299.6	3.0	302.6
June 15	4.0	302.0	3.0	305.0
June 30	4.0	294.0	3.0	297.0

SEMIANNUAL BUDGET RECEIPTS AND EXPENDITURES
Fiscal 1958-'63



*Net receipts after refunds. ‡May 1962 estimate.
†Estimates on basis of January 1962 Budget Message plus formal modifications.

Office of the Secretary of the Treasury

B-1326-C-2

United States Savings Bonds Issued and Redeemed Through May 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	$ 4,987	$ 16	.32 %
Series F & G-1941 - 1949	26,082	25,878	204	.78
UNMATURED 3/				
Series E:				
1941	1,812	1,503	309	17.05
1942	8,007	6,629	1,378	17.21
1943	12,890	10,722	2,168	16.82
1944	15,001	12,384	2,617	17.45
1945	11,744	9,472	2,272	19.35
1946	5,267	4,014	1,253	23.79
1947	4,953	3,584	1,369	27.64
1948	5,100	3,573	1,527	29.94
1949	5,010	3,413	1,597	31.88
1950	4,361	2,871	1,490	34.17
1951	3,777	2,447	1,330	35.21
1952	3,945	2,416	1,529	38.76
1953	4,452	2,622	1,830	41.11
1954	4,504	2,587	1,917	42.56
1955	4,672	2,636	2,036	43.58
1956	4,491	2,530	1,961	43.67
1957	4,209	2,255	1,953	46.40
1958	4,059	2,006	2,052	50.55
1959	3,789	1,780	2,009	53.02
1960	3,760	1,555	2,205	58.64
1961	3,767	1,128	2,640	70.08
1962	904	71	833	92.15
Unclassified	334	367	-32	-
Total Series E	120,810	82,568	38,242	31.65
Series H-1952 - 1962 3/	8,279	1,634	6,646	80.28
Total Series E and H	129,090	84,202	44,888	34.77
Series F and G:				
1950	2,428	1,981	4/ 447	18.41
1951	792	416	376	47.47
1952	211	103	108	51.18
Unclassified	-	42	-42	-
Total Series F and G	3,432	2,543	889	25.90
Series J and K-1952 - 1957	3,680	1,871	1,809	49.16
Total Series F, G, J and K	7,111	4,414	2,697	37.93
All Series — Total matured	31,085	30,865	220	.71
All Series — Total unmatured	136,201	88,616	47,585	34.94
All Series — Grand Total	167,286	119,480	47,806	28.58

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

nations who, in the words of President Kennedy, stand for the "liberation of the diverse energies of free nations and free men."

It will be a victory for those who believe that there is no substitute in modern society for the energy and commitment of responsible and educated free citizens. I trust you will share in that victory and bid you Godspeed.

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moral law which reason can discover, as well as to the positive commandments revealed by God. This implies an unremitting search for the good and the true, and the constant effort to hold fast to it as religious obedience to God.

This cleaving to God and his commands, both recorded and unrevealed, through reason and faith, is the well-spring of virtue, morality and ethical behavior in our land. To drink deeply of it is your ultimate responsibility.

Given the adequate discharge of these responsibilities by this generation of educated Americans, of which you are now a part, the dark shadows of present dangers will surely pass and the dynamic changes of today will provide the way to enriched opportunities for tomorrow.

These opportunities will not be for the United States alone -- they will signal a victory everywhere of men and

412

If you have it, cherish and preserve it. Whether you do or do not, it is your responsibility to continue to search for it.

Excellence is a lifetime pursuit, not captured eternally by a college degree. This is true of the liberal arts. It is even more true of moral education which concerns excellence in action rather than thought, requiring, in addition, good habits of will, desire or emotion.

Whether good character is best induced by strengthening the will or moderating one's inclinations will long be debated. But a sense of duty is an essential ingredient. And duty, in Wordsworth's phrase, is a "stern daughter of the voice of God."

It must be that duty to God involves obedience to the and strive to promote virtue, morality and the higher ethics of human behavior. For he, of all people, should know that mere knowledge and power are not enough to redeem man from himself.

Education, whatever its functional or material value, should provide a foundation for the development of the characteristic excellences of which men are capable.

In speaking of the ends of education Plato observed:

> "but the particular training in respect of pleasure and pain, which leads you always to hate what you ought to hate, and love what you ought to love from the beginning of life to the end, may be rightly called education."

"I propose that, out of the best and most productive years of each man's life, he should carve a segment in which he puts his private career aside to serve his community and his country, and thereby to serve his children, his neighbors, his fellow men, and the cause of freedom."

The response of young educated Americans to the Peace Corps proposal reveals that there will be an answer to calls of patriotism without the sound of bugles and the summons to war.

And, educated in freedom in a nation under God, the American college graduate has a particular responsibility beyond the ignorant, or those schooled in an atmosphere of the godless tyranny of the state. It is to exemplify citizen of any nation in the world -- provided only that he uses his gifts and cares deeply.

Nor can the educated American ignore the responsibility to weigh opportunities ~~or responsibilities~~ for public service in government. If the Nation is to meet the challenges and breast the dangers ahead, it will require a ministry of the best talents available. And that means able people in government -- not just a few in strategic places -- but in elective office, in the key appointive posts, and in the career administratave service from the lower grades to the supergrades.

The opportunity to serve is never foreclosed by a single decision at any single time. It was over a decade ago when a noted public servant, David Lilienthal, made an interesting suggestion saying:

Vast changes in an age of mass and collective action threaten to produce two great dangers -- mass ignorance and mass apathy. For in our system of society it is how much the ordinary citizen knows and cares that determines the outcome of large issues. In the final analysis, the non-expert must make the decisions.

The educated American should form and hold his own opinions, based on a reasonable understanding of the facts and issues, and not on mere intuition or prejudice. The substitution of prejudice and extremism for reason and objectivity is to forsake the responsibilities that come with the educated mind.

But along with reason one must care. The educated citizen of the United States today can be more effective in shaping the policies of his government than has any

It is also the responsibility of every American -- but, the particular responsibility of the educated American -- to exercise the duties and privileges of citizenship in an informed and diligent public service at a time when the quality and dedication of this service may be decisive of the world of tomorrow.

The educated American in private life can discharge the responsibility for public service in countless ways. The many fine private organizations, cultural and humanitarian, serving local, State and national communities, provide ample opportunity for the good citizenship. that distinguishes our society

The essential ingredient in a free society is the development of a reasonable and balanced point of view on public affairs. ~~in~~ Its existence in the minds of the citizenry, ~~and~~ its cultivati[on] ~~through~~ ~~reflection at the polls,~~ through ~~the~~ media of information and communication, and in political activities, and its reflection ~~This~~ ~~is~~ constitutes a ~~the~~ [illegible] of [illegible] ~~the [illegible] responsibility of the educated American.~~

world, with new knowledge being constantly gained, it is the duty of the man or woman who has learned a little to keep on learning. Without reaching out into other disciplines, specialists can not have any understanding communication with each other. and Generalists such fail to perform adequately their function of synthesis.

Knowledge is useful even if held by only a few, but in many fields learning depends for its ~~real~~ full value ~~usefulness~~ upon a wide diffusion. If college graduates, having learned a little, default their obligation to continue learning, the dialogue among the educated that is a principal means of progress in the arts and sciences will falter. On this view, adult education is our individual ~~humanity's~~ and civilization's greatest relatively untapped resource.

spend. Economists' studies have shown that returns on investment in education remain higher — in purely economic terms — than on any investment in things.

To these are added

~~Beyond that~~ are the additional values which are beyond price.

w.a.

Nor will it be enough merely to help others achieve an education. College graduates have an obligation to use their education to push back the frontiers of learning. Man has a far, far longer way yet to go than the ground he has yet traversed. Some will have the chance to advance that understanding. Those with these gifts can have no higher obligation.

But none should rest content with the learning possessed — not today at the end of an undergraduate career, and not in any tomorrow either. In this changing

It is only natural and logical that educated Americans assume an especial responsibility to make possible the education of others, push back the frontiers of learning, and continue their own education through adult years.

College graduates will share heavily in the private giving and public policy. ~~which~~ These will determine whether or not the Nation's children have opportunity for an education that will develop our national resource of human talent to the limit of its potential.

An increased allocation of our resources to education is not an unwise or imprudent expenditure. Individual income rises with educational attainment. For the country, as for the individual, the dollars we spend for education are among the most fruitful dollars we <u>can</u>

In meeting this debt and obligation educated Americans will shoulder many responsibilities beyond the familiar and familial. Three specific ones deserve emphasis -- in the field of education, in the sphere of citizenship, and in the promotion of higher standards of human behavior.

I have mentioned but a few of the opportunities and the dangers that will challenge your generation. We come now, as we must, to the individual responsibility you bear from this day forward as one of history's chosen instruments---an American educated in freedom in time to play a part in the fateful closing decades of the twentieth century.

The noblesse oblige of the last half of the twentieth century is not associated with high rank or birth -- but with the American college graduates. It is they who have incurred an unusual debt and obligation to a larger society of the past and present. A failure to discharge that debt will make tomorrow's tragic history the collector.

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.

States. It must supply a "system reputation," a growth performance, and a pattern of trade and development that attracts the less developed countries into association with the Free World. ~~and~~ It must permit~~s~~ the welding of the industrialized free nations into common and effective programs of action~~.~~ for mutual security, economic and financial cooperation, Free World development.

And the rate of economic growth of our economy must be accelerated to provide gainful employment for the twenty-six million young people who will be entering the labor force in the Sixties and for the millions of older workers who find their skills made obsolete by a rapidly changing technology.

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 complete solution to our balance of payments problem-- short of the unthinkable alternative of withdrawal from our world commitments. A return to a neo-isolationism by the United States cannot fail to provide the communist bloc a rich harvest of opportunity.

It will be up to your generation to see to it that these competitive opportunities in the Free World are not passed up and forfeited; that they are availed of in a manner that will provide the financial sinews for our continuing leadership, which we did not seek, in a cold war we did not initiate, for a free society it is our national destiny to defend when challenged.

Basic to meeting these dangers of today and tomorrow is the hard everyday task of maintaining a dynamic and increasingly productive economy in the United their barriers and afford us the opportunity to share in their new and growing prosperity, so that we may earn, through our exports of goods and services, enough to support both our overseas military establishments and our much needed programs of aid to less developed countries. It also means that we must improve our competitive abilities so that we may take increased advantage of these opportunities in the competition of freer markets.

This is the basic reason behind President Kennedy's programs of trade expansion, of export promotion, of tax incentives to stimulate the consistent modernization of our industrial plant, and of voluntary wage and price stability.

An increased U. S. trade surplus is basic to a plenty and freedom, that has fired ~~exacerbated~~ unrealized aspirations among less fortunate peoples, in a world where communication has ~~not only~~ shortened space and ~~but~~ provided the dynamic of change.

Considerable [Even] challenge and ~~some~~ danger lurk in the opportunities facing your generation by the dynamic economic expansion and growing strength of our European allies and Japan. We are gratified at their progress which this nation has done much to promote and protect. But if the Free World trade and payments system, dependent on the stability of the dollar, is to be sustained, it is important to overcome the disequilibrium in the U. S. balance of international payments, which results, in part, from our efforts on behalf of Free World security and development. That means our friends must lower of nations in your lifetime. The shape of their development will affect the pattern of the world for decades to come. The communists submit their way as the quick way. They would have the world ignore the past painful precedents of efforts for material progress at the expense of humanity and personal freedom, which marked the industrialization of the USSR, and now condemn~~s~~ countless millions of Chinese to the slow ~~a~~ death of ~~by~~ ~~slow~~ physical and spiritual starvation. Should they succeed by a combination of force, subversion, or apathy on the part of the Free World, in submerging into a communistic, totalitarian sphere these new nations in Asia, Africa, and the older ones in Latin America, the tragedy will only be exceeded by the irony. For it is our good fortune in winning nationhood and, thereafter, for your generation undreamed of in other times. Yet, they could also serve as a grim vehicle to throw back man in your time to some dark age of a cave dwelling past.

Yet another great challenge and danger arises from the opportunities for material plenty that await your generation. It is represented by the yearnings of the peoples of the less developed world for a better life. "We live," in Mr. Adlai Stevenson's phrase, "amid a revolution of rising expectations." And as Mr. Edward Murrow has pointed out, "No land by definition could ever be more qualified to participate than we. As for revolution, it is our birthright. As for rising expectations where is there a more capacious or generous land than this.[6]..."

Nearly fifty new countries have entered the family essential to the avoidance of the downfall or destruction of yet another civilization in the parade of history. We must not supply another link in the ever lengthening chain, so aptly described by the historian Toynbee when he wrote: "Each link has been a cycle of invention, triumph, lethargy and disaster."

Yet, some of the weapons we forge for our own protection and that of the Free World in themselves threaten our existence. So, again, the paradox--we arm to parley. We must strive to obtain agreement for the reduction of danger, while doing what we can to lessen international tensions and to seek ways of minimizing existing frictions. We must negotiate while maintaining preparedness for the worst.

Even our rockets possess this two-way characteristic of opportunity and danger. They offer vistas of exploration from these opportunities.

Paramount abroad is the dangerous military power of the communist bloc, backed by a growing economy and a fanatical creed hostile to free men and free institutions. Your generation is destined to live under the guns of this apparently implacable enemy dedicated to the defeat and destruction of freedom. It is ~~and~~ possessed of sufficient power and influence to make us daily conscious of our personal mortality and the danger to those who seek freedom throughout the world. This power requires us to strengthen constantly the defenses of the Free World.

The recent reluctant resumption of atomic testing and the development of a costly but balanced national security force able to cope with nuclear attack, limited war, or exported revolution by guerrilla tactics are

Indeed it is the march of science and technology that most sharply illustrates this exciting era of paradox.

The near conquest in the United States of man's material environment, in an atmosphere of freedom, to provide unprecedented standards of living, health and education, have brought to us and the peoples of the earth new hope, dignity, and capacity for the good life. Your country, and mine, has achieved a position of unprecedented power and influence as the world's foremost nation through this happy conjunction of free men, free ideas, free enterprise. Truly, yours is a generation of opportunity.

But now look carefully at some of the challenges and dangers that accompany and, in a perverse way, result your opportunities--and those of your 430,000 fellow graduates throughout the nation--are limitless. But the dangers and challenges confronting you are magnified in direct ratio to these opportunities. Your choices, individual and collective, will be vital for you. But they will be far more agonizing; for they are bound to affect importantly the fate and future of your country, the civilization of whose bloodstream we are a part.

As a tiny but potentially determinant fraction of the world's now three billion souls, your responsibilities as educated Americans are among the heaviest imposed by destiny upon a small and select group.

For changing patterns in human events in your time have attained a velocity that presents the paradox of opportunities unequalled and dangers unparalleled. Witness, for a striking example, the astronauts.

p8

AN ADDRESS BY HENRY H. FOWLER, UNDER SECRETARY OF THE TREASURY, AT THE ANNUAL COMMENCEMENT CEREMONY, ROANOKE COLLEGE, SALEM, VIRGINIA, SUNDAY, JUNE 3, 1962, 4:00 P.M. (EST)

May I use this occasion to express my gratitude to President Oberly, the Trustee Faculty Committee, and the Board of Trustees for the honor and privilege they have conferred upon me today.

To return to Roanoke College, my alma mater, in its unexcelled setting in the valley of Virginia, is always a delight. It is returning home.

I shall not speak of vistas of promise of tomorrow's bounty or attempt an off Broadway production of "How To Succeed In Business Without Really Trying." my ~~The theme and thread of today's comments~~ theme will be the responsibilities of an educated American in the context of the challenges of tomorrow.

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An increased U.S. trade surplus is basic to a complete solution to our balance of payments problem -- short of the unthinkable alternative of withdrawal from our world commitments. A return to a neo-isolationism by the United States cannot fail to provide the communist bloc a rich harvest of opportunity.

It will be up to your generation to see to it that these competitive opportunities in the Free World are not passed up and forfeited; that they are availed of in a manner that will provide the financial sinews for our continuing leadership, which we did not seek, in a cold war we did not initiate, for a free society it is our national destiny to defend.

Basic to meeting these dangers of today and tomorrow is the hard everyday task of maintaining a dynamic and increasingly productive economy in the United States. It must supply a "system reputation," a growth performance, and a pattern of trade and development that attracts the less developed countries into association with the Free World. It must permit the welding of the industrialized free nations into common and effective programs of action for mutual security, economic and financial cooperation, and Free World Development.

And the rate of economic growth of our economy must be accelerated to provide gainful employment for the twenty-six million young people who will be entering the labor force in the Sixties and for the millions of older workers who find their skills made obsolete by a rapidly changing technology.

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 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.

I have mentioned but a few of the opportunities and the dangers that will challenge your generation. We come now, as we must, to the individual responsibility you bear from this day forward as one of history's chosen instruments -- an American educated in freedom in time to play a part in the fateful closing decades of the twentieth century.

The noblesse oblige of the last half of the twentieth century is not associated with high rank or birth -- but with the American college graduates. It is they who have incurred an unusual debt and obligation to a larger society of the past and present. A failure to discharge that debt will make tomorrow's tragic history the collector.

In meeting this debt and obligation educated Americans will shoulder many responsibilities beyond the familiar and familial. Three specific ones deserve emphasis -- in the field of education, in the sphere of citizenship, and in the promotion of higher standards of human behavior.

It is only natural and logical that educated Americans assume an especial responsibility to make possible the education of others, push back the frontiers of learning, and continue their own education through adult years.

College graduates will share heavily in private giving and public policy. These will determine whether or not the Nation's children have opportunity for an education that will develop our national resource of human talent to the limit of its potential.

An increased allocation of our resources to education is not an unwise or imprudent expenditure. Individual income rises with educational attainment. For the country, as for the individual, the dollars we spend for education are among the most fruitful dollars we can spend. Economists' studies have shown that returns on investment in education remain higher -- in purely economic terms -- than on investment in things. To these are added the additional values that are beyond price.

Nor will it be enough merely to help others achieve an education. College graduates have an obligation to use their education to push back the frontiers of learning. Man has a far, far longer way yet to go than the ground he has yet traversed. Some will have the chance to advance that understanding. Those with these gifts can have no higher obligation.

But none should rest content with the learning possessed -- not today at the end of an undergraduate career, and not in any tomorrow either. In this changing world, with new knowledge being constantly gained, it is the duty of the man or woman who has learned a little to keep on learning. Without reaching out into other disciplines, specialists can not have any understanding communication with each other and generalists will fail to perform adequately their function of synthesis.

Knowledge is useful even if held by only a few, but in many fields learning depends for its full value upon a wide diffusion. If college graduates, having learned a little, default their obligation to continue learning, the dialogue among the educated that is a principal means of progress in the arts and sciences will falter. On this view, adult education is your individual and civilization's greatest relatively untapped resource.

It is also the responsibility of every American -- but, the particular responsibility of the educated American -- to exercise the duties and privileges of citizenship in an informed and diligent public service at a time when the quality and dedication of this service may be decisive of the world of tomorrow.

The educated American in private life can discharge the responsibility for public service in countless ways. The many fine private organizations, cultural and humanitarian, serving local, State and national communities, provide ample opportunity for the good citizenship that distinguishes our society.

The essential ingredient in a free society is the development of a reasonable and balanced point of view on public affairs. Its existence in the minds of the citizenry, its cultivation through media of information and communication, and in political activities, and its reflection constitute a trust of the educated American.

Vast changes in an age of mass and collective action threaten to produce two great dangers -- mass ignorance and mass apathy. For in our system of society it is how much the ordinary citizen knows and cares that determines the outcome of large issues. In the final analysis, the non-expert must make the decisions.

The educated American should form and hold his own opinions, based on a reasonable understanding of the facts and issues, and not on mere intuition or prejudice. The substitution of prejudice and extremism for reason and objectivity is to forsake the responsibilities that come with the educated mind.

But along with reason one must care. The educated citizen of the United States today can be more effective in shaping the policies of his government than has any citizen of any nation in the world -- provided only that he uses his gifts and cares deeply.

Nor can the educated American ignore the responsibility to weigh opportunities for public service in government. If the Nation is to meet the challenges and breast the dangers ahead, it will require a ministry of the best talents available. And that means able people in government -- not just a few in strategic places -- but in elective office, in the key appointive posts, and in the career administrative service from the lower grades to the supergrades.

The opportunity to serve is never foreclosed by a single decision at any single time. It was over a decade ago when a noted public servant, David Lilienthal, made an interesting suggestion saying:

> "I propose that, out of the best and most productive years of each man's life, he should carve a segment in which he puts his private career aside to serve his community and his country, and thereby to serve his children, his neighbors, his fellow men, and the cause of freedom."

The response of young educated Americans to the Peace Corps proposal reveals that there will be an answer to calls of patriotism without the sound of bugles and the summons to war.

And, educated in freedom in a nation under God, the American college graduate has a particular responsibility beyond the ignorant, or those schooled in an atmosphere of the godless tyranny of the state. It is to exemplify and strive to promote virtue, morality and the higher ethics of human behavior. For he, of all people, should know that mere knowledge and power are not enough to redeem man from himself.

Education, whatever its functional or material value, should provide a foundation for the development of the characteristic excellences of which men are capable.

In speaking of the ends of education Plato observed:

> "but the particular training in respect of pleasure and pain, which leads you always to hate what you ought to hate, and love what you ought to love from the beginning of life to the end, may be rightly called education."

If you have it, cherish and preserve it. Whether you do or do not, it is your responsibility to continue to search for it.

Excellence is a lifetime pursuit, not captured eternally by a college degree. This is true of the liberal arts. It is even more true of moral education which concerns excellence in action rather than thought, requiring, in addition, good habits of will, desire or emotion.

Whether good character is best induced by strengthening the will or moderating one's inclinations will long be debated. But a sense of duty is an essential ingredient. And duty, in Wordsworth's phrase, is a "stern daughter of the voice of God."

It must be that duty to God involves obedience to the moral law which reason can discover, as well as to the positive commandments revealed by God. This implies an unremitting search for the good and the true, and the constant effort to hold fast to it as religious obedience to God.

This cleaving to God and his commands, both recorded and unrevealed, through reason and faith, is the well-spring of virtue, morality and ethical behavior in our land. To drink deeply of it is your ultimate responsibility.

Given the adequate discharge of these responsibilities by this generation of educated Americans, of which you are now a part, the dark shadows of present dangers will surely pass and the dynamic changes of today will provide the way to enriched opportunities for tomorrow.

These opportunities will not be for the United States alone -- they will signal a victory everywhere of men and nations who, in the words of President Kennedy, stand for the "liberation of the diverse energies of free nations and free men."

It will be a victory for those who believe that there is no substitute in modern society for the energy and commitment of responsible and educated free citizens. I trust you will share in that victory and bid you Godspeed.

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FOR RELEASE A. M. NEWSPAPERS, June 4, 1962
Tuesday, June 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 March 8, 1962, and the other series to be dated June 7, 1962, which were offered on May 29, were opened at the Federal Reserve Banks on June 4. Tenders were invited for $1,300,000,000, or thereabouts, of 91-day bills and for $700,000,000, or thereabouts, of 182-day bills. details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing September 6, 1962		182-day Treasury bills maturing December 6, 1962	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv Annual Rate
High	99.329	2.655%	98.598 a/	2.773%
Low	99.317	2.702%	98.590	2.789%
Average	99.320	2.691% 1/	98.591	2.787% 1/

a/ Excepting one tender of $100,000
9 percent of the amount of 91-day bills bid for at the low price was accepted
68 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	$ 31,956,000	$ 24,806,000	$ 3,410,000	$ 2,179,000
New York	1,627,989,000	864,855,000	1,246,448,000	588,826,000
Philadelphia	38,427,000	20,697,000	10,322,000	1,522,000
Cleveland	42,085,000	40,265,000	41,710,000	21,610,000
Richmond	14,206,000	9,562,000	6,672,000	1,640,000
Atlanta	17,900,000	16,000,000	4,841,000	4,841,000
Chicago	283,993,000	181,953,000	160,878,000	29,217,000
St. Louis	26,428,000	18,226,000	16,531,000	13,981,000
Minneapolis	17,006,000	11,869,000	5,714,000	3,298,000
Kansas City	50,630,000	45,720,000	5,291,000	4,740,000
Dallas	23,173,000	14,991,000	8,846,000	3,846,000
San Francisco	126,934,000	51,100,000	45,873,000	26,018,000
TOTALS	$2,300,727,000	$1,300,044,000 b/	$1,556,536,000	$701,718,000

b/ Includes $184,503,000 noncompetitive tenders accepted at the average price of 99.320
c/ Includes $44,143,000 noncompetitive tenders accepted at the average price of 98.591
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.75%, for the 91-day bills, and 2.87%, 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-502

TREASURY DEPARTMENT

304

WASHINGTON, D.C.

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D-502

Contrary to some crystal ball reports I have read, there have been no decisions on any of the details. This applies both to the extent of possible rate reductions and to the form and extent of possible offsetting measures to broaden the income tax base. But ~~The~~ one fact ~~that~~ is clear and ~~is that~~ we have now been at work for nearly a year on a proposal for income tax reform -- a proposal basically designed to stimulate the growth of our economy -- a proposal that will be ready for action at the opening of the next session of the Congress.

In conclusion, let me say that the confusion of myth and reality, of fact with fiction, when considering the complex economic problems of the day, is not in our national interest. The problems we face are not easy. Their solution requires the best efforts of all of us. We must not allow ourselves to be diverted from the difficult tasks at hand by polemics, emotions ~~and~~ or prejudice, unsupported by facts. There is today a clear consensus as to our national objectives -- a consensus that reaches from coast to coast and includes both political parties and all elements of our society. Those goals are full employment, rapid growth so that we may steadily improve our standard of living, and reasonable price stability.

The same index reads

In the past four years, we have managed to attain just one of those goals -- unmistakable price stability. In 1958, the wholesale all-commodity price index of the Department of Labor averaged 100.4. Last week ~~it was~~ 100.2 -- no change in four years. But we have not been so successful in achieving our other goals. We must continue vigorously to pursue full employment and rapid growth -- without impairing the price stability that we have already achieved. Success will require not only proper government policies, but also public understanding and acceptance of these policies, as well as real effort on the part of all sectors of our society. We must concentrate our efforts energies on genuine problems, and not permit OR ourselves to be diverted by exaggerated fears of hobgoblins -- be they imaginary inflation, such as that which preoccupied investors last year, or an imaginary anti-business campaign by the ~~Kennedy~~ Administration such as I fear preoccupies too many businessmen today.

As members of the Financial Writers Association of New York, you are contributing immensely to the much-needed understanding that is required before a truly national consensus becomes possible. I ask you to continue your efforts in the sure knowledge that you are performing a public service of major proportions.

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306

device and seemed not to hear our repeated assurances that the credit was designed as a permanent part of the tax structure. It was another case of the triumph of myth over reality.

We have learned, however, that ~~genuine~~ opposition to the credit is now far less widespread than one might believe from the positions taken by certain national business associations. Our correspondence and conversations clearly show that on this subject the position taken by these national organizations no longe accurately reflects the view of American business. For many businessmen have changed their opinion during the past year as they have come to understand our proposals better, and ~~to~~ in particular they appreciate the fact that the investment credit is not intended as a substitute for, but rather as a supplement to, depreciation reform.

In today's atmosphere of concern over the adequacy of our rate of economic recovery, one thing is crystal clear: The uncertain [legislative] fate of the credit is beyond question exerting a negative influence on business spending -- just at the time when an increase in plant and equipment expenditures is badly needed to keep our economy moving. There is no appropriate action readily available that would be more immediately helpful to the economy than prompt enactment of the tax credit, so that business ~~can~~ could have a solid basis on which to plan for the future.

In the slightly longer term there is, of course, much that can be done. And we fully intend to do it. There has been growing talk in recent weeks of the desirability of income tax reductions as a stimulus to the economy. I, for one, am glad to hear such talk. To me, it portends a sympathetic reception to the overall income tax reform on which we have been working since last year, and which was first promised by the President in his tax message a year ago last April. This tax reform program will be ready for Congressional action next January, and we plan to submit its general outlines before the close of the present session. It will not be a hasty, ill-considered reaction to the gyrations of the stock market. Rather, it will be a fundamental restructuring of our income tax system, designed to promote the maximum, long-term economic growth.

~~Over~~ Of the past year, I have frequently stated that the central element in this reform would be a proposal to readjust the rate structure of the income tax. I had not thought it necessary to spell out the fact that readjustment necessarily meant readjustment downward. But in case there is any misunderstanding, let me make clear that this is just what it means -- a top-to-bottom reduction in the rates of income tax. Naturally, any reduction will cost the Government revenue, and will bring with it the need to broaden the base of our tax structure so as to offset the reductions in whole or in part.

First, as to foreign competition: It is a hard fact that every other industrialized country in the free world provides special incentives to investment in one form or another. We can do no less if we are to compete successfully in the market places of the world. We must have both the 8 per cent investment credit which is now before the Congress and the full benefits of our new administrative reform if we are to match our foreign competitors.

The same is true if we are to stimulate the increased investment we must have to speed our rate of growth -- an essential prerequisite to the solution of our number one problem of unemployment. Throughout the Fifties, the proportion of our GNP invested in plant and equipment steadily declined. It reached a new low point last year. At the same time, our free world competitors have been increasing the proportion of their GNP going into plant and equipment. By last year, some of them were devoting twice as much of their GNP to new investment as we were -- and, it is important to note, that over the years, some of them have grown twice as fast as we have. Since The level of new investment, ~~therefore, appears to~~ HAS ~~have~~ a direct correlation TO ~~with~~ rates of growth, ~~We~~ simply must increase our investment if we are to increase our rate of growth. raises

The best and surest way to obtain more investment in new plant and equipment is to improve the profitability of such investment. And it was for just this reason that we chose the investment credit to complement our administrative reform of depreciation practices. For the investment credit, through the operation of the simple concept of a return over and above original cost, is by far the most powerful stimulant to profits of any of several possible forms of investment incentive. For each dollar of revenue lost to the Government, it provides two to three times more stimulus to profits than any other practicable form of incentive.

I am well aware that some in the business community have been cool to the idea of the investment credit. This is difficult to understand since the combination of the credit and the forthcoming administrative reform will, for the first time in many years, put American industry on a comparable footing with its foreign competitors in the tax treatment of capital investment in machinery and equipment.

What has been the basic reason behind business opposition?

I am convinced that it has been misunderstanding, plain and simple. In our talks and correspondence with business executives, we were frankly astonished to learn that the chief source of opposition was a widespread conviction that our investment credit proposal was no more than a tactical trick designed to avoid the very reform of depreciation practices that we were working so hard to bring about. Other businessmen thought that the investment credit was merely a temporary anti-recession

and we have talked to many of them,

Early last year, we determined to tackle this problem head on. We expedited the studies of the basic data that were already underway so that we could receive the results by the end of 1961, rather than in mid-1962. And we started right from scratch in reexamining each and every one of the assumptions on which the law had been administered for the past 25 years. As we went along, we were pleased -- and a little surprised -- to find that all, or practically all, of the controversy that has long characterized relations between business and government in the administration of depreciation could be eliminated by appropriate changes in our approach. Accordingly, we are now preparing more flexible, and more objective means of measuring the reasonableness of depreciation charges claimed by taxpayers. This will allow the taxpayer to exercise judgment in selecting depreciable lives, based upon his own plans for the future, rather than forcing him to rely primarily upon historical experience. It will void haggling over minutiae by looking to the reasonableness of the taxpayer's overall depreciation, rather than to the depreciable life of each and separate item. And it will prevent the taxpayer's judgment from being controverted except where, by an objective test, it is clearly not reasonable. No longer will a change in revenue agents bring with it -- as it so often does today -- a reexamination of depreciation practices. And industry will, for the first time, be certain that the law is being administered with identical results in every part of the United States.

We have now reached the point where I can be sure that a final draft of the new provisions will be ready for publication by the end of this month, or early in July. At the same time that we publish our new procedures, we will also publish our revision of the Bulletin F schedule of depreciable lives, reducing to some 75 overall categories -- only a few of which will apply to any one business -- the 5,000-odd items that are presently carried in Bulletin F. While we will have done our best to achieve truly realistic guideline lives, we will always be prepared to meet with any industry which feels that the lives assigned to it are not reasonable and fair, and to make such further adjustments as may be mutually agreed. In this way, we intend to keep our guideline lives fully current with future developments, so that they may never again reach their present unrealistic status.

All of this has required a tremendous effort by the Treasury. And I must say quite frankly that it is difficult for me to comprehend how an Administration which is on the verge of carrying to fruition such an enormous and important reform to help the business community can be labelled as "anti-business."

But this is not all. It was clear from the very start of our efforts to assist business that more than realistic lives and improved administration would be required if we were to meet foreign competition and stimulate the increased investment needed to spur our rate of economic growth.

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Preliminary indications for May which, mind you, would include any repatriation of foreign funds as a result of stock market sales, indicate that it will be the best month for our payments position since January, when the return of temporary, year-end, window-dressing outflows brought approximate balance ~~to~~ in our overall payments. So far this year, our overall deficit appears to be running at an annual rate of about $1.5 billion. This compares with last year's figure of $2.5 billion, and the $3.5 to $4 billion deficits that characterize the three preceding years. As I have often stated, we intend to work vigorously until the deficit is wholly eliminated -- a result we hope to achieve by the end of next year.

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I refer in particular to the major reform in the administration of depreciation for Federal tax purposes that is now nearing completion. Depreciation reform was one of my earliest concerns upon entering the Treasury. I found there, that, despite long-standing business complaints about inequities in the provisions for depreciation, little had been done to improve the situation. True, two basic studies had been initiated in the summer of 1960, studies that were scheduled for completion two years later, in mid-1962. These studies bore primarily on the depreciable lives of business property. Nothing at all had been done on the equally important matter of reexamining the procedures under which the guidelines for depreciable lives were being administered. And it is these procedures, as much as the lives themselves, that have been responsible for the widespread sense of frustration among businessmen in their dealing with the government on the depreciation problem

We all know what that something was -- the belief that inflation was just around the corner. Today, that belief has been pretty well dispelled. And that is the basic reason behind the decline in stock prices over the past few months.

Now ~~H~~ow did stock market investors make such an error last year? Apparently, they abandoned reality in pursuit of a mirage that grew out of a myth. The mirage was imminent inflation. The myth was the belief that government deficits are inevitably accompanied by inflation, no matter what the state of the economy /may be/.

The facts were far different and clear enough for those who wished to read them, but myth proved more powerful than reason. Demand inflation, the only kind of inflation in which budgetary policy plays an important role, is clearly related to the state of the whole national economy, and it is not governed by any single factor such as the Federal budget. Only when budget deficits combine with high demand to put pressure on supply, do they bring demand inflation in their wake. And last year this, of course, was far from the case. For our economy was just starting to pull out of recession. There were large numbers of unemployed and there was a widespread under-utilization of plant capacity. The President and other members of the Administration consistently stated that they intended to devote their energies to maintaining the stable price level so essential to our balance of payments.

I, myself, repeatedly pointed out that while a substantial deficit was in prospect for fiscal 1962, it would not be inflationary because of the excess capacity in the economy. The President, having in mind the sharp improvement in the economy forecast for 1962, made clear, as early as last July, that he intended to submit a balanced budget in January. But, despite this, the myth prevailed. The belief that any Federal deficit would be inflationary no matter what the state of the economy encouraged speculation and pushed stock prices to dizzy heights. A reaction was inevitable, once fact prevailed over fiction -- as sooner or later it always does.

I have heard it suggested that the decline in stock prices might ~~was~~ somehow connected with a lack of confidence in financial circles abroad in the efforts we are making to right the imbalance in our international payments. If this were true, it would be serious indeed. Fortunately, the facts are completely to the contrary. There is one item in our balance of payments which is generally considered to closely reflect any flight of capital. This is the item known as "errors and omissions," which includes all items not otherwise recorded. Until 1960, this item had been a favorable one in our payments balance. ~~In~~ 1960, for the first time, in this particular account it showed a substantial deficit, which was continued in 1961. However, so far this year, this sensitive item has once again returned to its former status as a plus in our overall payments picture -- a clear indication of growing, not lessened, confidence in the dollar.

-- a deficit

of our economy -- and despite the decline in common stock prices over recent months -- we can look forward confidently to continued economic progress. This advance will further lower our still-intolerable level of unemployment. It should also bring with it a rise in corporate profits.

Profits are essential to the operation of our free enterprise system. This fact is as fully recognized by those in government as by those in business, since government depends on profits for a large portion of its revenues. Even more important, government is well aware that the economic growth we all seek depends upon the ability of capital, as well as labor, to earn a fair return.

The disappointing performance of the economy in the first quarter inevitably had its impact upon profits, which, on a seasonally adjusted basis, were apparently little changed from the fourth quarter of 1961. But with the economy picking up steam -- as it has during this second quarter -- corporate profits can be expected to increase with it. Despite the fact that over the post-war period the share of profits in the sales dollar has declined, there is general agreement among business forecasters that total pre-tax corporate profits for 1962 are breaking sharply out of the narrow range in which they have moved for the past three years -- and will reach a new record high, well above $50 billion. These larger profits clearly justify stock prices higher than would have been warranted by the level of earnings that has characterized the past three years.

With this in mind, let us look for a moment at the level of stock prices: Based on Standard & Poor's averages, we find that in the four years 1954 through 1957, stocks as a whole sold at an average of between 11.2 and 14 times earnings. In 1958, this average moved up to between 16 and 17 times earnings, and remained there throughout 1959 and 1960. Last year's bull market brought this ratio up to 21 times earnings for the year as a whole, and to about 23 times earnings at the high point toward the close of the year. The drop in the market over the past few months, coupled with the increased earnings in prospect for 1962, brought this ratio back to where it is now today between 15 and 16 times earnings -- slightly under the level that prevailed in the '58 to '60 period, but more than the level of earlier years.

I would certainly be the last one to try to pick an exact and appropriate level for the price-earnings ratio of common stocks. But one thing stands out clearly in any review of stock prices: the 1961 price rise cannot be credited solely to the prospects for improved earnings. The estimate of 1962 corporate profits contained in the January Federal Budget document -- which many have criticized as being overly optimistic -- forecast pre-tax profits of $56.5 billion. But stock averages last December were about 19 times even this level of prospective earnings. Clearly, something other than the profit outlook must have been involved in last year's bull market.

~~To A.M. Newspapers~~

TREASURY DEPARTMENT
Washington

AS DELIVERED

~~FOR SIMULTANEOUS RELEASE IN NEW YORK AND WASHINGTON -- 6:30 P.M., EDT~~

REMARKS BY THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
AT THE ANNUAL DINNER OF THE NEW YORK
FINANCIAL WRITERS ASSOCIATION, WALDORF ASTORIA HOTEL,
NEW YORK CITY, MONDAY, JUNE 4, 1962
9:00 P.M., EDT

Two weeks ago, President Kennedy told a White House Economic Conference that we must distinguish between myth and reality in considering today's complex economic problems. Since an important element of your job as financial writers is to increase public understanding of economic complexities, I am most happy to have this opportunity to discuss some of them with you.

A week ago today, we witnessed a phenomenon that should give us all pause. ~~m~~ For, during the course of that day, all vestiges of reason were temporarily pushed aside, and panic took control of the great New York Stock Exchange -- touching off similar repercussions in security markets throughout the world.

In considering why that happened, I think it would be helpful to review briefly the state of our economy and its relationship to stock market prices.

The current recovery started just ~~16~~ 15 months ago. ~~is still young, and has a good way to go.~~ After a mid-winter hesitation, the economy picked up steam in March and has been moving ahead rapidly ever since to record levels of production and income. The latest confirmation shows up in the May employment figures: Non-agricultural employment rose beyond the usual seasonal expectations by an impressive 500,000 jobs. This means that businessmen across our country hired half a million more new employees in a single month than would normally be expected -- a clear sign of continued economic expansion. Seasonally adjusted unemployment also declined -- as did the overall rate of unemployment -- but the major significance of the May figures lies in the sharp upward surge of new jobs.

While the hesitation of the economy in the early months of this year has made the achievement of our 1963 G~~ross~~ N~~ational~~ P~~roduct~~ goal of $570 billion much more difficult, the rapid advance of recent months means that the possibility of success still remains. We will, in any event, come close to our goal, for the basic ingredients of continued progress are all at hand. As one of our nation's leading industrialists, Mr. Henry Ford, so aptly pointed out last Friday, disposable income is $20 billion higher than a year ago, installment debt is relatively low, credit is plentiful, and employment is rising. Because of the underlying health of today

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Profits are essential to our free enterprise system. This fact is as fully recognized by those in government as by those in business, since government depends on profits for a large portion of its revenues. Even more important, government is well aware that the economic growth we all seek depends upon the ability of capital, as well as labor, to earn a fair return.

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The same is true if we are to stimulate the increased investment we must have to speed our rate of growth -- an essential prerequisite to the solution of our number one problem of unemployment. Throughout the Fifties, the proportion of our GNP invested in plant and equipment steadily declined. It reached a new low point last year. At the same time, our free world competitors have been raising the proportion of their GNP going into plant and equipment. By last year, some of them were devoting twice as much of their GNP to new investment as were we -- and, it is important to note, that over the years, some of them have grown twice as fast as we have. Since the level of new investment has a direct correlation to rates of growth, we simply must increase our investment if we are to increase our rate of growth.

The best and surest way to obtain more investment in new plant and equipment is to improve the profitability of such investment. And it was for just this reason that we chose the investment credit to complement our administrative reform of depreciation practices. For the investment credit, through the operation of the simple concept of a return over and above original cost, is by far the most powerful stimulant to profits of any of several possible forms of investment incentive. For each dollar of revenue lost to the Government, it provides two to three times more stimulus to profits than any other practicable form of incentive.

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device and seemed not to hear our repeated assurances that the credit was designed as a permanent part of the tax structure. It was another case of the triumph of myth over reality.

We have learned, however, that opposition to the credit is now far less widespread than one might believe from the positions taken by certain national business associations. Our correspondence and conversations clearly show that on this subject the position taken by these national organizations no longer accurately reflects the view of American business. For many businessmen have changed their opinion during the past year as they have come to understand our proposals better, and in particular as they have come to appreciate the fact that the investment credit is not intended as a substitute for, but rather as a supplement to, depreciation reform.

In today's atmosphere of concern over the adequacy of our rate of economic recovery, one thing is crystal clear: The uncertain fate of the credit is beyond question exerting a negative influence on business spending -- just at the time when an increase in plant and equipment expenditures is badly needed to keep our economy moving. There is no appropriate action readily available that would be more immediately helpful to the economy than prompt enactment of the tax credit, so that business could have a solid basis on which to plan for the future.

In the slightly longer term there is, of course, much that can be done. And we fully intend to do it. There has been growing talk in recent weeks of the desirability of income tax reductions as a stimulus to the economy. I, for one, am glad to hear such talk. To me, it portends a sympathetic reception to the overall income tax reform on which we have been working since last year, and which was first promised by the President in his tax message a year ago last April. This tax reform program will be ready for Congressional action next January and we plan to submit its general outlines before the close of the present session. It will not be a hasty, ill-considered reaction to the gyrations of the stock market. Rather, it will be a fundamental restructuring of our income tax system, designed to promote the maximum of long-term economic growth.

Over the past year, I have frequently stated that the central element in this reform would be a proposal to readjust the rate structure of the income tax. I had not thought it necessary to spell out the fact that readjustment necessarily meant readjustment downward. But in case there is any misunderstanding, let me make clear that this is just what it means -- a top-to-bottom reduction in the rates of income tax. Naturally, any reduction will cost the Government revenue, and will bring with it the need to broaden the base of our tax structure so as to offset the reductions in whole or in part.

Contrary to some crystal ball reports I have read, there have been no decisions on any of the details. This applies both to the extent of possible rate reductions and to the form and extent of possible offsetting measures to broaden the income tax base. But one fact is clear and that is we have now been at work for nearly a year on a proposal for income tax reform -- a proposal basically designed to stimulate the growth of our economy -- a proposal that will be ready for action at the opening of the next session of the Congress.

In conclusion, let me say that the confusion of myth and reality, of fact with fiction, when considering the complex economic problems of the day, is not in our national interest. The problems we face are not easy. Their solution requires the best efforts of all of us. We must not allow ourselves to be diverted from the difficult tasks at hand by polemics, emotion or prejudice, unsupported by facts. There is today a clear consensus as to our national objectives -- a consensus that reaches from coast to coast and includes both political parties and all elements of our society. Those goals are full employment, rapid growth so that we may steadily improve our standard of living, and reasonable price stability.

In the past four years, we have managed to attain just one of those goals -- reasonable price stability. In 1958, the wholesale all-commodity price index of the Department of Labor averaged 100.4. Last week the same index read 100.2 -- no change in four years. But we have not been so successful in achieving our other goals. We must continue vigorously to pursue full employment and rapid growth -- without impairing the price stability that we have already achieved. Success will require not only proper government policies, but also public understanding and acceptance of these policies, as well as real effort on the part of all sectors of our society. We must concentrate our efforts on genuine problems, and not permit ourselves to be diverted by exaggerated fears or hobgoblins -- be they imaginary inflation, such as that which preoccupied investors last year, or an imaginary anti-business campaign by the Administration such as I fear preoccupies too many businessmen today.

As members of the Financial Writers Association of New York, you are contributing immensely to the much-needed understanding that is required before a truly national consensus becomes possible. I ask you to continue your efforts in the sure knowledge that you are performing a public service of major proportions.

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of others. The fact that you are receiving your commissions today is witness of our confidence in your ability to carry out the tasks demanded of you.

And now gentlemen, as you take your oath as officers in the United States Coast Guard, you will take your place with the generations of brave and dedicated men who have preceded you in the service. As you prepare to step into the future, you may be certain that you carry with you the prayers and good wishes of all Americans May all of you have long, happy and successful careers in the service.

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As a step towards solidifying friendly relations with our neighbors in South and Central America, the Coast Guard has recently initiated a cadet exchange program involving the naval academies of these countries. Governments invited to participate in the program include Argentina, Brazil, Colombia, Ecuador, Guatemala, Mexico, Peru, Uruguay, and Venezuela. This is in direct support of the "alliance for progress" which has been declared by our President as one of the cornerstones of United States foreign policy.

Many other examples could be cited. But these are sufficient to demonstrate that your future careers will afford you frequent opportunity to work closely with men of many nations. In a very real sense, you will be helping to expand the frontier of human communication.

The road you have chosen is not an easy one. It will demand leadership, character, integrity, and above all, an understanding received to maintain a continuous fix on his own location, as well as on the movements of vessels in his vicinity. Since the cost of participating in RATAN involves no more than the price of an ordinar commercial TV receiver, the aid is well within the reach of the many millions of boatmen who annually throng our waterways. RATAN could provide an increasing margin of safety for both merchant vessels and pleasure craft.

Probably no electronic aid has contributed more to maritime safety than the Coast Guard's LORAN or Long Range Aid to Navigation System. Useful both in peace and war, LORAN was developed shortly before United States entry into World War II. The Coast Guard had a major part in its development. At the war's close, the LORAN chain extended from Greenland to Tokyo. In the past year, the Coast Guard operated 69 stations in the Atlantic, Pacific, and Gulf of Mexico, as well as in areas outside the continental United States. Plans are now being made to extend LORAN coverage to other parts of the world.

Within recent years, the Coast Guard has developed an improved LORAN system known as LORAN-C. This new aid enables mariners to obtain more precise position "fixes" than is possible with the older equipment. It also offers the most accurate time measurement factor which has yet been evolved. This could be of immense value in many areas of scientific research.

It should also be mentioned here that operation of these stations is of considerable importance in the posture of our national security. I have visited several of these lonely and solitary statio in remote parts of the world. The importance of the jobs performed by the small group of men at these frontier posts never ceases to impress me. Here in a small crucible is exhibited, in my opinion, the essential and true character of the men there stationed. Day follows day with only the seemingly routine job of manning the electronic equipment to occupy the time. And yet, despite omnipresent ennui and loneliness, the officers and men have all displayed remarkable alertness, resourcefulness and cheerfulness in the very highest tradition of your Service. One cannot help but feel that in these isolated bases, the remorseless demands on our democracy for vigilance and service is met in one of its most critical forms. These human qualities I have just described are certainly as important in the success and survival of our country as any scientific achievement.

Indeed, scientific achievement, however brilliant, is futile if it is not accompanied by corresponding gains towards increased understanding among nations. Somehow we must find a way to reach the mind and hearts of men. We must make clear to the world that we are on the side of all those who aspire to a better life. Unfortunately, progress in this area has not been as spectacular as in the physical transocoeanic travel. Its efforts in this area are not restricted to marine transportation, but extend also to the vast ocean of the air. As part of this program, it is now cooperating with the Federal Aviation Agency and private industry in a project which offers exciting possibilities for the future of air travel. Objective of the study is to determine whether the proposed system is sufficiently accurate to permit assignment of smaller air blocks to trans-oceanic planes so as to lessen air congestion. If successful, it could upen new frontiers in air navigation. Known as "Project Accordion", the study will feature a new navigation system for trans-Atlantic jetliners, utilizing the recently developed Doppler radar.

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Within recent months, the Coast Guard has put into experimental operation a new electronic navigation aid know as RATAN which stands for Radar and Television Aid to Navigation. In developing RATAN, Coast Guard electronic engineers have made the first application of recognized radar and television principles to the solution of navigational problems in heavily traveled waters. Under the new system, a radar image is projected by a high-definition, shore-based radar. This picture is then transmitted by ultra high frequency signals for television reception aboard vessels. Utilizing an ordinary TV receiver, a mariner may interpret the picutre been alarmingly slow. Many regions of the oceans are less well known than the lunar surface. Certainly on the practical side the problems to be solved are as urgent as those of space. One example should suffice to illustrate my point -- and that is the importance of underwater defense. In this connection it focuses attention on the employment of the submarine in a strictly defensive role. Its mission as an offensive weapon is, of course, well proven. But in addressing oneself to the problems in this area, one becomes aware of the fact that it is difficult under most circumstances to determi the position of a submarine. Because of the existence of "sound layers" beneath the surface of the ocean, every submarine can lurk undetected. This presents a problem of profound gravity. Probably the only solution to the problem lies in greater research and knowledge in the field of oceanography. Since these sound layers are determined by a complex of water temperature, salinity and pressure, the part played by the Coast Guard in its research and findings will be of great importance. The peculiar knowledge, experience and ability manifested by the Coast Guard in these fields make its position vital and tremendously important.

By way of further example, it is to be lamented that there has been such slow progress in the matter of mapping the contours of the ocean's floors. There is cause for concern in the knowledge that other unfriendly powers have been assiduously engaged in these efforts for some time. The results of such efforts will be of tremendous advantage in solving the underwater navigational problems of submarines. Again the Coast Guard can make a substantial contribution here.

In October of this year, the Coast Guard's work in oceanography received world prominence when President Kennedy signed legislation authorizing the Service to continue and intensify its research. The new authority amounts to a vote of confidence by the American people in the ability of the Coast Guard to carry out the new program.

For the Coast Guard, the practical effect of the new legislatio will be to expand greatly the range and effectiveness of its oceanographic work. Undoubtedly, many of you in the course of your service careers will participate in the program.

Although oceanography is a frontier of prodigious interest and import to the nation and to the Coast Guard, it represents but one relatively new area in which your Service can make a significant contribution. In carrying out its traditional responsibility for maintaining an effective aids to navigation system, the Coast Guard has recently made important progress in furthering the safety of

It is an exciting prospect which lies before you. At no time in the history of the world has mankind demonstrated a more insatiable curiosity about every aspect of his environment. This curiosity extends from the farthest reaches of outer space to the core of the earth. Everywhere there is a sense of adventure and discovery. We stand upon the threshold of discoveries which hold enormous promise for all humanity.

But this new world of the future is not to be ours merely for the asking. Its attainment will require dedication, sacrifice and hard work on the part of all of us. The United States as the foremost champion of democracy must demonstrate to the world what can be accomplished by free men in a free society. In this struggle for technological supremacy, we are faced with a ruthless and determined adversary. The stakes involved are enormous -- nothing less than national survival. Failure would set back the cause of freedom for generations.

As officers of the Coast Guard you will be in the vanguard of this great adventure to expand the frontiers of human knowledge. The service you are entering is ideally suited to do its part. Its widely varied functions both as an Armed Force and as a maritime safety agency have given it a versatility unmatched by any other service. Behind its efforts are generations of scientific and technical experience in the marine sciences and related fields. Adaptation to change is its very lifeblood. Despite its more than 172 years of existence, it has retained a youthful and enterprising spirit. Always it has shown a resourcefulness and capacity to assimilate and turn the latest scientific advances to its own needs. No qualities could be more valuable in the restless, dynamic world of today.

Nowhere has this intellectual curiosity been more strikingly demonstrated than in the increasingly important science of oceanography with which the Coast Guard has long been associated. With the growing realization that the key to man's future may well lie in the depths of the ocean, the Coast Guard's work in this area takes on special significance.

The scope of the role of the Coast Guard in this area is still undetermined, but there lies the high expectation that it will become increasingly more important. Indeed, there are many voices of consequence that conceive the Coast Guard as the organization that should be given primary leadership. I am confident that if this should come to pass the leadership will be in willing and capable hands.

Although progress is moving in this field at long last, nevertheless relative to the areas of scientific endeavors, it has

FOR RELEASE ON DELIVERY

ADDRESS BY THE HONORABLE JAMES A. REED
ASSISTANT SECRETARY OF THE TREASURY
AT THE SEVENTY-FIFTH COMMENCEMENT EXCERCISES OF THE UNITED STATES COAST GUARD ACADEMY, NEW LONDON, CONNECTICUT,
WEDNESDAY, JUNE 6, 1962, 11:00 A.M., EDT

Admiral Evans, members of the class of 1962, distinguished guests, ladies and gentlemen:

I am greatly honored to have this opportunity to address the graduating class of the Coast Guard Academy. In a short time you will receive your Bachelor of Science degrees and your commissions as officers of the Coast Guard. So, gentlemen, I congratulate you upon your successful completion of a difficult and stern educational experience.

You have made an excellent beginning in your chosen career. Still, it is well to remember that commencements are, after all, only beginnings. They do not represent final achievement. All that has happened is prologue to the great events to follow. Make no mistake about it. The world in which you will soon take your part has never offered greater challenge or opportunity to young men. But every challenge and opportunity begets its arch foes: ignorance, fear, indeciveness, and complacency. There are no guide posts to achievement other than the man himself having the qualities of perseverence, courage, and resolution. So will you respond or be motivated, as you find yourself today and in the future poised on the threshold of an exciting new adventure. Indeed, it is almost commonplace to observe that especially in the world of science and technology the world is moving so fast that what is mistaken for a truth today may be, and often is, tomorrow's fallacy.

This, then, is the message I would like to try to bring to you today -- the opportunity and need of the Coast Guard to hasten, follow and explore the beckoning of uncharted areas, or the new frontier as this Administration has described it. In suggesting these stimulating and exciting prospects, by no means do I intend to underrate the traditional and essential duties and obligations of the Coast Guard. These remain even more important than ever before because of the increase in activity in nearly every such area. Rather, I am asserting that over and above those basic tasks lie vistas that should stimulate and stir the imagination of each one of you as you contemplate the years ahead of service to country and Coast Guard. But it should be said, though unnecessary, that important as these new prospects are, they should not beguile you into precipitate or imprudent action.

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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 or less for the additional bills dated March 15, 1962, (91 days remaining until maturity date on September 13, 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 Banks on June 14, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 14, 1962. Cash

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332

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE June 6, 1962

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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 $2,000,000,000 ~~(2)~~, or thereabouts, for cash and in exchange for Treasury bills maturing June 14, 1962 ~~(3)~~, in the amount of $ 1,801,805,000 ~~(4)~~, as follows:

91 ~~(5)~~ -day bills (to maturity date) to be issued June 14, 1962 ~~(6)~~, in the amount of $ 1,300,000,000 (7), or thereabouts, representing an additional amount of bills dated March 15, 1962 ~~(8)~~, and to mature September 13, 1962 ~~(9)~~, originally issued in the amount of $ 600,291,000 ~~(10)~~, the additional and original bills to be freely interchangeable.

182 ~~(11)~~ -day bills, for $ 700,000,000 (12), or thereabouts, to be dated June 14, 1962 ~~(13)~~, and to mature December 13, 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 Daylight Saving ~~Standard~~ time, Monday, June 11, 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

D-503

TREASURY DEPARTMENT

333

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

June 6, 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 $ 2,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing June 14, 1962, in the amount of $ 1,801,805,000, as follows:

91-day bills (to maturity date) to be issued June 14, 1962, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated March 15, 1962, and to mature September 13, 1962, originally issued in the amount of $ 600,291,000, the additional and original bills to be freely interchangeable.

182-day bills, for $700,000,000, or thereabouts, to be dated June 14, 1962, and to mature December 13, 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 Daylight Saving time, Monday, June 11, 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 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.

D-505

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 March 15, 1962, (91-days remaining until maturity date on September 13, 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 Banks on June 14, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 14, 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 fro any Federal Reserve Bank or Branch.

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~~PRESS RELEASE~~

For Immediate Release ~~(11 a.m.)~~

June 7, 1962

UNITED STATES AND ARGENTINA SIGN
$50,000,000 EXCHANGE AGREEMENT

Douglas Dillon, Secretary of the Treasury, and Roberto Alemann, the ~~appointed~~ Ambassador of Argentina, today signed a $50,000,000 Exchange Agreement between the United States Treasury and the Government and Central Bank of Argentina.

The agreement, which replaces ~~an agreement~~ one for a similar amount signed in December, 1961, is designed to assist Argentina in its continuing efforts to promote economic stability and freedom in its trade and exchange system. Exchange operations on the part of the Argentine authorities will be for the purpose of maintaining an orderly foreign exchange system.

Under the Treasury Exchange Agreement, Argentina may request the United States Exchange Stabilization Fund to purchase Argentine pesos. Any pesos acquired by the United States Treasury would subsequently be repurchased by Argentina with dollars.

On June 6, 1962, the International Monetary Fund entered into a stand-by agreement with Argentina in the amount of $100 million to assist the Argentine Government in continuing its stabilization efforts.

D-506

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 7, 1962

FOR IMMEDIATE RELEASE

UNITED STATES AND ARGENTINA SIGN $50,000,000 EXCHANGE AGREEMENT

Douglas Dillon, Secretary of the Treasury, and Roberto Alemann, the appointed Ambassador of Argentina, today signed a $50,000,000 Exchange Agreement between the United States Treasury and the Government and Central Bank of Argentina.

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D-506

STATEMENT BY THE HONORABLE ROBERT V. ROOSA
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
SUBCOMMITTEE ON MINERALS, MATERIALS AND FUELS
OF THE SENATE INTERIOR AND INSULAR AFFAIRS COMMITTEE
ON S. J. RES. 44
A JOINT RESOLUTION TO ENCOURAGE THE DISCOVERY,
DEVELOPMENT, AND PRODUCTION OF DOMESTIC GOLD
FRIDAY, JUNE 8, 1962 - 10:00 AM

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to discuss with you the important subject of gold and its relation to the proposed Senate Joint Resolution 44.

On March 15, this Subcommittee heard a number of industry and other non-governmental witnesses on S. J. Res. 44, a resolution to encourage the discovery, development and production of domestic gold. Senator Carroll, the Chairman of the Subcommittee, has thoughtfully supplied the Treasury Department with a copy of the record of these hearings, which has been carefully studied by the Treasury's Office of Domestic Gold and Silver Operations and by other Treasury officials.

It is my understanding that S. J. Res. 44 would authorize the Secretary of the Interior, under rules and regulations prescribed by him, to make incentive payments to producers of gold mined in the United States, its territorial possessions or the Commonwealth of Puerto Rico. The amount of any such payment would be determined by the Secretary of the Interior, but would not in any case exceed $35 an ounce. Any such amount would, of course, be an addition to the official price of $35 per ounce which has since 1934 been paid on delivery of gold to the Treasury for acquisition by the United States.

In response to a letter from Senator Anderson, Chairman of the Committee on Interior and Insular Affairs, the Treasury Department stated over a year ago that it opposed the enactment of S. J. Res. 44. After study of the March hearings, further discussion with interested public officials and with representatives of the gold mining industry, and careful re-examination of the role of gold in our monetary system, the Treasury Department has not changed its view.

The usual reasons for urging gold subsidies in other countries, or for urging subsidies to other industries in this country, are not applicable to gold in the United States. This cannot be viewed simply as a case of marginal or depressed industry seeking relief from the compelling pressures of economic change. Gold is a unique metal. The dollar is a unique currency. Ours is the only currency that maintains the link between money and gold; we do that by standing ready to purchase and sell gold at the fixed price of $35 per ounce. The monetary system of the entire Free World is hinged to the interconvertibility which we maintain between gold and dollars at that price. Any form of subsidy to American gold production would impair that relationship. A compassionate effort to assist a relatively few people to keep or obtain jobs -- desirable as that is -- would, instead of helping those in the gold mining industry, disrupt the monetary system upon which not only their own livelihood, but also that of all the rest of us, depends.

There is no compensating advantage in the promise that subsidies would produce a vast enlargement of the existing gold stock. The fact is that even if productive capacity could achieve the most optimistic estimate of the Department of Interior, American facilities could not in less than a century add to our gold production the amount of gold contemplated by the present terms of S. J. Res. 44. But even if that total could by some alchemy be produced within a single year, it could not begin to offset the losses to the world economy that would be created by devaluation of the dollar. And in blunt, simple terms, if the United States Government should add an unprecedented subsidy to the official $35 price for gold, such action would be construed by the rest of the world as evidence that devaluation was under way.

I would be glad to discuss further any aspects of this question relating to the function of gold in the world's monetary system, along whatever lines the Chairman and members of this committee may wish to pursue. I can give you full assurance, however, based upon intimate contacts with financial officials of most of the leading countries of the world, that a step of the kind contemplated by S. J. Res. 44 would be regarded as synonymous with a declaration of intent to devalue the dollar of the United States.

For these reasons, the Treasury Department is opposed to this Resolution.

interest has fed down to every line of supervision and to all field offices.

I should like to commend the Treasury Safety Council as it begin its fifteenth year. These men and women deserve a great deal of the credit for the success of the Treasury safety program. Working with such groups as the Federal Safety Council and the Federal Fire Counci as well as with Treasury Bureaus, they have spearheaded accident prevention tirelessly.

We appreciate the award and I can assure you that we will contin our efforts in Treasury to halt needless, wasteful accidents, both on and off duty.

Thank you, Mr. Vice President.

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of electronic equipment. Special attention must be given to the Bank Examiners of the Office of the Comptroller of the Currency, who must drive long hours, and whose work is performed in areas not under Treasury control. This is also true of U. S. Savings Bonds Division representatives. Other areas where safety is a consideration are the enforcement activities of the Department carried on by the Bureau of Customs, parts of Internal Revenue Service, the U. S. Secret Service, the Bureau of Narcotics, and parts of the Coast Guard.

The industrial-type activities of the Bureau of Engraving and Printing and the Bureau of the Mint -- as well as parts of the Coast Guard and the Bureau of Customs -- are every bit as important in plann for safety, and the Office of the Secretary and the U. S. Savings Bond Division have their own unique problems.

The most important element of our safety program has been partici pation at every level of the Department. Bureau Heads are encouraged to keep the subject of safety constantly before their people and this

WASHINGTON, D.C.

34

~~DRAFT -- JUNE 7, 1962~~

REMARKS BY THE HONORABLE DOUGLAS DILLON,
SECRETARY OF THE TREASURY,
IN ACCEPTING THE PRESIDENT'S SAFETY AWARD TO TREASURY,
TREATY ROOM, EXECUTIVE OFFICES BUILDING
FRIDAY, JUNE 8, 1962, 11:00 A.M.

Mr. Vice President, Mr. Secretary, Ladies and Gentlemen:

I am very pleased to accept this beautiful and meaningful award on behalf of all Treasury personnel throughout the world.

This award recognizes our accomplishments in accident preventio during calendar year 1961, but it represents to Treasury the success of our safety efforts over the fourteen-year existence of the Treasu Safety Council. During that period, our injury rate has been constantly reduced, reaching an all-time low in 1961.

Our safety efforts, like our daily operations, must of necessit be varied, because they cover such a wide variety of employment fields. Examples are the fiscal activities of the Bureau of Account the Bureau of the Public Debt, and Office of the Treasurer of the U. S., where new problems have been introduced with the installatio

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The industrial-type activities of the Bureau of Engraving and Printing and the Bureau of the Mint -- as well as parts of the Coast Guard and the Bureau of Customs -- are every bit as important in planning for safety, and the Office of the Secretary and the U. S. Savings Bonds Division have their own unique problems.

The most important element of our safety program has been participation at every level of the Department. Bureau Heads are encouraged to keep the subject of safety constantly before their people and this interest has fed down to every line of supervision and to all field offices.

I should like to commend the Treasury Safety Council as it begins its fifteenth year. These men and women deserve a great deal of the credit for the success of the Treasury safety program. Working with such groups as the Federal Safety Council and the Federal Fire Council, as well as with Treasury Bureaus, they have spearheaded accident prevention tirelessly.

We appreciate the award and I can assure you that we will continue our efforts in Treasury to halt needless, wasteful accidents, both on and off duty.

Thank you, Mr. Vice President.

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344

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, June 12, 1962.

June 11, 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 March 15, 1962, and the other series to be dated June 14, 1962, which were offered on June 6, were opened at the Federal Reserve Banks on June 11. Tenders were invited for $1,300,000,000, or thereabouts, of 91-day bills and for $700,000,000, 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 September 13, 1962		182-day Treasury bills maturing December 13, 1962	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.331	2.647%	98.612 a/	2.745%
Low	99.321	2.686%	98.604	2.761%
Average	99.325	2.671% 1/	98.606	2.758% 1/

a/ Excepting two tenders totaling $500,000
37 percent of the amount of 91-day bills bid for at the low price was accepted
29 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	$ 23,907,000	$ 13,907,000	$ 10,192,000	$ 9,624,000
New York	1,627,958,000	911,138,000	1,328,617,000	569,617,000
Philadelphia	37,573,000	20,683,000	8,252,000	2,994,000
Cleveland	54,238,000	32,978,000	24,191,000	17,596,000
Richmond	10,690,000	10,690,000	1,888,000	1,738,000
Atlanta	27,895,000	25,865,000	6,180,000	5,317,000
Chicago	208,234,000	121,084,000	99,093,000	37,248,000
St. Louis	29,347,000	24,087,000	6,364,000	4,009,000
Minneapolis	22,068,000	15,438,000	6,062,000	3,427,000
Kansas City	21,483,000	21,483,000	6,834,000	4,334,000
Dallas	22,668,000	15,038,000	8,627,000	3,427,000
San Francisco	114,196,000	87,896,000	61,208,000	40,786,000
TOTALS	$2,200,257,000	$1,300,287,000 b/	$1,567,508,000	$700,117,000 c/

b/ Includes $217,943,000 noncompetitive tenders accepted at the average price of 99.325
c/ Includes $54,925,000 noncompetitive tenders accepted at the average price of 98.606
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.73%, for the 91-day bills, and 2.84%, 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

345

WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, June 12, 1962.

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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 March 15, 1962, and the other series to be dated June 14, 1962, which were offered on June 6, were opened at the Federal Reserve Banks on June 11. Tenders were invited for $1,300,000,000, or thereabouts, of 91-day bills and for $700,000,000, 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 September 13, 1962		182-day Treasury bills maturing December 13, 1962	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.331	2.647%	98.612 a/	2.745%
Low	99.321	2.686%	98.604	2.761%
Average	99.325	2.671% 1/	98.606	2.758% 1/

a/ Excepting two tenders totaling $500,000
37 percent of the amount of 91-day bills bid for at the low price was accepted
29 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	$ 23,907,000	$ 13,907,000	$ 10,192,000	$ 9,624,000
New York	1,627,958,000	911,138,000	1,328,617,000	569,617,000
Philadelphia	37,573,000	20,683,000	8,252,000	2,994,000
Cleveland	54,238,000	32,978,000	24,191,000	17,596,000
Richmond	10,690,000	10,690,000	1,888,000	1,738,000
Atlanta	27,895,000	25,865,000	6,180,000	5,317,000
Chicago	208,234,000	121,084,000	99,093,000	37,248,000
St. Louis	29,347,000	24,087,000	6,364,000	4,009,000
Minneapolis	22,068,000	15,438,000	6,062,000	3,427,000
Kansas City	21,483,000	21,483,000	6,834,000	4,334,000
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TOTALS	$2,200,257,000	$1,300,287,000 b/	$1,567,508,000	$700,117,000 c/

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D-508

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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.

~~BETA - MODIFIED~~

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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 ~~(16)~~ or less for the additional bills dated March 22, 1962 ~~(17)~~, (91 ~~(18)~~ days remaining until maturity date on September 20, 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 June 21, 1962 ~~(22)~~, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 21, 1962 ~~(23)~~. Cash

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, June 13, 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 $ 2,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing June 21, 1962, in the amount of $ 1,802,246,000, as follows:

91 -day bills (to maturity date) to be issued June 21, 1962, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated March 22, 1962, and to mature September 20, 1962, originally issued in the amount of $ 600,081,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $ 700,000,000, or thereabouts, to be dated June 21, 1962, and to mature December 20, 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 Daylight Saving time, Monday, June 18, 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

D-509

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 13, 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 $ 2,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing June 21, 1962, in the amount of $ 1,802,246,000, as follows:

91-day bills (to maturity date) to be issued June 21, 1962, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated March 22, 1962, and to mature September 20, 1962, originally issued in the amount of $ 600,081,000, the additional and original bills to be freely interchangeable.

182-day bills, for $700,000,000, or thereabouts, to be dated June 21, 1962, and to mature December 20, 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 Daylight Saving time, Monday, June 18, 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 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 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 March 22, 1962, (91-days remaining until maturity date on September 20,1962) 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 June 21,1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 21, 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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STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON FINANCE
ON THE
TAX RATE EXTENSION ACT OF 1962
WEDNESDAY, JUNE 13, 1962
10:00 A.M., EDT

In his Budget Message the President recommended extension for another year of all but one of the tax rates scheduled for reduction or termination on July 1, 1962. The exception is the tax on transportation of persons to which I will refer further in a moment.

Present law provides for the reduction of the corporation income tax from 52 percent to 47 percent as of July 1. More specifically, there would be a reduction of the normal tax from 30 percent to 25 percent. The other scheduled reductions all relate to excise taxes. These include the taxes on alcoholic beverages, cigarettes, automobiles, automobile parts and accessories, local telephone service, and transportation of persons. The law provides for reduction of the tax on distilled spirits from $10.50 to $9.00 a gallon. The cigarette tax would be reduced from $4.00 to $3.50 per thousand, or from 8 to 7 cents per pack. The tax on automobiles is scheduled to be reduced from 10 percent to 7 percent of the manufacturer's price, and the tax on automobiles parts and accessories from 8 to 5 percent. The 10 percent tax on local telephone service would be repealed, while the tax on transportation of persons would be reduced from 10 percent to 5 percent. Details of the scheduled rate changes on the other items are shown in the attached Table 1.

Changes scheduled under present law for all of the taxes mentioned, except local telephone service and transportation of persons, represent a reduction to the rates existing before the increases provided in 1951 at the time of the Korean hostilities. Tax rates on local telephone service and transportation of persons were not increased in 1951, were reduced in 1954, and the repeal of the telephone tax and reduction of the transportation tax were scheduled under the Tax Rate Extension Act of 1959.

Under the terms of H. R. 11879, the current rates would be continued for another year, except with respect to the tax on transportation of persons. The latter tax would be maintained at the 10 percent rate until December 31, 1962. A twofold change would then be made. The tax would be terminated in the case of amounts paid for transportation by any means other than by air. For air transportation, the rate would be reduced to 5 percent until July 1, 1963 when it would be dropped entirely unless it had been further extended in the meantime.

The rate extensions provided by the bill would result in revenue for fiscal year 1963 of $2.9 billion (Table 1). Because only part of the corporate rate extension for a full year is reflected in fiscal 1963 collections and because payment of excise taxes lags behind accrual of liability, not all of the revenue gain would show up in fiscal 1963. The full-year effect of the bill's provisions is a revenue gain of about $4.3 billion. About two-thirds of the total full-year revenue effect, or $2.8 billion, would be derived from the corporate rate extension.

The next most important revenue item is the tax on local telephone service. Here, postponement of the scheduled repeal would increase revenues by $525 million on a full-year basis. Further details are shown in Table 1.

The changes proposed by the bill with respect to the tax on transportation of persons vary from the President's proposals in this area. The President proposed that this tax be repealed on July 1, 1962, except for transportation by air. In the latter case, the tax would be retained at 10 percent until December 31, 1962, after which it would be reduced to 5 percent. Beginning January 1, 1963, the President recommended that a new tax of 5 percent be imposed on amounts paid on transportation of freight by air, a new tax of 2 cents per gallon be imposed on jet fuel, and a small additional tax of 1 cent per gallon be imposed on fuel used in noncommercial aviation as contrasted with common and contract carrier aviation. The President's recommendations with respect to charges for air transportation and fuel used by air transportation constitute a user charge system to be related to expenditures for the Federal airways system. The President also made a related recommendation for a user charge system for the waterways. The revenue effects of these proposals are presented in Table 2. The Ways and Means Committee of the House thought it best that consideration of these user charge proposals should be deferred until next year. Although we would prefer the institution of reasonable user charges to cover air and water transportation on

January 1, 1963, as originally recommended, we are prepared to accept the bill as passed by the House. This would have the effect of postponing the consideration of the user charge problem until, next year.

I feel that H. R. 11879 constitutes a necessary revenue conserving measure at this time, and I recommend its approval by your Committee.

Table 1

Increase in revenue resulting from extension of present corporation income and excise tax rates by H. R. 11879 as passed by the House of Representatives

(In millions of dollars)

	Rate reduction scheduled as of July 1, 1962 under present law	Effect on net budget receipts, fiscal year 1963: Increase in receipts	Decrease in refunds	Total	Increase in revenue, full year
Corporation income tax	52% to 47%	1,300	--	1,300	2,800
Excise taxes:					
Alcohol:					
Distilled spirits	$10.50 to $9.00 per gallon	177	138	315	180
Beer	$ 9.00 to $8.00 per barrel	77	9	86	78
Wines	Various 1/	9	5	14	9
Total alcohol taxes		263	152	415	267
Tobacco:					
Cigarettes (small)	$4.00 to $3.50 per thousand	235	24	259	240
Manufacturers' excise taxes:					
Passenger automobiles	10% to 7% of mfrs. price	360	50	410	430
Parts and accessories for automobiles	8% to 5% of mfrs. price	60	--	60	73
Total manufacturers' excise taxes		420	50	470	503
Miscellaneous excise taxes:					
General telephone service	10% to 0	395	--	395	525
Transportation of persons:					
Air	10% to 5%	52	--	52	--
Other	10% to 5%	9	--	9	- 46 2/
Total transportation of persons		61	--	61	- 46
Total miscellaneous excise taxes		456	--	456	479
Total excise taxes		1,374	226	1,600	1,489
Grand total		2,674	226	2,900	4,289

Office of the Secretary of the Treasury, Office of Tax Analysis

June 12, 1962

See explanation of footnotes on page 2.

NOTE: All extensions are for one year except that the transportation of persons tax would be extended at 10 percent to December 31, 1962. On January 1, 1963 the tax would be repealed except for transportation by air. For transportation by air the tax would be repealed as of July 1, 1963 and the rate would be 5 percent for the period January 1 through June 30, 1963.

1/

Sparkling wines (champagne)	$3.40 to $3.00 per gallon
Artificially carbonated wines	$2.40 to $2.00 per gallon
Still wines:	
Not more than 14% alcohol	17 cents to 15 cents per gallon
More than 14%, not over 21% alcohol	67 cents to 60 cents per gallon
More than 21%, not over 24% alcohol	$2.25 to $2.00 per gallon
More than 24% alcohol	$10.50 to $9.00 per gallon
Wine liqueurs or cordials produced domestically containing over $2\frac{1}{2}$% wine, which wine contains over 14% alcohol (in lieu of rectification tax)	$1.92 to $1.60 per gallon

2/ Revenue loss would be the result of repeal of the tax on transportation, other than by air, after December 31, 1962 rather than continuation at 5 percent as under present law.

Table 2

Transportation excise taxes

Estimated revenue under present law, H.R. 11879 (as passed by House of Representatives) and under recommendations of the President

(In millions of dollars)

	Fiscal year 1962	Fiscal year 1963	Full year
Present law:			
Transportation of persons 1/:			
Air	185	125	107
Other	90	54	46
Total	275	179	153
H.R. 11879 as passed by House of Representatives:			
Transportation of persons 1/:			
Air		177	107
Other		63	-
Total		240	107
Recommendations of President:			
Transportation of persons 1/:			
Air		177 2/	107 2/
Other		16	-
Total		193	107
Airway user charges:			
Tax transportation of property by air at 5 percent		3	7
Tax jet fuel at 2 cents per gallon		13	36
Increase tax on fuel used in general aviation 1 cent per gallon		1	3
Credit existing 2 cents per gallon tax on aviation gasoline to general fund		9	19
Waterway user charges:			
Tax on fuel not now taxed in boats with draft of 15 feet or less, 2 cents per gallon		3	10
Credit existing 2 cents per gallon tax on gasoline and special motor fuels used in boats to general fund		6	12
Total, recommendations of President		228	194

Office of the Secretary of the Treasury
Office of Tax Analysis

June 12, 1962

See explanation of footnotes on page 2.

1/ Provisions with respect to transportation of persons:
Present law - Reduction in rate from 10 percent to 5 percent effective July 1, 1962.
H.R. 11879 - Continue present rate of 10 percent to December 31, 1962; effective January 1, 1963, reduce rate from 10 percent to 5 percent on transportation by air and repeal tax on other transportation.
Recommendation of President - Repeal tax on transportation other than by air effective July 1, 1962. Continue present rate of 10 percent on transportation by air to December 31, 1962; reduce rate to 5 percent effective January 1, 1963 and treat as user charge.

2/ Including revenue treated as user charge.

357

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-511

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 May 28, 1962	Established Quota	Imports May 29, 1961, to May 28, 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

358

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-511

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 (Bushels)	Imports May 29, 1961, to May 28, 1962 (Bushels)	Established Quota (Pounds)	Imports May 29, 1961, to May 28, 1962 (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

359

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-512

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, 1962, as follows:

Country of Origin	Wheat		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota	Imports May 29, 1962, to June 11, 1962	Established Quota	Imports May 29, 1962, to June 11, 19[illegible]
	(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	-
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	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	3,815,000

360

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-512

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, 1962, as follows:

Country of Origin	Wheat		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota	Imports May 29, 1962, to June 11, 1962	Established Quota	Imports May 29, 1962, to June 11, 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	-
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	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	3,815,000

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 June 11, 1962	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1961, to June 11, 1962
United Kingdom	4,323,457	1,779,820	1,441,152	1,441,152
Canada	239,690	239,690	-	-
France	227,420	146,069	75,807	75,807
British India	69,627	69,627	-	-
Netherlands	68,240	44,995	22,747	22,747
Switzerland	44,388	42,019	14,796	12,505
Belgium	38,559	22,062	12,853	-
Japan	341,535	341,500	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	76,329	25,443	25,443
Italy	21,263	-	7,088	-
	5,482,509	2,762,111	1,599,886	1,577,654

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, JUNE 14, 1962.

D-513

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 June 11, 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	245,483	Paraguay	871	-
British India	2,003,483	2,003,483	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, to June 11, 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.

363

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-513

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 June 11, 1962

Country of Origin	Established Quota	Imports
Egypt and the Anglo-Egyptian Sudan	783,816	779,456
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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 June 11, 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 June 11, 1962	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1961, to June 11, 1962
United Kingdom	4,323,457	1,779,820	1,441,152	1,441,152
Canada	239,690	239,690	-	-
France	227,420	146,069	75,807	75,807
British India	69,627	69,627	-	-
Netherlands	68,240	44,995	22,747	22,747
Switzerland	44,388	42,019	14,796	12,505
Belgium	38,559	22,062	12,853	-
Japan	341,535	341,500	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	76,329	25,443	25,443
Italy	21,263	-	7,088	-
	5,482,509	2,762,111	1,599,886	1,577,654

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, JUNE 14, 1962.

364

D-514

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 - April 1 - June 30, 1962

IMPORTS - April 1 - June 11, 1962

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	10,080,000	23,680,000	22,691,281	-	-	-	-
Belgian Congo	-	-	-	-	-	-	5,440,000	3,564,903
Belgium and Luxemburg (total)	-	-	-	-	-	-	7,520,000	7,520,000
Bolivia	5,040,000	4,058,996	-	-	-	-	-	-
Canada	13,440,000	13,440,000	15,920,000	13,954,173	66,480,000	66,480,000	37,840,000	37,213,910
Italy	-	-	-	-	-	-	3,600,000	1,102,300
Mexico	-	-	36,880,000	25,327,113	70,480,000	60,966,633	6,320,000	3,336,895
Peru	16,160,000	9,507,415	12,880,000	12,103,813	35,120,000	16,406,918	3,760,000	3,160,398
Un. So. Africa	14,880,000	14,880,000	-	-	-	-	-	-
Yugoslavia	-	-	15,760,000	13,463,458	-	-	-	-
All other foreign countries (total)	6,560,000	6,560,000	6,080,000	194,583	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, D. C.

385

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-514

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 - April 1 - June 30, 1962

IMPORTS - April 1 - June 11, 1962

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	Imports	Quarterly Quota Dutiable Lead	Imports	Quarterly Quota Dutiable Zinc	Imports	Quarterly Quota By Weight	Imports
	(Pounds)		(Pounds)		(Pounds)		(Pounds)	
Australia	10,080,000	10,080,000	23,680,000	22,691,281	-	-	-	-
Belgian Congo	-	-	-	-	-	-	5,440,000	3,564,903
Belgium and Luxemburg (total)	-	-	-	-	-	-	7,520,000	7,520,000
Bolivia	5,040,000	4,058,996	-	-	-	-	-	-
Canada	13,440,000	13,440,000	15,920,000	13,954,173	66,480,000	66,480,000	37,840,000	37,213,910
Italy	-	-	-	-	-	-	3,600,000	1,102,300
Mexico	-	-	36,880,000	25,327,113	70,480,000	69,966,633	6,320,000	3,336,895
Peru	16,160,000	9,507,415	12,880,000	12,103,813	35,120,000	16,406,918	3,760,000	3,160,398
Un. So. Africa	14,880,000	14,830,000	-	-	-	-	-	-
Yugoslavia	-	-	15,760,000	13,463,458	-	-	-	-
All other foreign countries (total)	6,560,000	6,560,000	6,080,000	194,583	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

Commodity	Period and Quantity		Unit of Quantity	Imports as of June 2, 1962
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 August 1, 1961	1,709,000	Pound	920,529

1/ Imports through June 8, 1962.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-515

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 June 2, 1962, inclusive, as follows:

Commodity	Period and Quantity		Unit of Quantity	Imports as of June 2, 1962
Tariff-Rate Quotas:				
Cream, fresh or sour.............	Calendar Year	1,500,000	Gallon	-
Whole Milk, fresh or sour.........	Calendar Year	3,000,000	Gallon	52
Cattle, 700 lbs. or more each (other than dairy cows)..........	April 1, 1962-June 30, 1962	120,000	Head	21,094
Cattle less than 200 lbs. each....	12 mos. from April 1, 1962	200,000	Head	30,083
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish.........	Calendar Year	28,571,433	Pound	Quota Filled
Tuna Fish.........................	Calendar Year	59,059,014	Pound	22,325,162
White or Irish potatoes:				
Certified seed..................	12 mos. from	114,000,000	Pound	51,062,610
Other...........................	Sept. 15, 1961	36,000,000	Pound	28,528,286
Walnuts..........................	Calendar Year	5,000,000	Pound	1,765,903
Stainless steel table flatware (table knives, table forks, table spoons)..................	Nov. 1, 1961-Oct. 31, 1962	69,000,000	Pieces	67,155,001

1/ Imports for consumption at the quota rate are limited to 14,285,716 pounds during the first six months of the calendar year.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-515

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 June 2, 1962, inclusive, as follows:

Commodity	Period and Quantity		Unit of Quantity	Imports as of June 2, 1962
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Other............................	Sept. 15, 1961	36,000,000	Pound	28,528,286
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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 August 1, 1961	1,709,000	Pound	920,529

1/ Imports through June 8, 1962.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-516

The Bureau of Customs announced today the following preliminary figures showing the imports for consumption from January 1, 1962, to June 2, 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 June 2, 1962
Buttons.............	680,000	Gross	101,783
Cigars..............	160,000,000	Number	4,259,648
Coconut oil.........	358,400,000	Pound	72,686,796
Cordage.............	6,000,000	Pound	1,975,825
Tobacco.............	5,200,000	Pound	4,061,449

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, JUNE 14, 1962.

D-516

The Bureau of Customs announced today the following preliminary figures showing the imports for consumption from January 1, 1962, to June 2, 1962, inclusive, of commodities for which quotas were established pursuant to the Philippine Trade Agreement Revision Act of 1955:

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Coconut oil.........	358,400,000	Pound	72,686,796
Cordage.............	6,000,000	Pound	1,975,825
Tobacco.............	5,200,000	Pound	4,061,449

Mr. Stickney has been with the Treasury since 1942, when he was appointed Technical Assistant to the Chief of the Accounting Division in the Office of the Treasurer of the United States. In 1945 he became ~~Head~~ Chief Investigator in the Office of the Treasurer. He entered Government Service with the Federal Housing Administration in May, 1938.

Born in Lancaster, New Hampshire, June 4, 1909, Mr. Stickney attended public schools there. In 1940 he was awarded the degree of Bachelor of Commercial Science, Cum Laude, by Southeastern University, Washington, D. C., and a year later received his master's degree. THERE,

Mr. Stickney and his wife reside at 3501 South Dakota Avenue, N. E., ~~Northeast,~~ in Washington.

Mr. Stickney has been ~~Head~~ Chief of the Fiscal Service Operations and Methods Staff of the Office of the Fiscal Assistant Secretary since April 1951. For more than four years prior to that he was Assistant ~~Head~~ Chief of the staff. He has been the Treasury representative on the Steering Committee of the Joint Financial Management Improvement Program, and a major part of his service has been devoted to improvement of procedures, including the establishment of an integrated electronic system for the payment and reconciliation of government checks, resulting in substantial economies in Treasury operations.

Mr. Stickney is a director of the Federal Government Accountants Association. In 1957 and 1958 he conducted seminars at THE Harvard University Graduate School of Business Administration for research students in the field of accounting and electronic data processing. In 1957 he received the Treasury Department's Exceptional Civilian Service Award.

U.S. Forest Service in 1931, ~~and then he~~ served with the

273

Mr. Carlock was born in Globe, Arizona, August 16, 1912, and attended Phoenix Junior College. His first employment in Government was with the U. S. Indian Service at Fort Apache, Arizona, ~~and he~~ served as a ranger in Grand Canyon National Park during the summers of 1939 and 1940.

Graduat~~ed~~ first in his class from the College of Law of the University of Arizona, Mr. Carlock received ~~his~~ LL.B. in 1941. ~~He was awarded first prize by the Phi Delta Phi Legal Fraternity~~ in 1941 in the international competition for THE best paper on Damages and the same year received the Nathan Burkan Memorial Award for best paper on the law of Copyright. In 1940, he received first prize in the Valley National Bank Competition for best paper on the law of Trusts.

Mr. Carlock and his wife reside at 2116 F Street, N.W. in Washington. They also have a ranch near Vernon, Arizona.

Mr. Carlock has been principal Assistant General Counsel of the Treasury Department since August, 1952, AND ~~and designated to act as General Counsel in his absence. Included among his duties in connection with all legal matters relating to the Treasury and its operations, Mr. Carlock~~ has given special attention to ~~those~~ legal ma[tters] relating to the broad policy aspects of management of the public debt.

In May, Mr. Carlock was named "outstanding career lawyer in the service of the Federal Government" by the District of Columbia Chapter of The Federal Bar Association, and received the 1962 Justice Tom C. Clark Award.

Entering Treasury service as a law-clerk-trainee in the Office of the General Counsel in August, 1941, Mr Carlock was appointed an attorney in Feb. 1942, ~~Mr. Carlock went~~ on active duty as an Ensign in the United States Coast Guard in June, 1942. He was released to inactive duty as a Lieutenant in November, 1945, ~~and~~ reappointed ~~as~~ an attorney in the Office of the General Counsel. He became an Assistant General Counsel in 1949.

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The Fiscal Assistant Secretary has responsibility for the administration of Treasury financing operations, as well as the supervision of the functions and activities of the three bureaus comprising the Fiscal Service: the Bureau of Accounts, Bureau of the Public Debt, and Office of the Treasurer of the United States.

The duties of the Fiscal Assistant Secretary include liaison between the Secretary and other Federal agencies with respect to their financial operations. He directs the performance of the fiscal agency functions of the Federal Reserve Banks, and exercises supervision over the current cash position of the Treasury.

~~Mr. Carlock and Mr. Stickney were sworn in on Friday, June 15, by Secretary Dillon in a ceremony at the Main Treasury Building~~.

DRAFT RELEASE June 15, 1962

Hold

FOR RELEASE AM NEWSPAPERS
Monday, June 18, 1962

JOHN K. CARLOCK APPOINTED
FISCAL ASSISTANT SECRETARY OF THE TREASURY

Secretary Douglas Dillon today announced the appointment of John K. Carlock, a Treasury career official, as Fiscal Assistant Secretary of the Treasury, effective June 15.

At the same time, the Secretary named another career officer, George F. Stickney, presently Technical Assistant to the Fiscal Assistant Secretary, as Deputy Fiscal Assistant Secretary.

Mr. Carlock, formerly Assistant General Counsel of the Treasury, will take over ~~the~~ HIS NEW position from J. Dewey Daane, Deputy Under Secretary for Monetary Affairs, who has also been acting Fiscal Assistant Secretary since April 1, 1962. During that period, Mr. Carlock has been Assistant to the Fiscal Assistant Secretary.

MR. CARLOCK

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TREASURY DEPARTMENT

WASHINGTON, D.C.

June 15, 1962

HOLD FOR RELEASE AM NEWSPAPERS
MONDAY, JUNE 18, 1962

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Mr. Carlock, formerly Assistant General Counsel of the Treasury, will take over his new position from J. Dewey Daane, Deputy Under Secretary for Monetary Affairs, who has also been acting Fiscal Assistant Secretary since April 1, 1962. During that period, Mr. Carlock has been Assistant to the Fiscal Assistant Secretary.

The Fiscal Assistant Secretary has responsibility for the administration of Treasury financing operations, as well as the supervision of the functions and activities of the three bureaus comprising the Fiscal Service: the Bureau of Accounts, Bureau of the Public Debt, and Office of the Treasurer of the United States.

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Mr. Carlock was born in Globe, Arizona, August 16, 1912, and attended Phoenix Junior College. His first employment in Government was with the U. S. Forest Service in 1931, where he served with the U. S. Indian Service at Fort Apache, Arizona. Mr. Carlock also served as a ranger in Grand Canyon National Park during the summers of 1939 and 1940.

Graduating first in his class from the College of Law of the University of Arizona, Mr. Carlock received his LL.B. degree there in 1941.

Mr. Carlock and his wife reside at 2116 F Street, N.W. in Washington. They also have a ranch near Vernon, Arizona.

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Mr. Stickney and his wife reside at 3501 South Dakota Avenue,N.E. in Washington.

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JUN 4 1962

379

MEMORANDUM TO OFFICE OF FISCAL ASSISTANT SECRETARY:

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

Purchases	$57,229,500.00
Sales	17,320,100.00
Net Purchases	$39,909,400.00

~~480~~ 580

TREASURY DEPARTMENT

WASHINGTON, D.C.

~~May 16, 1962~~
June 18, 1962

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN ~~APRIL~~ MAY

During ~~April~~ May 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 ~~$[illegible]~~ $39,909,400.

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~~D-489~~
D-578

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 18, 1962

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN MAY

During May 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 $39,909,400.

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D-518

382

June 18, 1962

FOR RELEASE A. M. NEWSPAPERS, Tuesday June 19, 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 March 22, 1962 and the other series to be dated June 21, 1962, which were offered on June 13, were opened at the Federal Reserve Banks on June 18. Tenders were invited for $1,300,000,0 or thereabouts, of 91-day bills and for $700,000,000, 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 September 20, 1962		182-day Treasury bills maturing December 20, 1962	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.320 a/	2.690%	98.592 b/	2.785%
Low	99.310	2.730%	98.580	2.809%
Average	99.312	2.721% 1/	98.585	2.800% 1/

a/ Excepting 2 tenders totaling $1,200,000; b/ Excepting 2 tenders totaling $250,(
73 percent of the amount of 91-day bills bid for at the low price was accepted
8 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	$ 50,558,000	$ 44,158,000	$ 5,715,000	$ 5,115,000
New York	1,958,235,000	896,909,000	976,921,000	583,421,000
Philadelphia	28,380,000	13,380,000	8,066,000	2,698,000
Cleveland	45,932,000	24,932,000	25,822,000	20,822,000
Richmond	18,969,000	18,699,000	6,878,000	2,038,000
Atlanta	25,867,000	21,632,000	9,169,000	7,177,000
Chicago	223,649,000	148,489,000	83,884,000	42,204,000
St. Louis	32,618,000	26,348,000	7,119,000	5,159,000
Minneapolis	21,336,000	13,958,000	7,197,000	5,422,000
Kansas City	36,711,000	33,179,000	17,316,000	9,048,000
Dallas	26,709,000	17,365,000	9,522,000	4,522,000
San Francisco	125,921,000	42,774,000	27,707,000	12,387,000
TOTALS	$2,594,885,000	$1,301,843,000 c/	$1,185,316,000	$700,013,000 d/

c/ Includes $229,036,000 noncompetitive tenders accepted at the average price of 99.31
d/ Includes $59,866,000 noncompetitive tenders accepted at the average price of 98.585
1/ On a coupon issue of the same length and for the same amount invested, the return o these bills would provide yields of 2.78%, for the 91-day bills, and 2.88% 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 tha the amount invested and their length in actual number of days related to a 360-da year. In contrast, yields on certificates, notes, and bonds are computed in term 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 semiannu compounding if more than one coupon period is involved.

D-512

382

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 18, 1962

FOR RELEASE A. M. NEWSPAPERS, Tuesday June 19, 1962.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

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RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing September 20, 1962		:	182-day Treasury bills maturing December 20, 1962	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.320 a/	2.690%	:	98.592 b/	2.785%
Low	99.310	2.730%	:	98.580	2.809%
Average	99.312	2.721% 1/	:	98.585	2.800% 1/

a/ Excepting 2 tenders totaling $1,200,000; b/ Excepting 2 tenders totaling $250,000
73 percent of the amount of 91-day bills bid for at the low price was accepted
8 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	$ 50,558,000	$ 44,158,000	:	$ 5,715,000	$ 5,115,000
New York	1,958,235,000	896,909,000	:	976,921,000	583,421,000
Philadelphia	28,380,000	13,380,000	:	8,066,000	2,698,000
Cleveland	45,932,000	24,932,000	:	25,822,000	20,822,000
Richmond	18,969,000	18,699,000	:	6,878,000	2,038,000
Atlanta	25,867,000	21,632,000	:	9,169,000	7,177,000
Chicago	223,649,000	148,489,000	:	83,884,000	42,204,000
St. Louis	32,618,000	26,348,000	:	7,119,000	5,159,000
Minneapolis	21,336,000	13,958,000	:	7,197,000	5,422,000
Kansas City	36,711,000	33,179,000	:	17,316,000	9,048,000
Dallas	26,709,000	17,385,000	:	9,522,000	4,522,000
San Francisco	125,921,000	42,774,000	:	27,707,000	12,387,000
TOTALS	$2,594,885,000	$1,301,843,000	c/	$1,185,316,000	$700,013,000 d/

c/ Includes $229,036,000 noncompetitive tenders accepted at the average price of 99.312
d/ Includes $59,866,000 noncompetitive tenders accepted at the average price of 98.585
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.78%, for the 91-day bills, and 2.88% 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-519

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Statement of the Honorable Robert V. Roosa
Under Secretary of the Treasury for Monetary Affairs
before Subcommittee No. 1 of the
House Committee on Banking and Currency
on H.R. 11654
Extension of Direct Purchase Authority
under Section 14(b) of the Federal Reserve Act
Tuesday, June 19, 1962 - 10:00 a. m.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to present the views of the Treasury Department in support of H.R. 11654. This bill would extend through June 30, 1964, the existing authority of the Federal Reserve Banks to purchase directly from the Treasury Government debt obligations up to a limit of $5 billion outstanding at any one time. The measure is also supported by the Board of Governors of the Federal Reserve System.

Under the Federal Reserve Act of 1913, the Federal Reserve Banks were given unlimited authority to purchase Government securities either directly from the Treasury or in the open market. The Banking Act of 1935 revised this provision and required that all Federal Reserve purchases be made in the open market. Then, in 1942, the Federal Reserve Banks were again given authority to buy securities directly from the Treasury subject to the restriction that the outstanding amount of such debt should not exceed $5 billion. This authority was originally

D-520

granted through 1944, and has been extended from time to time since then. The current authority expires on June 30, 1962.

Although the direct purchase authority is employed only infrequently, and has not been used at all since 1958, its continuation is essential because it provides an important backstop for Treasury cash and debt management operations.

Economical management of the Treasury's cash position allows the public debt to be kept to a minimum, thereby saving interest costs to the Government. For this reason, total Treasury cash balances are typically maintained at a level averaging only about one-half of one month's expenditures. Since receipts and outlays cannot always be predicted with certainty, occasions naturally arise when Treasury balances decline unexpectedly. The availability of immediate direct access to Federal Reserve credit provides a precautionary reserve for such unforeseen contingencies that would otherwise have to be provided by considerably higher operating balances.

Furthermore, at times it is highly useful to allow Treasury balances to fall to levels considerably below the average. For example, for the several days immediately preceding a tax payment date, it may be desirable to allow the Treasury's balances to fall to exceptionally low levels prior to the large inflow of cash over the tax date. Direct access to Federal Reserve credit provides the margin of safety necessary if such a practice is to be followed. Otherwise it would sometimes be necessary for the Treasury to float additional security issues in the market before tax payment dates even though the funds would be needed for only a few days, and then only as a cushion against unforeseen cash drains.

Similarly, other occasions may arise when the availability of this limited line of credit at the Federal Reserve permits desirable flexibility in cash and debt management. For example, there may be occasions when Treasury financing operations ought to be postponed for a short period because of market disturbances. The possibility of direct access to Federal Reserve credit increases the Treasury's elbowroom in such a situation by making it feasible to let balances run down to abnormally low levels for a short time.

In general, then, the availability of a limited amount of direct credit from the Federal Reserve is important, because it makes it possible for the Treasury to operate with a lower direct borrowing authority since 1952. It shows that there has been only one occasion in the last 8 years on which the Treasury did, in fact, borrow directly from the Federal Reserve Banks. In recent years the value of the authority has derived primarily from its availability to meet unusual circumstances. In the normal course of events, the authority might not have to be used at all, but its availability is nonetheless of considerable importance in providing flexibility in Treasury cash and debt management operations. The knowledge that it could be drawn upon almost instantly, if needed, has enabled the Treasury on countless occasions to plan for a close fit between expected outlays and receipts, secure in the knowledge that these supplemental funds could be borrowed in the event that expenditures should unexpectedly and temporarily outrun planned receipts.

Attachment

Direct Borrowing from Federal Reserve Banks

Calendar Year	Days Used	Maximum amount at any time (millions)	Number of separate times used	Maximum number of days used at any one time
1952	30	811	4	9
1953	29	1,172	2	20
1954	15	424	2	13
1955	None	---	---	---
1956	None	---	---	---
1957	None	---	---	---
1958	2	207	1	2
1959	None	---	---	---
1960	None	---	---	---
1961	None	---	---	---
1962	None	---	---	---

STATUTORY DEBT LIMITATION

398

TREASURY DEPARTMENT
Fiscal Service

As of May 31, 1962

Washington, June 18, 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 Act of March 13, 1962 (P. L. 87-414 87th Congress) provides for an additional temporary increase of $2,000,000,000, which raises the limitation to $300,000,000,000 for the period beginning on March 13, 1962 and ending on June 30, 1962.

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			$300,000,000,0
Outstanding -			
Obligations issued under Second Liberty Bond Act, as amended			
Interest-bearing:			
Treasury bills	$43,746,835,000		
Certificates of indebtedness	13,547,047,000		
Treasury notes	65,434,579,000	$122,728,461,000	
Bonds -			
Treasury	75,464,673,550		
*Savings (current redemption value)	47,585,424,212		
Depositary	142,812,500		
R. E. A. series	24,437,000		
Investment series	4,756,619,000	127,973,966,262	
Certificates of Indebtedness -			
Foreign series	450,000,000		
Foreign Currency series	74,919,250	524,919,250	
Special Funds -			
Certificates of indebtedness	8,492,650,000		
Treasury notes	6,216,123,000		
Treasury bonds	29,582,524,000	44,291,297,000	
Total interest-bearing		295,518,643,512	
Matured, interest-ceased		348,661,488	
Bearing no interest:			
United States Savings Stamps	53,573,520		
Excess profits tax refund bonds	729,200		
Special notes of the United States:			
Internat'l Monetary Fund series	2,648,000,000		
Internat'l Develop. Ass'n. series	115,304,400		
Inter-American Develop. Bank series	55,000,000	2,372,607,120	
Total		298,739,912,120	
Guaranteed obligations (not held by Treasury):			
Interest-bearing:			
Debentures: F. H. A. & DC Stad. Bds.	429,349,450		
Matured, interest-ceased	728,000	430,077,450	
Grand total outstanding			299,169,989,57
Balance face amount of obligations issuable under above authority			830,010,43

Reconcilement with Statement of the Public Debt May 31, 1962
(Date)

(Daily Statement of the United States Treasury, May 31, 1962)
(Date)

Outstanding -	
Total gross public debt	299,173,940,15
Guaranteed obligations not owned by the Treasury	430,077,45
Total gross public debt and guaranteed obligations	299,604,017,60
Deduct - other outstanding public debt obligations not subject to debt limitation	434,028,0
	299,169,989,57

D-521

STATUTORY DEBT LIMITATION

As of May 31, 1962

TREASURY DEPARTMENT
Fiscal Service

Washington, June 18, 1962

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Guaranteed obligations (not held by Treasury):			
Interest-bearing:			
Debentures: F. H. A. & DC Stad. Bds.	429,349,450		
Matured, interest-ceased	728,000	430,077,450	
Grand total outstanding			299,169,989,570
Balance face amount of obligations issuable under above authority			830,010,430

Reconcilement with Statement of the Public Debt May 31, 1962
(Date)

(Daily Statement of the United States Treasury, May 31, 1962)
(Date)

Outstanding -	
Total gross public debt	299,173,940,159
Guaranteed obligations not owned by the Treasury	430,077,450
Total gross public debt and guaranteed obligations	299,604,017,609
Deduct - other outstanding public debt obligations not subject to debt limitation	434,028,039
	299,169,989,570

D-521

The present action by Customs is being taken because it appears that the flow of pirated books has risen to the point where the Government is justified in taking across-the-board action to enforce the copyright law, even though copyright owners may not have protected their copyrights fully by recording them with Customs. Books found to be in violation of the copyright law will be seized by Customs and destroyed.

Commissioner Nichols recommends, especially to college students, that no more books be ordered from Taiwan and Hong Kong.

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CUSTOMS COMMISSIONER ORDERS PIRATED BOOKS DETAINED

~~DRAFT PRESS RELEASE~~ ~~[illegible]~~

Commissioner of Customs Philip Nichols, Jr., has taken action under the copyright and customs laws to stem the flow of pirated books into the United States. The Commissioner has instructed Customs officers to detain all books in the English language imported from Taiwan and Hong Kong until it can be determined whether their importation would be in violation of the copyright law.

Recently it has been found that many books written and copyrighted in the United States are being unlawfully reproduced in Taiwan and Hong Kong and shipped to the United States for sale at prices much lower than the American publishers' prices. A large number of these are college text books.

Commissioner Nichols said that pirated copies of American books have succeeded in entering the United States primarily because the American copyright owners failed to record their copyrights with the Bureau of Customs. ~~Customs, the fact that they owned the copyrights on the books.~~

THE ~~[illegible]~~ AMERICAN

522 PUBLISHERS' PRICES

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TREASURY DEPARTMENT

WASHINGTON, D.C.

June 18, 1962

IMMEDIATE RELEASE

CUSTOMS COMMISSIONER ORDERS PIRATED BOOKS DETAINED

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D-522

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395

desired effects. If, however, short-sighted leaders of business or labor pursue limited special interests to the exclusion of the national interest, the natural laws of domestic and international economics will see to it that their gains are short-lived, and they, as well as the nation, will have lost something of lasting value -- our strategic position in Free World security, economic development, and its trade and payments systems.

If, on the other hand, we all act in the public interest, we can confidently expect that our problems -- both in the balance of payments area and in our domestic economy -- will prove amenable to solution, and that the solutions to both will not be in conflict, but will harmonize to provide greater prosperity at home and an extension of the frontiers of freedom and security abroad.

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39396

It will require cooperation by government, business, labor and the financial sectors of our society if we are to meet our problems at home and abroad without resorting to unnecessary monetary or other restrictions.

Without question, at least for the next twelve months, some self-restraint and possibly some sacrifice is called for to avoid excessive wage or price increases at this very sensitive time when our economy is moving toward full employment and an equilibrium in our balance of payments. This means, in blunt terms, that both management and labor, acting on a voluntary basis, should content themselves with somewhat less than they believe the market will bear. If they do so, and price stability is maintained, we can expect the measures we have taken and will take to have the in this area would do to our payments position. While there is no great danger of inflation at present, we must not forget for one instant that continued price or wage increases beyond average productivity gains could represent a real threat to our international economic position. A higher export level is dependent on price stability. Excessive price rises could do serious damage by reducing our share of trade in world markets.

The President's Council of Economic Advisers has already laid down valuable guidelines for evaluating the significance of productivity in wage increases. These merit careful attention.

This brings me to the final and perhaps the most important point I have to make to you. That is simply this: all our efforts to restore international stability will be undermined if we are unable to continue to maintain reasonable price stability.

European bankers today are aware of this. They are not seriously concerned today about our fiscal policy provided it is disciplined and controlled and is not allowed to contribute to an inflationary surge. They do, however, have considerable concern over our capacity to maintain price stability, and what failure help where it can, the primary responsibility for this expansion will depend, in the end, upon the imagination, ability and energy of the American businessmen. Upon their ability to increase the efficiency of their own manufacturing, distribution and research and development, the future of the international position of the United States primarily depends.

In the face of the excellent recovery and the promising outlook for the economy, we can take great satisfaction in the fact that there has been substantially no inflation. Prices have remained virtually stable, and both industrial and wholesale price indices have actually declined. The consumer price index rose about one per cent during the recovery, but most of this reflected the increasing cost of services rather than goods.

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What this insurance amounts to is a network of 67 private insurance companies, working in cooperation with the U.S. Export-Import Bank, a government agency, to write policies covering both political and commercial export credit risks. The Bank underwrites the political risks and shares with the pool the commercial risks. Hundreds of exporters have already taken out insurance binders totalling hundreds of millions of dollars, and hundreds more have requested detailed information on the program. As time goes on, this can be expected to have an increasing effect on our overall export level, and is particularly important in encouraging new firms to enter the export field.

In summary, then, increasing our trade surplus is the most promising way of solving our balance of payments problem. While government will

The government is initiating other measures to fulfill its responsibility to cooperate with business in efforts to expand exports, and to make sure that this will be both a successful and a profitable enterprise. At present the Commerce Department has greatly increased its listing of export trade opportunities, and the publication and distribution of these opportunities has been widened.

Even more important is the new export credit insurance system, which went into effect early this year. Through this, American exporters for the first time can avail themselves of insurance and guarantee benefits comparable to that provided their foreign competitors. Later this year, when medium-term insurance becomes available, the protection afforded exporters will be even greater.

than other alternatives, such as the various forms of accelerated depreciation, in that it offers a maximum of stimulus to modernization for each dollar of tax revenue lost.

The proposed investment tax credit to stimulate modernization is linked with the Treasury Department's administrative program for overall revision of guidelines and procedures affecting depreciation of equipment — a program which we will announce early next month. These two programs — depreciation revision and the investment credit -- will give our businessmen and farmers using substantial quantities of machinery and equipment a tax treatment which is on a par with that received by their major foreign competitors.

used in his business. We are attempting to have that increased to eight per cent, but the important thing is that this measure -- too often misunderstood in the business community -- is a really effective tool in assisting business to modernize to meet foreign competition.

The importance of the need to modernize to meet foreign competition was underlined in the recent episode over steel prices. If you recall, that was the reason given for seeking the price increase. There are other ways of financing modernization besides price increases however, ways which would not damage the economy as widespread price increases might. The investment credit is one of them, and an essential one. It is far more effective and efficient

Export trade offers today, as never before, a new frontier for American business, comparable to the days when our own mighty internal market was developing and expanding. Now is the time for American business, which has used its competitive ability and resources to help this nation develop the highest standard of living on the face of the earth, to use that same talent, drive and enterprise to maintain our position as the greatest trading nation in the world.

This new competitive frontier for American producers means they will have to have cooperation from government, and we are making every effort to provide that cooperation.

oriented market, and which may look upon exports from the United States as a disturbing and threatening influence.

Now is obviously the time to deal with the Common Market -- and with other nations -- on the vital question of mutual tariff reduction. Mutual tariff reduction now will require some readjustment on our part, and the program provides for assisting those workers and those industries which will be obliged to adjust to the imports that will result from lower tariffs. The important thing, however, is to see to it that American goods are in from the beginning, and in force, in the new and growing markets of Western Europe.

European markets at this critical time when new trade patterns are being evolved, when new customers are forming preferences, we may find ourselves at some later date unable to regain that access, no matter what concessions we may be prepared to offer, because the pattern may have been set without us. This goes much deeper, of course, than customer preferences. It encompasses the whole range of business relationships, both here and abroad. Firms will be either geared to deal with the United States, or not. Furthermore, the more we allow this new pattern to be set without us, the more difficulty we will have in dealing with a Europe whose own special interests will have become accustomed to a Europe-basic reason behind President Kennedy's trade program. The fantastic growth of Western Europe in the last decade has created vast new markets for just the kind of goods that our own manufacturers are so skilled and experienced in producing. New cars, new highways, new shopping centers, new suburban developments -- all these are characteristic of the rapidly expanding European scene. As the Common Market takes in new members, and as this self-stimulating growth continues, these markets will grow also.

It is essential for the maintenance of United States export trade that we have a part in this future. If we fail to maintain our access to driving enterprise of American business to this task.

Our job -- yours and mine -- is to make every American producer and businessman export-conscious, and to urge that each of them give serious consideration to what they can do to initiate or expand export production, not only for their own profit -- and export trade can be highly profitable -- but even more important, for the profit of their country, and for the important contribution a higher export level will make to the international stability of the dollar.

This need to expand our export trade is the

409

to improving our balance of payments situation, and that is why President Kennedy places such stress on it. That is why he has asked businessmen to cooperate, by forming a balance of payments group in the U. S. Chamber of Commerce, and another in the Business Council. These, as well as a number of similar groups already in existence, are important in finding new ways to expand exports, and in improving the old ways. The revival of the wartime "E" flags for those industries making a significant contribution to our program of export expansion is another step in the campaign to raise American exports, and particularly to find ways to bring the creative,

410

quality that will assure the expanding trade surplus the nation requires.

If, for instance, we could have doubled our commercial export trade surplus last year, we would have wiped out our payments deficit and replaced it with a small surplus.

Doubling our export surplus may sound like an impossible job, but actually, since the surplus on non-U. S. financed exports totalled $3 billion, it would have required only a 15 percent increase in overall exports to achieve that result -- assuming a constant import level.

That need to expand exports is the real key wipe out our deficit without weakening our national security position overseas, diminishing our vital role in helping the growth of the developing countries of the Free World, or inhibiting U. S. business in its legitimate and proper investment activities abroad.

It is to the American businessman that the nation must look to provide this trade surplus on which our international position depends. For, in the final analysis, it is the American businessman -- on the land, in the plant, or in the channels of distribution -- who must sell U. S.-made products and services abroad and at home in competition with foreigners on a scale, at a price, and with the

412

operations of their own foreign branches and subsidiaries, instead of relying as heavily as they do on the easy alternative of seeking funds from familiar American sources.

I might also add, in a similar vein, that U. S. businesses operating abroad should not neglect to fully explore possibilities for procuring their supplies, equipment, and services from American sources on an economical basis.

Finally, we come to the most important aspect of our balance of payments program -- the development of commercial exports of U. S. goods and services in quantities sufficient to assure an increasing trade surplus. Only an increasing trade surplus will

I should add that the full benefits of this removal of restrictions on the free flow of capital by other countries in the Free World can only be achieved if U. S. businessmen themselves voluntarily encourage the sort of response that is necessary. It is, for example, important to the nation and to American firms themselves, to encourage increasing interest in investing in American securities and in the American capital market by European institutions and individual investors. The shares of major American corporati(should be listed on foreign stock exchanges, particularly in Europe and Japan, in greater numbers. American firms might also explore and seek out more fully opportunities for borrowing abroad, especially in support of the

It is important to the sound development of the European countries -- whose surpluses are the counterpart of our deficits -- that they expand and improve their own capital and savings markets, and make every effort to remove the many restrictions which burden these markets and inhibit the movement of funds into investment in other countries and areas. This will provide a sound basis for future European expansion, while at the same time removing a drain on U. S. capital which contributes to the deficit in our balance of payments. It will also create increased opportunities for the flow of European funds into increased direct and portfolio investment into other parts of the Free World including the United States.

international monetary system. Among the indirect ways is the opening up of European capital markets. There has lately been an increasing tendency for Europeans and others, governmental bodies and private businesses, to gravitate toward the United States in the search for new capital. This is natural. Our capital markets have played an important role in the industrial and economic progress of our nation, and they now offer an economical and highly reliable market for foreign governments and concerns seeking investment funds.

We have neither the desire nor the intention to take any action which would inhibit the free flow of capital between nations.

mark, with almost $60 million from France and the recent arrangement for payment from Italy in July of $178 million. Last year's military receipts ran about $400 million, and with debt prepayments of almost $700 million, provided more than a billion dollars in international receipts. This year we expect to exceed that overall total. The willingness of our allies to make these contributions to improvement of our payments situation also provides a basis for the broader questions of a more equitable sharing of the cost of defending and developing the Free World.

There are other ways in which cooperation can be used to increase the efficiency and stability of the earlier, by their increased military procurement in the United States, and second, by prepayment of debts owed to the United States.

In the case of the Federal Republic of Germany, our receipts from military sales are being raised to the point where the $700 million balance-of-payments impact of gross U. S. defense expenditures in foreign exchange in that country will be completely offset this year. Similar arrangements will be sought wherever practicable with our other major allies. Our objective, as I noted earlier, is to achieve a total in military cash receipts of $1.2 billion this year.

Debt prepayments scheduled for this year are already approaching the quarter-of-a-billion-dollar nations that while the primary responsibility for ending our payments deficit rests with the United States, the cooperation of other nations is essential to the success of our efforts, and that our success is just as vital to those other nations as it is to the United States.

The greatly increased international cooperation has considerably improved the ability of the major industrial nations to prevent or cope with the threat of sudden disruptive flows of short-term capital. In addition, it has given rise to an even more important manifestation, which has been largely overlooked. I refer to two areas in which our allies are aiding directly in our efforts to reduce our balance of payments deficit: first, as I mentioned

414

commercial bank credits to Japan, largely to finance U. S. exports. We are happy to see our exports rise, and we should recognize that money borrowed to buy exports is a useful form of extension of credit.

One of the signs of our progress is the increasing atmosphere of international cooperation which is perhaps the most important single factor currently aiding our efforts. This attitude is based on the realization that it is not merely the United States payments position that is involved, but the trade and payments system of the Free World which is based, in large part, on the soundness of the dollar. There is a growing awareness in other a disruptive influence in 1960, and which had played such an important role in the sudden worsening of the situation late in 1960.

This lack of speculation reflected the much improved atmosphere of international financial cooperation, and the speculators' belief that such cooperation would thwart attempts to profit by speculating in the international money markets.

Also, the international interest rate differentials that encouraged large movements of short-term funds in 1960 became less pronounced in 1961, in some cases, due in part to this cooperation.

Of the $1.4 billion in recorded U. S. private capital outflow in 1961, almost half represented

So much for the attack upon the elements that have contributed most substantially to our basic balance of payments deficit in recent years. Let us look for a moment at a more mysterious area -- short-term capital movements.

Last year the dollar outflow from short-term capital and unrecorded transactions totalled $1.9 billion, almost as great as in the preceding year, 1960. But it is precisely here that the importance of the form of this movement is demonstrated. While the overall figures are nearly the same, close analysis reveals that the underlying causes of much of the short-term flow in 1961 were considerably different from those of 1960. There was an absence of the speculation against the dollar which had been progress already made. There is still the short-term effect on our balance of payments of long-term private investment abroad by U. S. companies. The government does not wish to interfere with the free flow of that investment, where it is based on practical business and competitive considerations of a long-term nature rather than short-term desires to avoid U. S. taxes.

The proposed tax bill would limit certain existing special tax preferences which favor investment and earnings by American citizens and corporations outside the United States, thereby encouraging the repatriation of these earnings and discouraging outflows primarily motivated by tax considerations. This proposal would result, among other things, in improving our balance of payments position.

423

abroad. This ratio , however, is lower in recent aid commitments; the objective is to get it down to one dollar in five.

Furthermore, the cost of our military aid is being increasingly offset by military procurement by our allies through purchases from the United States. This year, for instance, our military expenditures will be offset by about $1.2 billion in military receipts, a sharp increase over last year. This will reduce by more than a third the impact on our balance of payments of our defense expenditures overseas.

So much for the balance of payments impact of our foreign aid and defense spending. Our efforts in both areas are continuing, to expand the significant factor -- causes the deficit. The deficit is the result of all the different payments and receipts, and no single one of them by itself can be pointed to as the cause of our problem. Thus, it would be possible to have a deficit without any defense expenditures abroad, or to continue defense expenditures abroad on a scale adequate for our security and still eliminate the deficit -- which is just what we plan to do.

We have sought to reduce the deficit by reducing or offsetting the impact of governmental expenditures outside the United States for aid and defense. The use of U. S. goods instead of dollars in foreign aid is being maximized to reduce the effect on our balance of payments, and at present only about one aid dollar out of every three is being spent

This raises properly the question -- why does the United States have a deficit at all? Since the balance of payments is made up of a number of different categories of payments and receipts, one might say that if exports were higher we would have no deficit, or if there were less long-term private U. S. capital investment placed each year in other countries we would have no deficit, or if imports were lower we would have no deficit, and so on.

The deficit is frequently blamed on the cold war, by pointing to our defense expenditures abroad, which last year had an impact of nearly $3 billion on our balance of payments position.

But that does not mean that U. S. defense spending abroad alone -- or indeed, any one single

But the essential factor is the confidence others have in our currency, and in the health and competitive efficiency of our economy, and gold can never be a substitute for that confidence. The way to maintain this confidence and arrest the gold outflow is to reduce and eliminate our balance of payments deficit.

417

quite possible this year that there will be improvement in our payments position, without improvement in our gold position. Indeed, our deficit may turn out to be lower, and yet we could lose more gold.

We are convinced beyond the shadow of a doubt that it is absolutely essential that the dollar be maintained in a fixed relationship to gold and that we continue to offer gold for sale at the fixed price of $35 an ounce.

At present we have roughly 40 percent of the gold reserves of the Free World, and these reserves are important to maintaining confidence in our currency and in assuring the continued smooth functioning of the international monetary system.

So far this year the reduction in our balance of payments deficit has continued. Compared to last year's $2.5 billion, to date this year it has run at an annual rate of about $1.5 billion. Our target is the elimination of the deficit entirely, and we hope to reach that by the end of next year. Whether we will or not depends upon too many factors to make any definite promises, but I will give you my assurance that the United States Government will continue to do everything in its power to restore an equilibrium.

Our gold losses so far this year are greater than they were for the same period last year, despite the improvement in our payments position. This is partly the result of a shift in dollars among countries abroad, to those countries which traditionally hold gold rather than dollars in their reserve. It is nothing alarming in this situation, but it emphasizes the considerable importance of the confidence of foreign central bankers in the dollar and of their willingness to hold dollars rather than convert them into a call on our gold reserves.

When President Kennedy took office, he immediately began a vigorous program to reduce and eventually eliminate the deficit in our balance of payments, and initiated a series of measures to build up confidence in and protection for the dollar.

The near-crisis of confidence in the dollar of late 1960 was soon dissipated and the improvement in our position during 1961 was significant. The overall annual deficit was cut by a third, from $3.9 billion in 1960 to $2.5 billion in 1961, and the gold outflow was cut in half.

430

late in the Fifties the deficit rose sharply. For the past four years our deficits have averaged almost $3.5 billion a year, of which almost $1.5 billion per year resulted in gold losses. Also, late in 1960, speculation, often in the background of the international exchange markets, became a factor. This speculation, combined with an outflow of short-term capital from the United States by those who found they could get a greater interest return in other than dollar investments, greatly increased the deficit, to a level of almost $4 billion. About $1.7 billion of this deficit was reflected in gold withdrawals.

This piling up of deficits year after year, and the loss of gold by the United States, represents the disequilibrium in the international payments system which must be corrected. There is exports increased, and American investment funds flowed in, began to experience a steady rise in its balance of payments surpluses. Those surpluses, of course, were in large part the counterpart of our deficits.

It is not surprising, then, that all during the Fifties, the United States balance of payments position was in deficit, with the exception of 1957, when the closing of the Suez Canal temporarily raised our export level to a very high point.

Early in the 1950's the deficits averaged only about a billion dollars a year, and were not accompanied by any appreciable net reduction in our gold stocks, because other nations were more than happy to rebuild the low level of their dollar reserves. But

The result of the European recovery and expansion and a similar development in Japan was that the United States now had rival producers of exports to the remainder of the world. This new competition for exports -- combined with the increase in the amount the United States imported from these nations -- put pressure on our trade surplus by squeezing it from both ends. At the same time our necessary foreign aid and overseas defense expenditures were mounting, American private capital was starting to flow abroad in increasing amounts, particularly into Canada, Western Europe, Japan, and to oil producing areas, to take advantage of inviting opportunities there for long-term direct investment.

The result of all this was to change the United States balance of payments position from surplus to deficit. Western Europe, on the other hand, as

The second development was the emergence of the Cold War. This meant that the United States, in order to maintain not only its own security but that of its allies, was obliged to maintain troops, bases and military assistance programs abroad, which, like its aid programs, increased United States payments to other nations without any corresponding increase in receipts.

The third development resulted from the economic recovery and growth of Western Europe in the last decade. The European integration movement increased the momentum of this growth, and with the development of the Common Market, Western Europe has become a center of prosperity, with a promise for the future even brighter than the past.

This situation brought about the "dollar shortage," and this was a source of great concern to economists and responsible officials for many years after the war. The problem was not only how to maintain markets for our goods in countries which had no way of obtaining an adequate amount of dollars with which to purchase them, but to give Western Europe the vital purchasing power needed to rebuild its industries.

The problem then was exactly the opposite of the problem now. The change resulted from three major developments.

The first was the decision of the United States to shoulder a heavy share of the burden of the reconstruction and development of the Free World. This decision, as you know, began with aid to Greece and Turkey, and grew into the Marshall Plan of aid to Europe. Economic aid to the emerging nations was the next step and it remains today, a cornerstone of our

Necessarily, the solution of the problem will depend heavily upon the efforts of the American businessman who has an important -- indeed, an indispensable -- role to play. So, it deserves our attention today.

Our balance of international payments is nothing more than the balance -- either net surplus or net deficit -- between the payments and receipts during a given period between the United States and the remainder of the world.

Immediately after World War II when much of Europe's industrial capacity had been reduced to rubble, the United States was left as the only major nation with its industrial capacity intact. We exported vast quantities of goods to the rest of the world -- a world which, except for raw materials, did not ship very much back to us.

Hold for Release on Delivery

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431

REMARKS BY THE HONORABLE HENRY H. FOWLER, UNDER SECRETARY OF THE TREASURY, AT THE COMMERCE DEPARTMENT REGIONAL CONFERENCE, DINKLER-PLAZA HOTEL, ATLANTA, GEORGIA, WEDNESDAY, JUNE 20, 1962, 1:30 P.M., EDT

BUSINESS AND THE BALANCE OF PAYMENTS

Scarcely five years ago most people in the United States were unacquainted with the term "balance of payments."

Today the United States balance of payments is a major problem. Our place in world affairs, our Free World security and development program, the Free World trade and payments system -- all depend upon a solution of our balance of payments problem. We are determined to solve it. We are making significant progress. But we are well aware that for the foreseeable future all our national and international policies will have to take account of our balance of payments position.

D-523

TREASURY DEPARTMENT
Washington

HOLD FOR RELEASE ON DELIVERY

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The third development resulted from the economic recovery and growth of Western Europe in the last Decade. The European integration movement increased the momentum of this growth, and with the development of the Common Market, Western Europe has become a center of prosperity, with a promise for the future even brighter than the past.

The result of the European recovery and expansion and a similar development in Japan was that the United States now had rival producers of exports to the remainder of the world. This new competition for exports -- combined with the increase in the amount the United States imported from these nations -- put pressure on our trade surplus by squeezing it from both ends. At the same time our necessary foreign aid and overseas defense expenditures were mounting, American private capital was starting to flow abroad in increasing amounts, particularly into Canada, Western Europe, Japan, and to oil producing areas, to take advantage of inviting opportunities there for long-term direct investment.

The result of all this was to change the United States balance of payments position from surplus to deficit. Western Europe, on the other hand, as exports increased, and American investment funds flowed in, began to experience a steady rise in its balance of payments surpluses. Those surpluses, of course, were in large part the counterpart of our deficits.

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So much for the balance of payments impact of our foreign aid and defense spending. Our efforts in both areas are continuing, to expand the significant progress already made. There is still the short-term effect on our balance of payments of long-term private investment abroad by U. S. companies. The government does not wish to interfere with the free flow of that investment, where it is based on practical business and competitive considerations of a long-term nature rather than short-term desires to avoid U. S. taxes.

The proposed tax bill would limit certain existing special tax preferences which favor investment and earnings by American citizens and corporations outside the United States, thereby encouraging the repatriation of these earnings and discouraging outflows primarily motivated by tax considerations. This proposal would result, among other things, in improving our balance of payments position.

So much for the attack upon the elements that have contributed most substantially to our basic balance of payments deficit in recent years. Let us look for a moment at a more mysterious area -- short-term capital movements.

Last year the dollar outflow from short-term capital and unrecorded transactions totalled $1.9 billion, almost as great as in the preceding year, 1960. But it is precisely here that the importance of the form of this movement is demonstrated. While the overall figures are nearly the same, close analysis reveals that the underlying causes of much of the short-term flow in 1961 were considerably different from those of 1960. There was an absence of the speculation against the dollar which had been a disruptive influence in 1960, and which had played such an important role in the sudden worsening of the situation late in 1960.

This lack of speculation reflected the much improved atmosphere of international financial cooperation, and the speculators belief that such cooperation would thwart attempts to profit by speculating in the international money markets.

Also, the international interest rate differentials that encouraged large movements of short-term funds in 1960 became less pronounced in 1961, in some cases, due in part to this cooperation.

Of the $1.4 billion in recorded U. S. private capital outflow in 1961, almost half represented commercial bank credits to Japan, largely to finance U. S. exports. We are happy to see our exports rise, and we should recognize that money borrowed to buy exports is a useful form of extension of credit.

One of the signs of our progress is the increasing atmosphere of international cooperation which is perhaps the most important single factor currently aiding our efforts. This attitude is based on the realization that it is not merely the United States payments position that is involved, but the trade and payments system of the Free World which is based, in large part, on the soundness of the dollar. There is a growing awareness in other nations that while the primary responsibility for ending our payments deficit rests with the United States, the cooperation of other nations is essential to the success of our efforts, and that our success is just as vital to those other nations as it is to the United States.

The greatly increased international cooperation has considerably improved the ability of the major industrial nations to prevent or cope with the threat of sudden disruptive flows of short-term capital. In addition, it has given rise to an even more important manifestation, which has been largely overlooked. I refer to two areas in which our allies are aiding directly in our efforts to reduce our balance of payments deficit: first, as I mentioned earlier, by their increased military procurement in the United States, and second, by prepayment of debts owed to the United States.

In the case of the Federal Republic of Germany, our receipts from military sales are being raised to the point where the $700 million balance-of-payments impact of gross U. S. defense expenditures in foreign exchange in that country will be completely offset this year. Similar arrangements will be sought wherever practicable with our other major allies. Our objective, as I noted earlier, is to achieve a total in military cash receipts of $1.2 billion this year.

Debt prepayments scheduled for this year are already approaching the quarter-of-a-billion-dollar mark, with almost $60 million from France and the recent arrangement for payment from Italy in July of $178 million. Last year's military receipts ran about $400 million, and with debt prepayments of almost $700 million, provided more than a billion dollars in international receipts. This year we expect to exceed that overall total. The willingness of our allies to make these contributions to improvement of our payments situation also provides a basis for the broader questions of a more equitable sharing of the cost of defending and developing the Free World.

There are other ways in which cooperation can be used to increase the efficiency and stability of the international monetary system. Among the indirect ways is the opening up of European capital markets. There has lately been an increasing tendency for Europeans and others, governmental bodies and private businesses, to gravitate toward the United States in the search for new capital. This is natural. Our capital markets have played an important role in the industrial and economic progress of our nation, and they now offer an economical and highly reliable market for foreign governments and concerns seeking investment funds.

We have neither the desire nor the intention to take any action which would inhibit the free flow of capital between nations.

It is important to the sound development of the European countries -- whose surpluses are the counterpart of our deficits -- that they expand and improve their own capital and savings markets, and make every effort to remove the many restrictions which burden these markets and inhibit the movement of funds into investment in other countries and areas. This will provide a sound basis for future European expansion, while at the same time removing a drain on U. S. capital which contributes to the deficit in our balance of payments. It will also create increased opportunities for the flow of European funds into increased direct and portfolio investment into other parts of the Free World including the United States.

I should add that the full benefits of this removal of restrictions on the free flow of capital by other countries in the Free World can only be achieved if U. S. businessmen themselves voluntarily encourage the sort of response that is necessary. It is, for example, important to the nation and to American firms themselves, to encourage increasing interest in investing in American securities and in the American capital market by European institutions and individual investors. The shares of major American corporations should be listed on foreign stock exchanges, particularly in Europe and Japan, in greater numbers. American firms might also explore and seek out more fully opportunities for borrowing abroad, especially in support of the operations of their own foreign branches and subsidiaries, instead of relying as heavily as they do on the easy alternative of seeking funds from familiar American sources.

I might also add, in a similar vein, that U. S. businesses operating abroad should not neglect to fully explore possibilities for procuring their supplies, equipment, and services from American sources on an economical basis.

Finally, we come to the most important aspect of our balance of payments program -- the development of commercial exports of U. S. goods and services in quantities sufficient to assure an increasing trade surplus. Only an increasing trade surplus will wipe out our deficit without weakening our national security position overseas, diminishing our vital role in helping the growth of the developing countries of the Free World, or inhibiting U. S. business in its legitimate and proper investment activities abroad.

It is to the American businessman that the nation must look to provide this trade surplus on which our international position depends. For, in the final analysis, it is the American businessman -- on the land, in the plant, or in the channels of distribution -- who must sell U. S.-made products and services abroad and at home in competition with foreigners on a scale, at a price, and with the quality that will assure the expanding trade surplus the nation requires.

If, for instance, we could have doubled our commercial export trade surplus last year, we would have wiped out our payments deficit and replaced it with a small surplus.

Doubling our export surplus may sound like an impossible job, but actually, since the surplus on non-U.S. financed exports totalled $3 billion, it would have required only a 15 per cent increase in overall exports to achieve that result -- assuming a constant import level.

That need to expand exports is the real key to improving our balance of payments situation, and that is why President Kennedy places such stress on it. That is why he has asked businessmen to cooperate, by forming a balance of payments group in the U. S. Chamber of Commerce, and another in the Business Council. These, as well as a number of similar groups already in existence, are important in finding new ways to expand exports, and in improving the old ways. The revival of the wartime "E" flags for those industries making a significant contribution to our program of export expansion is another step in the campaign to raise American exports, and particularly to find ways to bring the creative, driving enterprise of American business to this task.

Our job -- yours and mine -- is to make every American producer and businessman export-conscious, and to urge that each of them give serious consideration to what they can do to initiate or expand export production, not only for their own profit -- and export trade can be highly profitable -- but even more important, for the profit of their country, and for the important contribution a higher export level will make to the international stability of the dollar.

This need to expand our export trade is the basic reason behind President Kennedy's trade program. The fantastic growth of Western Europe in the last decade has created vast new markets for just the kind of goods that our own manufacturers are so skilled and experienced in producing. New cars, new highways, new shopping centers, new suburban developments -- all these are characteristic of the rapidly expanding European scene. As the Common Market takes in new members, and as this self-stimulating growth continues, these markets will grow also.

It is essential for the maintenance of United States export trade that we have a part in this future. If we fail to maintain our access to European markets at this critical time when new trade patterns are being evolved, when new customers are forming preferences, we may find ourselves at some later date unable to regain that access, no matter what concessions we may be prepared to offer, because the pattern may have been set without us. This goes much deeper, of course, than customer preferences. It encompasses the whole range of business relationships, both here and abroad. Firms will be either geared to deal with the United States, or not. Furthermore, the more we allow this new pattern to be set without us, the more difficulty we will have in dealing with a Europe whose own special interests will have become accustomed to a Europe-oriented market, and which may look upon exports from the United States as a disturbing and threatening influence.

Now is obviously the time to deal with the Common Market -- and with other nations -- on the vital question of mutual tariff reduction. Mutual tariff reduction now will require some readjustment on our part, and the program provides for assisting those workers and those industries which will be obliged to adjust to the imports that will result from lower tariffs. The important thing, however, is to see to it that American goods are in from the beginning, and in force, in the new and growing markets of Western Europe.

Export trade offers today, as never before, a new frontier for American business, comparable to the days when our own mighty internal market was developing and expanding. Now is the time for American business, which has used its competitive ability and resources to help this nation develop the highest standard of living on the face of the earth, to use that same talent, drive and enterprise to maintain our position as the greatest trading nation in the world.

This new competitive frontier for American producers means they will have to have cooperation from government, and we are making every effort to provide that cooperation.

It is well known that Western European producers have been modernizing more rapidly than have producers in the United States, and that their productivity has been increasing as a result. This allows them, through improved quality and lower unit costs, to be more competitive than ever in world markets. We need the trade program to ensure that our goods have access to European markets, but that is not the end of the story. Once there, they must be competitive, and that is an area where we are moving forward on several fronts.

At present the tax measure before the Senate Finance Committee provides for a tax reduction or credit equal to seven per cent of the expenditure of a businessman or farmer for new machinery or equipment used in his business. We are attempting to have that increased to eight per cent, but the important thing is that this measure -- too often misunderstood in the business community -- is a really effective tool in assisting business to modernize to meet foreign competition.

The importance of the need to modernize to meet foreign competition was underlined in the recent episode over steel prices. If you recall, that was the reason given for seeking the price increase. There are other ways of financing modernization besides price increases however, ways which would not damage the economy as widespread price increases might. The investment credit is one of them, and an essential one. It is far more effective and efficient than other alternatives, such as the various forms of accelerated depreciation, in that it offers a maximum of stimulus to modernization for each dollar of tax revenue lost.

The proposed investment tax credit to stimulate modernization is linked with the Treasury Department's administrative program for overall revision of guidelines and procedures affecting depreciation of equipment -- a program which we will announce early next month. These two programs -- depreciation revision and the investment credit -- will give our businessmen and farmers using substantial quantities of machinery and equipment a tax treatment which is on a par with that received by their major foreign competitors.

The government is initiating other measures to fulfill its responsibility to cooperate with business in efforts to expand exports, and to make sure that this will be both a successful and a profitable enterprise. At present the Commerce Department has greatly increased its listing of export trade opportunities, and the publication and distribution of these opportunities has been widened.

Even more important is the new export credit insurance system, which went into effect early this year. Through this, American exporters for the first time can avail themselves of insurance and guarantee benefits comparable to that provided their foreign competitors. Later this year, when medium-term insurance becomes available, the protection afforded exporters will be even greater.

What this insurance amounts to is a network of 67 private insurance companies, working in cooperation with the U.S. Export-Import Bank, a government agency, to write policies covering both political and commercial export credit risks. The Bank underwrites the political risks and shares with the pool the commercial risks. Hundreds of exporters have already taken out insurance binders totalling hundreds of millions of dollars, and hundreds more have requested detailed information on the program. As time goes on, this can be expected to have an increasing effect on our overall export level, and is particularly important in encouraging new firms to enter the export field.

In summary, then, increasing our trade surplus is the most promising way of solving our balance of payments problem. While government will help where it can, the primary responsibility for this expansion will depend, in the end, upon the imagination, ability and energy of the American businessmen. Upon their ability to increase the efficiency of their own manufacturing, distribution and research and development, the future of the international position of the United States primarily depends.

In the face of the excellent recovery and the promising outlook for the economy, we can take great satisfaction in the fact that there has been substantially no inflation. Prices have remained virtually stable,and both industrial and wholesale price indices have actually declined. The consumer price index rose about one per cent during the recovery, but most of this reflected the increasing cost of services rather than goods.

This brings me to the final and perhaps the most important point I have to make to you. That is simply this: all our efforts to restore international stability will be undermined if we are unable to continue to maintain reasonable price stability.

European bankers today are aware of this. They are not seriously concerned today about our fiscal policy provided it is disciplined and controlled and is not allowed to contribute to an inflationary surge. They do, however, have considerable concern over our capacity to maintain price stability, and what failure in this area would do to our payments position. While there is no great danger of inflation at present, we must not forget for one instant that continued price or wage increases beyond average productivity gains could represent a real threat to our international economic position. A higher export level is dependent on price stability. Excessive price rises could do serious damage by reducing our share of trade in world markets.

The President's Council of Economic Advisers has already laid down valuable guidelines for evaluating the significance of productivity in wage increases. These merit careful attention. It will require cooperation by government, business, labor and the financial sectors of our society if we are to meet our problems at home and abroad without resorting to unnecessary monetary or other restrictions.

Without question, at least for the next twelve months, some self-restraint and possibly some sacrifice is called for to avoid excessive wage or price increases at this very sensitive time when our economy is moving toward full employment and an equilibrium in our balance of payments. This means, in blunt terms, that both management and labor, acting on a voluntary basis, should content themselves with somewhat less than they believe the market will bear. If they do so, and price stability is maintained, we can expect the measures we have taken and will take to have the desired effects. If, however, short-sighted leaders of business or labor pursue limited special interests to the exclusion of the national interest, the natural laws of domestic and international economics will see to it that their gains are short-lived, and they, as well as the nation, will have lost something of lasting value -- our strategic position in Free World security, economic development, and its trade and payments systems.

If, on the other hand, we all act in the public interest, we can confidently expect that our problems -- both in the balance of payments area and in our domestic economy -- will prove amenable to solution, and that the solutions to both will not be in conflict, but will harmonize to provide greater prosperity at home and an extension of the frontiers of freedom and security abroad.

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449

~~TREASURY DEPARTMENT~~

~~WASHINGTON, D.~~ C.

June 19, 1962

FOR IMMEDIATE RELEASE

U.S.-PHILIPPINES SIGN $25 MILLION EXCHANGE AGREEMENT

Secretary of the Treasury Douglas Dillon and Andres V. Castillo, Governor of the Central Bank of the Philippines, today signed an exchange agreement in the amount of $25 million.

This exchange agreement is designed to assist the Philippines in its continuing efforts to promote economic stability and freedom in its trade and exchange system. Exchange operations on the part of the Philippine authorities will be for the purpose of maintaining an orderly foreign exchange system.

The agreement with the U. S. Treasury supplements the $40,400,000 standby arrangement with the International Monetary Fund which became effective April 11, 1962.

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450

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 19, 1962

FOR IMMEDIATE RELEASE

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D-524

431

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 20, 1962

FOR IMMEDIATE RELEASE

TREASURY DECISION ON RAYON GARMENT LABELS UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that rayon garment labels from Japan are 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 Japan without regard to any question of dumping.

The dollar value of imports of the involved merchandise received during 1961 was approximately $4,000,000.

452

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 20, 1962

FOR IMMEDIATE RELEASE

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Statement of the Honorable Robert V. Roosa
Under Secretary of the Treasury for Monetary Affairs
before the
Senate Committee on Banking and Currency
on S. 3291
Extension of Direct Purchase Authority
under Section 14 (b) of the Federal Reserve Act
Wednesday, June 20, 1962 - 10:00 a.m.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to present the views of the Treasury Department in support of S. 3291, which would extend through June 30, 1964, the existing authority of the Federal Reserve Banks to purchase directly from the Treasury Government debt obligations up to a limit of $5 billion outstanding at any one time. The measure is also supported by the Board of Governors of the Federal Reserve System.

The Federal Reserve Banks were given unlimited authority to purchase Government securities either directly from the Treasury or in the open market by the Federal Reserve Act of 1913. The Banking Act of 1935 revised this provision and required that all Federal Reserve purchases be made in the open market. Then, seven years later, in 1942, the Federal Reserve Banks were again given authority to buy securities directly from the Treasury subject to the restriction that the outstanding amount of such debt should not exceed $5 billion.

This authority was originally granted through 1944, and has been extended from time to time since then. The current authority expires on June 30, 1962.

The direct purchase authority is employed only infrequently, and has not been used at all since 1958. However, its continuation is essential because it provides an important backstop for Treasury cash and debt management operations.

Careful management of the Treasury's cash position allows the public debt to be kept to a minimum, thereby saving interest costs to the Government. The availability of immediate direct access to Federal Reserve credit provides a precautionary reserve for unforeseen contingencies that would otherwise have to be provided by considerably higher operating balances.

Specifically:

(1) Direct access to Federal Reserve credit provides the margin of safety necessary if the Treasury is to follow its customary practice of allowing its cash balances to fall to exceptionally low levels prior to the large inflow of cash over a tax date.

(2) There may be occasions when Treasury financing operations ought to be postponed for a short period because of market disturbances. The possibility of direct access to Federal Reserve credit increases the Treasury's elbowroom in such a situation.

(3) In the event of a national emergency, which would disrupt financial markets, direct access to Federal Reserve credit would be necessary to continue the functions of Government.

For these reasons, the Treasury feels that passage of S. 3291 is essential. I should like to point out that use of the direct purchase authority is a debt operation and such uses are subject to the statutory limit on the Federal debt.

The Treasury, through the years, has been very careful not to abuse this direct borrowing authority. The attached table provides details on the instances of actual use of the direct borrowing authority since 1952. It shows that there has been only one occasion in the last 8 years on which the

Treasury did, in fact, borrow directly from the Federal Reserve Banks. The knowledge that this line of credit could be drawn upon almost instantly, if needed, has enabled the Treasury on countless occasions to plan for a close fit between expected outlays and receipts, secure in the knowledge that these supplemental funds could be borrowed in the event that expenditures should unexpectedly and temporarily outrun planned receipts.

Attachment

Direct Borrowing from Federal Reserve Banks

Calendar Year	Days Used	Maximum amount at any time (millions)	Number of separate times used	Maximum number of days used at any one time
1952	30	811	4	9
1953	29	1,172	2	20
1954	15	424	2	13
1955	None	---	---	---
1956	None	---	---	---
1957	None	---	---	---
1958	2	207	1	2
1959	None	---	---	---
1960	None	---	---	---
1961	None	---	---	---
1962	None	---	---	---

460

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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 x~~(16)~~ or less for the additional bills dated March 29, 1962 ~~(17)~~, (91 x~~(18)~~ days remaining until maturity date on September 27, 1962 x~~(19)~~) and noncompetitive tenders for $100,000 x~~(20)~~x or less for the 182 x~~(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 June 28, 1962 ~~(22)~~x, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 28, 1962 ~~(23)~~. Cash

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE June 20, 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 $ 2,000,000,000 , or thereabouts, for cash and in exchange for Treasury bills maturing June 28, 1962 , in the amount of $ 1,800,784,000 , as follows:

91 -day bills (to maturity date) to be issued June 28, 1962 , in the amount of $ 1,300,000,000 , or thereabouts, representing an additional amount of bills dated March 29, 1962 , and to mature September 27, 1962 , originally issued in the amount of $600,230,000 , the additional and original bills to be freely interchangeable.
(7)

182 -day bills, for $ 700,000,000 , or thereabouts, to be dated June 28, 1962 , and to mature December 27, 1962 .
(12)

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 Daylight Saving ~~Standard~~ time, Monday, June 25, 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

D-525

462

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 20, 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.

D-525

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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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that we adopt all practicable measures to solve our balance of payments problem and strengthen the international monetary system which is centered on the dollar. I accordingly urge that this Committee accept the proposals of the Administration for sugar legislation which would provide for the application of import fees.

I would also like to point out that the imposition of a sugar import fee would produce additional budgetary receipts in ~~F~~fiscal 1963. The proceeds of the fee would be covered into the miscellaneous receipts of the Treasury and such amounts would correspondingly ease the financing problem faced by the Treasury.

In summary, the import fees proposed by the Administration would both benefit our balance of payments and increase Treasury receipts. For these reasons the Treasury Department strongly urges the adoption of the fee system as provided for in the sugar legislation supported by the Administration.

aid program so that a much larger proportion of aid will be provided in the form of American goods and services and a much smaller proportion in the form of straight dollar transfers. In addition, as the Committee knows, the Administration believes that the foreign income provisions of our tax laws should be changed to remove the special incentive to invest long-term capital in other industrialized countries rather than in the United States.

The sugar legislation supported by the Administration would contribute directly to our balance of payments objectives by imposing the fees I have just described, which would reduce outpayments for sugar in our trade accounts. The balance of payments savings of $130-$160 million which could be realized through the import fee would be a significant benefit. It is essential

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basic quotas of other supplier countries. The proceeds of this fee would accrue to the United States, and would correspondingly reduce the dollar outpayments to foreign countries. The bill passed by the House yesterday (H.R. 12154) contemplates the continuation of the quota premium on imports of sugar, and makes no provision for the recovery by the United States of this premium through an import fee such as that recommended by the Administration.

As the members of the Committee are aware, President Kennedy has launched a comprehensive program to improve our balance of payments situation and to stem the outflow of gold from this country. This program includes, among other measures, a major drive to increase our commercial exports of goods and services; measures to reduce or offset our large military expenditures abroad; and the reorientation of our foreign economic

466

STATEMENT BY ASSISTANT SECRETARY OF THE TREASURY, JOHN M. LEDDY BEFORE THE SENATE FINANCE COMMITTEE, JUNE 20, 1962, 10:00 a.m. ON PROPOSED SUGAR LEGISLATION.

I am happy to have this opportunity to testify before this Committee on the balance of payments aspects of pending sugar legislation. The bill supported by the Administration (S. 3290) provides for the imposition of an import fee on sugar imported into the United States from foreign countries other than the Philippines. In brief, the import fee represents approximately the amount by which our domestic sugar price exceeds the world market price for sugar.

It would apply immediately to the amount of the entire Cuban quota — ~~even though~~ ~~(although~~ ~~the~~ which amounts ~~provided within that quota~~ would, under present circumstances, be distributed among various countries other than Cuba — ~~other countries)~~, and would apply in annual stages of 20 percent, 40 percent, 60 percent, 80 ~~eighty~~ percent and, finally, 100 percent, to the

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TREASURY DEPARTMENT
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D-526

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John has already distinguished himself by his work in Treasury and I am sure he will continue to do so as Fiscal Assistant Secretary. In that post, of course, he follows another outstanding career civil servant, Bill Heffelfinger, who I am happy to see here today.

George Stickney also has a great deal in common with Bill Heffelfinger, going back to 1938 when he entered government service through the same route Bill did -- as a messenger.

In 1940, he received the degree of Bachelor of Commerce Science, Cum Laude, and a year later his Master's degree, from Southeastern University in Washington.

He joined the Treasury's Accounting Division in 1942 and rose rapidly through positions of increasing responsibility.

I suppose George is best known in and out of Government circles as the Treasury's electronic brain. Not only does he know more about electronic data processing than anyone I can think of, but his mind works at such a rate of speed that his tongue is hard put to keep the pace. I am confident that George will tackle his new responsibilities as John's Deputy with the same zeal -- and the same success with which he attacked the whole new field of electronic processing back in 1952, when the germ of the idea for its applications to Treasury problems first entered his mind.

Both of these men are typical of the very best that the career civil service produces. Today, government could not function without the dedicated and highly efficient services of employees who devote their working life to the services of their country. I am happy to welcome these career officers to new positions of even greater responsibility.

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TREASURY DEPARTMENT
Washington

REMARKS BY THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
AT SWEARING-IN CEREMONIES FOR
FISCAL ASSISTANT SECRETARY JOHN K. CARLOCK
AND
DEPUTY FISCAL ASSISTANT SECRETARY GEORGE F. STICKNEY
ROOM 4121, MAIN TREASURY, THURSDAY, JUNE 21, 1962
4:00 P.M., EDT

It's a great pleasure for me to be present at this ceremony, not only because of the value of John Carlock and George Stickney to the Treasury and to the Nation, but also because of the great credit they reflect on the Civil Service.

The development of the career Civil Service has been spectacular. When Civil Service began more than three quarters of a century ago, only one in ten Federal workers were selected for career employment, and few had the opportunity to carry out more than routine clerical duties. Now that situation is virtually reversed and eight out of every ten federal employees are serving under career appointments. That service now extends to the highest levels of Government.

I am particularly proud of the Treasury's record. About 97 percent of our 87,000 employees are in the career service and Treasury has consistently recognized outstanding ability in that service by naming career men to key positions, as we are doing today.

The two men taking office here exemplify the high standard of the career service.

In recommending John Carlock to the Treasury, the dean of his law school described him as not only the first in his class but the best law student at Arizona University in many years.

He came to the Treasury as a law clerk-trainee in 1941 and rose rapidly. He became Assistant General Counsel in 1949, and on a number of occasions since has served as Acting General Counsel in the absence of a Presidential appointee to that office. In that capacity, he was responsible for all legal activities of the Treasury and was the principal legal advisor to the Secretary, Under Secretaries and Assistant Secretaries.

His duties as Assistant General Counsel covered the whole scope of Treasury activities. In his work as principal legal advisor to the Under Secretary for Monetary Affairs, he was responsible for dealing with all legal work arising from policy problems in the management of the public debt.

4 72

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FOR RELEASE PM NEWSPAPERS
Monday, June 25, 1962

474

NETHERLANDS ANTILLES TAX TREATY TALKS CONCLUDED

The Treasury announced today that a series of discussions concerning the application to the Netherlands Antilles of the tax convention between the United States and the Netherlands had been concluded with an agreement to seek modifications of three articles relating to the tax treatment of dividends, interest and royalties.

The three articles, modifications of which are expected to take effect as of January 1, 1963, are Articles VII, VIII and IX.

No date has been set for resumption of the discussions between representatives of the U.S., the Netherlands and the Netherlands Antilles but it ~~XX~~ is anticipated that they will take place late this year or early in 1963.

Under the existing tax convention, dividends moving between the U.S. and the Netherlands Antilles are generally ~~tax~~ subject to a 15 per cent tax, although the tax is 5 per cent in some cases. Interest and royalties are exempt from tax.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

June 25, 1962

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D-527

476

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, June 26, 1962.

June 25, 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 March 29, 1962, and the other series to be dated June 28, 1962, which were offered on June 20, were ope at the Federal Reserve Banks on June 25. Tenders were invited for $1,300,000,000, or thereabouts, of 91-day bills and for $700,000,000, or thereabouts, of 182-day bills. T details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing September 27, 1962		182-day Treasury bills maturing December 27, 1962	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.300 a/	2.769%	98.557 b/	2.854%
Low	99.291	2.805%	98.544	2.880%
Average	99.294	2.792% 1/	98.548	2.872% 1/

a/ Excepting 2 tenders totaling $500,000; b/ Excepting 1 tender of $10,000
40 percent of the amount of 91-day bills bid for at the low price was accepted
36 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	$ 41,063,000	$ 35,063,000	$ 4,189,000	$ 2,768,000
New York	1,677,671,000	905,671,000	1,094,984,000	594,704,000
Philadelphia	27,344,000	12,344,000	8,882,000	2,582,000
Cleveland	41,421,000	35,621,000	31,198,000	14,502,000
Richmond	10,732,000	10,732,000	8,027,000	2,647,000
Atlanta	16,763,000	14,263,000	6,748,000	5,062,000
Chicago	288,772,000	122,572,000	115,882,000	42,035,000
St. Louis	27,930,000	23,930,000	5,367,000	4,367,000
Minneapolis	19,527,000	15,327,000	6,634,000	4,134,000
Kansas City	34,130,000	23,130,000	9,548,000	8,184,000
Dallas	23,138,000	12,994,000	9,546,000	4,546,000
San Francisco	108,335,000	88,535,000	36,582,000	14,566,000
TOTALS	$2,316,826,000	$1,300,182,000 c/	$1,337,587,000	$700,097,000 d/

c/ Includes $203,018,000 noncompetitive tenders accepted at the average price of 99.294
d/ Includes $50,005,000 noncompetitive tendersaccepted at the average price of 98.548
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.85%, 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.

D-528

471

TREASURY DEPARTMENT

WASHINGTON, D.C.

OR RELEASE A. M. NEWSPAPERS,
uesday, June 26, 1962.

June 25, 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 March 29, 1962, nd the other series to be dated June 28, 1962, which were offered on June 20, were open t the Federal Reserve Banks on June 25. Tenders were invited for $1,300,000,000, or hereabouts, of 91-day bills and for $700,000,000, 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 September 27, 1962		182-day Treasury bills maturing December 27, 1962	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.300 a/	2.769%	98.557 b/	2.854%
Low	99.291	2.805%	98.544	2.880%
Average	99.294	2.792% 1/	98.548	2.872% 1/

a/ Excepting 2 tenders totaling $500,000; b/ Excepting 1 tender of $10,000
40 percent of the amount of 91-day bills bid for at the low price was accepted
36 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	$ 41,063,000	$ 35,063,000	$ 4,189,000	$ 2,768,000
New York	1,677,671,000	905,671,000	1,094,984,000	594,704,000
Philadelphia	27,344,000	12,344,000	8,882,000	2,582,000
Cleveland	41,421,000	35,621,000	31,198,000	14,502,000
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St. Louis	27,930,000	23,930,000	5,367,000	4,367,000
Minneapolis	19,527,000	15,327,000	6,634,000	4,134,000
Kansas City	34,130,000	23,130,000	9,548,000	8,184,000
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TOTALS	$2,316,826,000	$1,300,182,000 c/	$1,337,587,000	$700,097,000 d/

/ Includes $203,018,000 noncompetitive tenders accepted at the average price of 99.294
/ Includes $50,005,000 noncompetitive tendersaccepted at the average price of 98.548
/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.85%, 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.

D-528

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
SENATE FINANCE COMMITTEE
ON THE
DEBT LIMIT
TUESDAY, JUNE 26, 1962
10:00 A.M., EDST

The President in his Budget Message last January requested a temporary debt limit of $308 billion for fiscal 1963. This request was based on his estimate that the fiscal 1962 deficit would amount to $7 billion and that there would be a $500 million surplus in fiscal 1963. I am here today to renew the request for a $308 billion temporary debt limit for fiscal year 1963.

The present temporary limit of $300 billion will expire at the end of this month. On July 1st the debt limit will revert to its permanent level of $285 billion unless new legislation has been enacted prior thereto. Since the debt will substantially exceed the permanent level of $285 billion on July 1st, it is essential that there be new legislation prior to that date.

D-529

The debt limit bill which passed the House of Representatives on June 14 (H.R. 11990) does not provide the flat $308 billion debt limit which we requested for fiscal 1963. Rather, it provides a graduated debt limit set at $308 billion for the period July 1, 1962 through March 31, 1963, $305 billion for the period April 1, 1963 through June 24, 1963 and $300 billion from June 25, 1963 through the end of the fiscal year. This graduated debt limit is acceptable to the Treasury, provided that it is understood that the debt ceilings in the House bill were carefully tailored to meet the Treasury's seasonal financial requirements under the assumption of a balanced budget. The graduated reductions established in the House bill would not be adequate if we were to run a deficit of any substantial size in fiscal 1963. This fact was specifically recognized and clearly set forth in the report of the House Ways and Means Committee, which reads as follows (page 2):

> ". . . . . it is the view of your committee that the increases provided by this bill are the minimum necessary to provide

for the seasonal variation in the collection of revenues, assuming a balanced budget for the fiscal year 1963. The administration has indicated that there may be a balanced budget for the fiscal year 1963. Your committee has concluded that the series of debt limitations provided under this bill for the various periods of the year will be adequate to provide for the expected seasonal variation in expenditures and receipts, but would not give sufficient flexibility should a deficit be incurred in the fiscal year 1963. In this latter eventuality, your committee believes that it will be appropriate later in the fiscal year 1963 to again review the statutory debt limitation. Thus this 'step approach' to the debt limitation, with the two reductions in the latter part of the fiscal year, is designed to provide for seasonal needs, without providing so much leeway that it can subsequently be used to cover deficit financing."

This statement by the House Ways and Means Committee regarding the nature of the graduated set of debt limits passed by the House is, I believe, wholly accurate.

With the fiscal year 1962 now nearly concluded, I can report to you that we still expect the deficit for fiscal 1962 to be about $7 billion. Past experience has shown, however, that fiscal year-end totals are apt to vary several hundred million dollars in either direction from preliminary

481

estimates. Therefore, the final deficit figure for fiscal 1962 may prove to be somewhat less than $7 billion or it may exceed that amount by a few hundred million dollars. In order to be on the conservative side, we have used a $7-1/4 billion figure in the projections on the attached table.

For fiscal year 1963, the January budget document showed a $500 million surplus. The President has requested a few new programs since January, in particular a capital improvement program for distressed areas, that would use the bulk of this estimated surplus but still leave a balance. Whether or not this balance is actually achieved depends largely on revenue receipts which, in turn, are dependent on the state of the national economy. The January revenue estimate of $93 billion assumed that the gross national product would average $570 billion during calendar 1962 and that the economy would continue its upward trend throughout the entire fiscal year.

Admittedly, the expansion of the economy so far this year has not measured up to our expectations. While this has substantially diminished the likelihood of achieving our goals, the economy continues to move steadily forward and it is still too early for a new and refined estimate of the gross national product for 1962 upon which our revenues necessarily depend. As to expenditures, the best we can do is to rely on the January budget document with the realization that Congress has not yet acted on any 1963 appropriation bill, nor has it taken final action on our tax bill, the President's proposals on postal rates and farm price supports or on various other legislative recommendations. Until these matters are decided by Congressional action, there is no firm basis for any new estimate of expenditures and revenues.

Accordingly, we have made no change in the basic assumption of a balanced budget in fiscal 1963, and our request for a $308 billion temporary debt ceiling is based squarely on that assumption..

It may seem incongruous to some that, while projecting a balanced budget for fiscal 1963, we are at the same time

4E

requesting an $8 billion increase in the temporary debt ceiling. Of course, if the timing of our receipts and expenditures were in balance throughout the year, there would be no need for this increase in the debt ceiling. Unfortunately, this is never the case. Even with a balanced budget for fiscal 1963 as a whole, our estimates indicate that the first half of the fiscal year will show a substantial seasonal deficit, a deficit which will be offset by a surplus during the remainder of the fiscal year.

Specifically, our projections indicate a seasonal cash deficit which reaches a peak of $11.2 billion on December 15, just before the receipt of the large tax payments due on that date. Succeeding peaks of $11 billion and $10.7 billion will be reached on January 15 and March 15, before the receipt of the substantial tax payments due on those dates. Thereafter, this seasonal deficit will rapidly be erased by a similarly large seasonal surplus; and by June 30, 1963, our projections show the debt returning to approximately the same level as June 30, 1962.

4184

This seasonal imbalance between receipts and expenditures is illustrated on an attached chart. The imbalance in fiscal 1963 is entirely attributable to the marked seasonal pattern of our tax receipts, since expenditures are projected at a fairly constant level throughout the fiscal year. It is to finance this seasonal deficit of $11 billion in tax receipts, a deficit which will occur even with a fully balanced budget, that we need the $8 billion increase in the temporary debt limit. It should be borne in mind that, since the chart is based on semi-annual figures which include the heavy December 15 tax receipts, it understates by several billion dollars the seasonal swing which reaches its peak in mid-December.

As the attached table indicates, we are ending the current fiscal year with a debt projected at about $294 billion. Adding the $3 billion allowance for flexibility to this figure, gives a total of about $297 billion, $3 billion under the current temporary debt limit of $300 billion. It is because of this extra leeway of $3 billion which we will have on June 30th that we will be able to finance a seasonal deficit of $11 billion with an $8 billion increase in the debt limit.

The seasonal imbalance between Federal Government receipts and expenditures is a regular feature of our financial mechanism. It is not just something that will occur in fiscal 1963. I would like to call your attention again to the chart which shows semi-annual receipts and expenditures from fiscal 1958 through fiscal 1963. You will note that a pronounced seasonal pattern in revenues shows up in each and every year. It was as much in evidence in fiscal 1960, when we last ran a budget surplus, as it was in years when we ran budget deficits.

On the assumption of a constant $4 billion operating balance, we expect the debt to rise to about $305 billion before dropping back again to around $294 billion at the end of fiscal 1963. A $308 billion debt ceiling is the minimum needed to provide us with the usual $3 billion leeway for flexibility in debt management and for unforeseen

486

contingencies, a margin which prudent and economic financial management requires.

The bill which passed the House embodies a formal recognition of the seasonal variation in Federal Government revenues by proposing, for the first time, seasonal debt limits. While we would prefer the simpler, overall annual debt limit such as we have had in the past, we recognize that the House bill does have the characteristic of setting forth very clearly the seasonal nature of the Treasury's borrowing requirements under the assumption of a balanced budget in fiscal 1963.

The Treasury's operating cash balance consists essentially of funds on deposit at the twelve Federal Reserve Banks and in approximately 11,400 commercial banks throughout the country. For the past few years the Treasury, in its presentations at hearings on the debt limit, has assumed a $3.5 billion constant operating cash balance. Experience has shown that this is an unrealistically low figure. With careful management to have the necessary funds on hand in the proper places and at the proper times to meet the Government's obligations as they come due and with every effort to avoid excess cash balances, our average operating cash balance (excluding gold) for the first eleven months of this fiscal year was $4,755 million. The average for fiscal year 1961 was $4,620 million and for fiscal year 1960 it was $4,638 million. In 1958, when the $3.5 billion figure was first used for illustrative purposes, Federal expenditures amounted to $71.4 billion. Fiscal year 1963 expenditures are expected to be some 30% larger. With larger expenditures, we require larger operating cash balances. For these reasons, we have used a $4 billion figure in the attached tables as a conservative figure for a constant operating balance. That this figure is truly conservative can readily be seen by the fact that a 30% increase, comparable to the increase in budget expenditures between fiscal 1958 and fiscal 1963, would have indicated a figure of $4-1/2 billion, a figure substantially closer to, but still lower than, the actual average of our operating balance during each of the

488

past three years. An operating balance at least as large as the average of the past three years is needed to permit the day-to-day operations of the Treasury to be conducted in an efficient manner.

Our estimates also provide, as in the past, for a $3 billion margin to provide much-needed flexibility in debt management and to cover unforeseen contingencies, including the inescapable uncertainties in our month-to-month projections of revenues and expenditures. Since the assumed cash balance of $4 billion is over $500 million less than our actual needs, this margin of flexibility in practice works out to less than $2-1/2 billion. Such a margin for flexibility is the minimum needed for the efficient management of the public debt. It is not in the public interest to require the Treasury to operate with a smaller margin under the debt limit. The end result of an excessively tight debt limit is likely to be higher interest costs on the debt and other serious consequences, not only in our domestic affairs, but also in our balance of payments position and its related effect on our gold stock.

I would like to give you a few examples to illustrate why the $3 billion margin for flexibility is so essential for efficient debt management. First, the Treasury should be able to take advantage of especially favorable conditions in the money and capital markets whenever they arise. However, an excessively tight debt limit may prevent the Treasury from timing its borrowing operations most advantageously and the opportunity to make important savings on interest costs would, therefore, be lost.

Second, in conducting our debt management operations during the past seventeen months we have been very conscious of the impact of these operations on our balance of payments position. It is of critical importance to our international financial position that our short-term interest rate structure be in reasonable equilibrium with short-term rates abroad. If this equilibrium is not maintained, funds are induced to flow abroad seeking interest rate differentials, thus increasing the drain on our gold stock. In order to avoid any disturbance of this equilibrium, the Treasury has arranged its recent cash borrowing so as to permit the maximum use of additional quantities of Treasury bills. It is vitally important that the Treasury have enough room under the debt limit to take such actions whenever market conditions warrant. To deny the Treasury a sufficient margin for such debt operations could result in substantial and unnecessary drains on our gold stock.

Third, it may often be in the best interest of both the Government and the private capital markets if the Treasury consolidates some of its refunding operations. For example, in refunding the $7.2 billion in securities maturing this coming November 15, it may be advantageous to make the same refunding offer to the holders of the $2.3 billion of securities maturing December 15. An excessively tight debt limit could prevent us from using the cash refunding approach in handling such an operation, even though market conditions might suggest that a cash refunding operation would be most advantageous to the Treasury.

Fourth, if the debt limit becomes exceedingly binding, the Treasury might have to do some of its financing through the sale of non-guaranteed issues of Federal agencies which are not subject to the debt limit. This was done back in October 1957 and January 1958, under the preceding Administration, when the Treasury was struggling to live with an unrealistically low debt limit. This is a very unsound financial practice which has been severely criticized by the Comptroller General. It means that the Government has to pay 1/2% to 3/4% more in interest costs than it would have to pay on Treasury obligations. Secretary Anderson used this device only with the greatest reluctance. I would hope that we would never again be forced to use it.

For all of these reasons, a sufficient margin for flexibility in debt management and for contingencies is essential if we are to have efficient and economical management of the Government's finances.

The level of the debt is the resultant of all of our past decisions on appropriations, expenditures and taxes. However, it is important to recognize that these decisions are reflected in the debt only after a considerable time lag. The time lag between decisions on appropriations and the impact of those decisions on the debt is, in fact, the reason why we need a substantial increase in the debt limit in fiscal 1963 even under the assumption of a balanced budget. The increased debt level during the coming fiscal year is a product of the deficit in fiscal 1962. If we have a balanced budget in fiscal 1963 and, a year from now, contemplate a balanced budget for fiscal 1964, we could get by in fiscal 1964 with the same $308 billion debt limit which we are requesting now.

The level of the debt is the final link in a sequential chain which has as its first link the appropriations process. Debt levels in the future are the product of past decisions on appropriations and taxes and the debt ceiling must be consistent with those past decisions.

In conclusion, I wish to reemphasize that the increase in the debt ceiling to $308 billion is based on the assumption of a balanced budget in fiscal 1963. The last attached table shows monthly estimates of budget receipts and expenditures in fiscal 1963, under a balanced budget assumption, and their relationship to our month-end debt projections. The $8 billion increase in the temporary debt ceiling is required to cover the seasonal low in receipts, which always occurs during the first half of the fiscal year. Such an increase is needed in fiscal 1963 because of the substantial deficit which has already been incurred in fiscal 1962. In other words, the increase is being requested to meet the fiscal consequences of past deficits and does not reflect the expectation of a deficit in fiscal 1963.

There are those who think our revenue estimates for fiscal 1963 are too optimistic, and certainly they look more optimistic today than they did last January. In April the staff of the Joint Committee on Internal Revenue Taxation, on the basis of its independent revenue projections, estimated that fiscal 1963 would produce an administrative budget deficit of $4.9 billion, assuming that the Administration's tax bill is approved by the Congress. I will not attempt to evaluate this estimate, since I have already given you the reasons why we feel that there is no firm basis, as yet, for revising the estimates presented in the President's Budget Message. I raise the issue only to emphasize that if the budget deficit forecast for fiscal 1963 by the staff of the

491

Joint Committee on Internal Revenue Taxation should prove to be correct, the graduated set of debt ceilings approved by the House will not be adequate to meet the Treasury's needs, and we will be forced to return to the Congress early in the next session, as was envisioned by the report of the Ways and Means Committee.

A temporary increase in the debt limit to $308 billion, as provided by the House in the bill before you, is the absolute minimum needed if the Government's finances are to be managed in an orderly and economical manner and if we are to be able to finance our purely seasonal cash requirements in fiscal 1963 within the framework of a balanced budget. I earnestly recommend its approval by this committee.

Attachments

Actual public debt outstanding fiscal year 1962, with June 30, 1962, estimate based on operating cash balance of $4,000,000,000 (excluding free gold)

Based on projection of June 22, 1962 (in billions)

	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
Actual				
July 15, 1961	$3.3	$289.1		
July 31	5.8	292.2		
August 15	4.2	292.1		
August 31	5.3	293.5		
September 15	3.1	293.2		
September 30	8.1	293.6		
October 15	7.0	296.0		
October 31	5.4	295.5		
November 15	4.7	296.7		
November 30	5.4	296.9		
December 15	2.8	297.0		
December 31	5.6	296.1		
January 15, 1962	3.1	296.3		
January 31	3.9	296.4		
February 15	3.0	296.3		
February 28	4.6	296.9		
March 15	2.7	297.8		
March 31	6.0	296.1		
April 15	2.2	295.8		
April 30	4.7	296.9		
May 15	5.6	296.7		
May 31	7.2	299.2		
June 15	5.2	299.4		
Estimated				
June 30	4.0	293.7	$3.0	$296.7

Note: For seasonal reasons the June 30, 1962, operating balance will be significantly above $4.0 billion, so the actual debt outstanding will be higher than shown here.

496

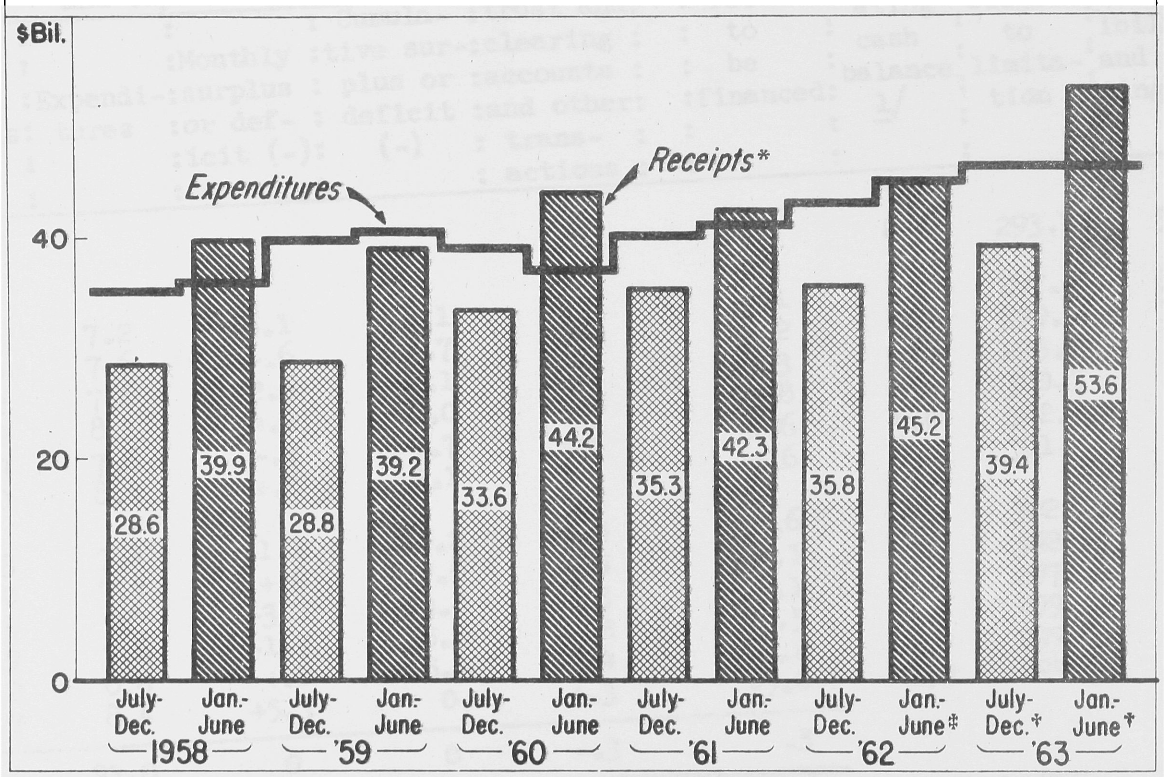
FORECAST OF PUBLIC DEBT OUTSTANDING FISCAL YEAR 1963, BASED ON CONSTANT OPERATING CASH BALANCE OF $4,000,000,000 (EXCLUDING FREE GOLD)

Based on 1963 Budget Document - Plus Formal Modifications
(in billions)

	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, 1962	$4.0	$293.7	$3.0	$296.7
July 15	4.0	297.0	3.0	300.0
July 31	4.0	297.8	3.0	300.8
August 15	4.0	299.2	3.0	302.2
August 31	4.0	299.0	3.0	302.0
Sept. 15	4.0	301.2	3.0	304.2
Sept. 30	4.0	295.7	3.0	298.7
Oct. 15	4.0	299.5	3.0	302.5
Oct. 31	4.0	300.5	3.0	303.5
Nov. 15	4.0	302.3	3.0	305.3
Nov. 30	4.0	302.1	3.0	305.1
Dec. 15	4.0	304.9	3.0	307.9
Dec. 31	4.0	301.5	3.0	304.5
Jan. 15, 1963	4.0	304.7	3.0	307.7
Jan. 31	4.0	302.1	3.0	305.1
Feb. 15	4.0	302.8	3.0	305.8
Feb. 28	4.0	302.0	3.0	305.0
Mar. 15	4.0	304.4	3.0	307.4
Mar. 31	4.0	297.9	3.0	300.9
April 15	4.0	301.0	3.0	304.0
April 30	4.0	299.4	3.0	302.4
May 15	4.0	299.4	3.0	302.4
May 31	4.0	299.6	3.0	302.6
June 15	4.0	302.0	3.0	305.0
June 30	4.0	294.0	3.0	297.0

SEMIANNUAL BUDGET RECEIPTS AND EXPENDITURES

Fiscal 1958-'63



*Net receipts after refunds. ‡May 1962 estimate.

†Estimates on basis of January 1962 Budget Message plus formal modifications.

Office of the Secretary of the Treasury

B-1326-C-2

497

Estimated Monthly Budget Receipts and Expenditures and
Resulting End-of-Month Debt Levels, Fiscal Year 1963
(Based on 1963 Budget Document - Plus Formal Modifications)
(In billions of dollars)

	Budget receipts and expenditures: Net receipts	Budget receipts and expenditures: Expenditures	Budget receipts and expenditures: Monthly surplus or deficit (-)	Budget receipts and expenditures: Cumulative surplus or deficit (-)	Net receipts of trust and clearing accounts and other transactions	Total to be financed	Operating cash balance 1/	Debt subject to limitation	Allowance for flexibility and contingencies	Total debt limitation required 2/
Balance on June 30, 1962..							4.0	293.7	3.0	296.7
1962: July.....	3.1	7.2	-4.1	-4.1	*	4.1	4.0	297.8	3.0	300.8
Aug......	7.0	7.6	-.6	-4.7	-.6	1.2	4.0	299.0	3.0	302.0
Sept.....	10.2	7.6	+2.6	-2.1	+.7	-3.3	4.0	295.7	3.0	298.7
Oct......	3.2	8.1	-4.9	-7.0	+.1	4.8	4.0	300.5	3.0	303.5
Nov......	6.9	7.6	-.7	-7.7	-.9	1.6	4.0	302.1	3.0	305.1
Dec......	9.0	8.4	+.6	-7.1	*	-.6	4.0	301.5	3.0	304.5
1963: Jan......	6.3	7.4	-1.1	-8.2	+.5	.6	4.0	302.1	3.0	305.1
Feb......	8.0	7.4	+.6	-7.6	-.5	-.1	4.0	302.0	3.0	305.0
Mar......	11.5	7.7	+3.8	-3.8	+.3	-4.1	4.0	297.9	3.0	300.9
Apr......	5.9	7.6	-1.7	-5.5	+.2	1.5	4.0	299.4	3.0	302.4
May......	8.2	8.0	+.2	-5.3	-.4	.2	4.0	299.6	3.0	302.6
June.....	13.7	8.4	+5.3	0	+.3	-5.6	4.0	294.0	3.0	297.0
Fiscal Year 1963	93.0	93.0	0	0	-.3	.3				

Office of the Secretary of the Treasury
Office of Debt Analysis

June 21, 1962

* Less than $50 million.
1/ Excluding free gold.
2/ At the mid-month points in December, January and March the requirements are $307.9 billion, $307.7 billion, and $307.4 billion respectively.

499 541

In conclusion, I would like to emphasize once more the overwhelming urgency of the problems which the Alliance is designed to meet. I cannot think of a better way to describe this urgency than in the words of Teodoro Moscoso -- U. S. Coordinator for the Alliance who said of all the partners of the Alliance recently:

> "Like generals sending regiments into a decisive battle, we may not have the luxury of leisurely deployment of our troops, or of perfect textbook planning of how the battle should be fought. This means that in all probability we will make errors. But the one error we cannot afford to make is that of waiting, of letting the initiative slip out of our grasp. We must attack, massively, the enemies of poverty, injustice and hopelessness which still characterize the lot of so many in our hemisphere."

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better and more favorable market opportunities for Latin American exports. President Kennedy's new trade program is directly designed to provide significant help. It would give the President wider authority to reduce or eliminate tariffs if the European Common Market agrees to take similar action.

I feel that Europe should take cognizance of the Latin Americans need to expand and stabilize their export markets, and that European action on this matter -- in addition to expanded programs of direct aid -- would be of great benefit to the development of the free world. We would, of course, like to see European capital, both government and private, play an increasing role in hemisphere development. Expanding trade offers an excellent opportunity for the newly prosperous industrial nations to provide by their immediate efforts greater cooperation in this vital field.

In conclusion,

Most Latin American countries export somewhere between 18 and 25 per cent of their total output, compared to only about 3 per cent in the United States.

As a result, the domestic economies of [redacted] Latin American [redacted] countries react directly and immediately to sudden price fluctuations in world commodity markets. During the Fifties, Latin America expanded its exports, but at the same time prices dropped steadily. The result was to wipe out gains resulting from the export expansion.

A method must be found whereby producers and consumers cooperate to avoid these harmful fluctuations. It is not easy to arrive at a solution that protects the interest of all concerned, but one must be found because trade expansion is vital to the development of all of Latin America.

The United States is continually supporting efforts to provide

better and

prices. The United States believes that a solution to this problem requires a worldwide agreement between producing and consuming nations. We have taken the initiative in organizing the Coffee Study Group, which includes 28 producing countries and some 20 consuming countries. This group will meet ~~[illegible]~~ in New York next month under the auspices of the United Nations, to consider the text of a draft agreement to provide consumer-producer cooperation on coffee, which is of such vital importance to Latin America. Included in the proposed draft agreement are provisions to bring about production controls and to speed up economic diversification in coffee-producing countries.

Reliance upon a single export such as coffee as the major source of ~~profits~~ income from abroad is widespread in Latin America. For example, copper makes up almost 70 percent of Chile's exports, petroleum more than 90 percent of Venezuela's, and bananas 75 percent of Ecuador's.

Most Latin

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One very important element in the growth process of Latin America is foreign trade, since significant declines in the prices of the primary commodities which they export have often outweighed the benefits of the foreign aid received. This problem has intensified in recent years, because prices of many commodities produced by Latin America have fallen, thus reducing income from exports.

Take coffee as an example: Most of the countries in Latin America export coffee, and for six of them, coffee represents more than half their total exports. Coffee CONSTITUTES 22 per cent of the total of all exports from Latin America. A one-cent drop in the price of a pound of green coffee costs Latin America $50 million a year, and prices have been dropping.

The root of this problem is that almost twice as much coffee is produced each year as is consumed abroad. The result is a massive surplus which overhangs the market and exerts a downward pressure on prices.

is not the same as that faced in the European recovery. One of the major differences is the lack of internal capital and well organized resources in Latin America. These resources must be developed, for the proper use of private investment -- from both within and outside THE ~~this~~ hemisphere -- is essential to the acceleration of development.

As an important first step in this direction, I think it incumbent upon Latin Americans themselves to reverse the flow of capital they are now sending abroad and invest it at home, where it is sorely needed.

Such local capital, particularly when used in partnership with external capital, can make a uniquely effective contribution to national development by blending local knowledge and resources with TH

HIGHLY-DEVELOPED THAT ACCOMPANY CAPITAL

~~[illegible]~~ technical and managerial skills from abroad. The opportunities for such investment will multiply with social and economic progress.

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produce lasting results without sound planning, which is the key to any balanced program of economic and social development. The World Bank has been active in this area and the Organization of American States has set up an outstanding panel of experts that is working hard on the national development plans of Alliance members as quickly as they are submitted. This panel -- the "Nine Wise Men", as they are called -- came into being only a few months ago and has already received and done extensive work on long-term development plans from Colombia, Bolivia, and Chile. Three more long-term development plans from other nations are expected by the end of August, and a seventh in September. These efforts are important, not only to mobilize local resources, but also to attract external capital. They will do much to create an attractive climate for private investment from abroad.

Private capital has a major role to play in the continued progress of the Alliance -- just as it did in the remarkable post-war recovery of Western Europe. Latin America's problem, however, 50 R

had only 130 member families. Now there are more than 400, and there are plans for 1,300 four years from now.

The poor of Brazil's cities are not being forgotten. For example, in Guanabara State, of which the beautiful city of Rio de Janeiro is a part, a resettlement program is underway which will improve 35 slum areas containing 300,000 people. In the spirit of the Alliance the project is being financed partly by the sale of surplus wheat from the United States, partly by the tax revenues of Guanabara State, and partly by the Brazilian Federal Government.

Similar progress is going forward in other countries. For example, tens of thousands of Peruvian school children are now getting hot lunches, and 44,000 families in Venezuela have been resettled under a land reform program. In tiny El Salvador, 700 new classrooms are going up which will provide facilities to teach 28,000 pupils.

These achievements are important, but the Alliance will not

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Just this month, a $17-million agreement under the Alliance was signed to provide pure water for 140 communites in Northeastern Brazil, as well as a dozen mobil health units and dozens more permanent health centers. At the same time, another project was approved for this area which will expand the educational system in the state of Pernambuco and permit 200,000 children who have had no educational opportunities to attend school.

The Food for Peace program is an important part of the Alliance, and only this month a new type of agreement was signed to provide food for a cooperative in Alagoas State in Northeastern Brazil. The food will maintain the families in the cooperative until it can produce its own. When this venture began last November, the cooperative various stages of developing plans. Salvador, Peru, Honduras, and Chile have established new facilities for small-scale farms, and other nations have expanded existing facilities. These programs encompass more than land redistribution, although that is long overdue in some countries. Equally important are the programs underway to raise agricultural productivity, provide rural credit, improve farm-to-market roads, and make available new agricultural extension services.

In education, six nations -- Chile, Ecuador, Mexico, Costa Rica, Panama and Peru -- have substantially increased their budgetary outlays for education and many more are preparing to expand their school programs.

If a single area can be said to symbolize the challenges facing the Alliance, it is surely Brazil's sprawling, drought-ridden Northeast where 25 million Brazilians live, many of them under a constant burden

504

vast that the changes may appear to be minor, significant advances are being made. For instance:

In tax reform, the administration and collection of taxes has been improved in Argentina, Bolivia, Chile, Colombia, Guatemala, Panama, Paraguay, Peru and Uruguay, and tax rates have been increased in Argentina, Salvador, Mexico, Nicaragua, Panama, Uruguay, Venezuela Costa Rica and Ecuador.

In housing, savings and loans systems have been established in seven countries -- Chile, Costa Rica, Ecuador, Guatemala, Colombia, Peru and Venezuela. Plans are being prepared for similar systems in five more. Low-cost housing projects are also being undertaken in ten countries.

In land reform, Mexico and Bolivia are continuing reforms, and broad programs are underway in Colombia and Venezuela. Other nations -- including Brazil and the Dominican Republic -- are at the Alliance was launched ~~ten months ago~~ to contribute more than a billion dollars in the year ended last March -- the anniversary of President Kennedy's call for creation of the Alliance. We will continue to do our full share.

But the success of the Alliance requires more than ~~money~~ HELP from outside Latin America. IT IS TRUE THAT Twenty billion dollars in outside government and private capital will be needed during the first ten years of the Alliance. BUT IT IS ALSO TRUE THAT Latin Americans must commit four times that amount to their own economic and social development if the Alliance's goals are to be realized. Therefore, our assistance is being concentrated on those countries making the greatest effort to help themselves.

Most of the nations of Latin America are actively helping themselves. Essential land and tax reforms are moving ahead in many areas. So are effective programs to improve housing, education, and sanitation. The face of Latin America is changing, and while the problems are so

571

As the Alliance advances, the pressures for more rapid growth will mount, rather than subside. There is already some feeling -- in the United States, as well as in Latin America -- that the Alliance is not moving fast enough. This is understandable, for the eradication of injustice and poverty demands both speed and vigorous action. But impatience is no substitute for hard work -- and that's what the Alliance requires. Unquestionably, there is need for more speed and urgency by some of our Latin American partners in undertaking the reforms which will provide the basis for greater economic and social development. I hope that (ALL OF OUR FRIENDS) ~~they~~ will move ~~more~~ resolutely to mobilize their own resources -- for self-help is the essence of the Alliance.

The United States is doing its part, not only directly, but through its membership in such international organizations as the Inter-American DEVELOPMENT Bank and the World Bank, which are making major contributions. We have kept the promise we made TEN MONTHS AGO at Punta del Este when

Obviously, achieving such a rate of economic growth will require tremendous effort, and a heavy investment of capital for industrial and agricultural progress. IN ADDITION, Latin America cannot ignore the need for social progress. It needs schools as well as roads, and hospitals as well as factories. This is recognized by the democratic leaders of the hemisphere, who are well aware that ECONOMIC progress must go hand-in-hand with SOCIAL progress, for each reinforces the other.

No two countries in Latin America are completely alike, and every government must make for itself the hard decisions which sound allocation of available resources between social and economic progress will inevitably require. Those decisions will not only be difficult, they may in many cases be unpopular. There will always be some who will want to spend more on social progress, and others who see economic progress as paramount.

As the Alliance

to achieve a better life.

I want to caution you against expecting miracles from the Alliance. There are no overnight solutions for problems that have been building up for centuries. The task of the Alliance is nothing less than helping the nations of Latin America move into the Twentieth Century as quickly as possible -- and under their own power.

Latin America contains some 210 million people, whose average annual income is only $295 a year -- roughly one-eighth of our own. Forty years from now, Latin America's population will have tripled. Merely keeping pace with that population explosion in terms of average income would be a tremendous task -- and it would produce no real progress. It would merely perpetuate the status quo. Therefore, the Alliance has had to go beyond this and, in order to raise the average individual income by a mere 2-1/2 percent a year, has been obliged to set a ten-year goal of an over-all annual growth rate of five percent.

Obviously

ADDRESS BY THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE INTERNATIONAL CONVENTION
OF THE GENERAL FEDERATION OF WOMEN'S CLUBS
SHERATON PARK HOTEL, WASHINGTON, D. C.
MONDAY, JUNE 25, 1962, 8 P.M. EDT

It is a great pleasure for Mrs. Dillon and me to be with you HERE tonight. Your request that I discuss President Kennedy's Alliance for Progress was A very welcome ONE, not only because of the importance of the Alliance, but because I know it has a special interest for this audience.

Women have a gift for seeing complex problems in human terms, as your scholarship program for talented Latin American students SO CLEARLY demonstrates. This quality is important to the Alliance, for, in Latin America, we are dealing with human emotions and aspirations -- not just economic charts, loans, and machinery. If the Alliance is left entirely to the economists, the technicians, and the government officials, it cannot succeed. Lasting progress calls urgently for widespread support by private citizens of our efforts to work with the other governments of the hemisphere in helping their peoples

TREASURY DEPARTMENT
Washington

575

FOR RELEASE A.M. NEWSPAPERS
Tuesday, June 26, 1962

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Obviously, achieving such a rate of economic growth will require tremendous effort, and a heavy investment of capital for industrial and agricultural progress. In addition, Latin America cannot ignore the need for social progress. It needs schools as well as roads, and hospitals as well as factories. This is recognized by the democratic leaders of the hemisphere, who are well aware that economic progress must go hand-in-hand with social progress, for each reinforces the other.

516

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As the Alliance advances, the pressures for more rapid growth will mount, rather than subside. There is already some feeling -- in the United States, as well as in Latin America -- that the Alliance is not moving fast enough. This is understandable, for the eradication of injustice and poverty demands both speed and vigorous action. But impatience is no substitute for hard work -- and that's what the Alliance requires. Unquestionably, there is need for more speed and urgency by some of our Latin American partners in undertaking the reforms which will provide the basis for greater economic and social development. I hope that all of our friends will move resolutely to mobilize their own resources -- for self-help is the essence of the Alliance.

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But the success of the Alliance requires more than help from outside Latin America. It is true that twenty billion dollars in outside government and private capital will be needed during the first ten years of the Alliance. But it is also true that Latin Americans must commit four times that amount to their own economic and social development if the Alliance's goals are to be realized. Therefore, our assistance is being concentrated on those countries making the greatest effort to help themselves.

Most of the nations of Latin America are actively helping themselves. Essential land and tax reforms are moving ahead in many areas. So are effective programs to improve housing, education, and sanitation. The face of Latin America is changing, and while the problems are so vast that the changes may appear to be minor, significant advances are being made. For instance:

In tax reform, the administration and collection of taxes has been improved in Argentina, Bolivia, Chile, Colombia, Guatemala, Panama, Paraguay, Peru and Uruguay, and tax rates have been increased in Argentina, Salvador, Mexico, Nicaragua, Panama, Uruguay, Venezuela, Costa Rica and Ecuador.

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Private capital has a major role to play in the continued progress of the Alliance -- just as it did in the remarkable post-war recovery of Western Europe. Latin America's problem, however, is not the same as that faced in the European recovery. One of the major differences is the lack of internal capital and well organized resources in Latin America. These resources must be developed, for the proper use of private investment -- from both within and outside the hemisphere -- is essential to the acceleration of development.

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Such local capital, particularly when used in partnership with external capital, can make a uniquely effective contribution to national development by blending local knowledge and resources with the highly-developed technical and managerial skills that accompany capital from abroad. The opportunities for such investment will multiply with social and economic progress.

One very important element in the growth process of Latin America is foreign trade, since significant declines in the prices of the primary commodities which they export have often outweighed the benefits of the foreign aid received. This problem has intensified in recent years, because prices of many commodities produced by Latin America have fallen, thus reducing income from exports.

Take coffee as an example: Most of the countries in Latin America export coffee, and for six of them, coffee represents more than half their total exports. Coffee constitutes 22 per cent of the total of all exports from Latin America. A one-cent drop in the price of a pound of green coffee costs Latin America $50 million a year, and prices have been dropping.

The root of this problem is that almost twice as much coffee is produced each year as is consumed abroad. The result is a massive surplus which overhangs the market and exerts a downward pressure on prices. The United States believes that a solution to this problem requires a worldwide agreement between producing and consuming nations. We have taken the initiative in organizing the Coffee Study Group, which includes 28 producing countries and some 20 consuming countries. This group will meet in New York next month under the auspices of the United Nations, to consider the text of a draft agreement to provide consumer-producer cooperation on coffee, which is of such vital importance to Latin America. Included in the proposed draft agreement are provisions to bring about production controls and to speed up economic diversification in coffee-producing countries.

Reliance upon a single export such as coffee as the major source of income from abroad is widespread in Latin America. For example, copper makes up almost 70 per cent of Chile's exports, petroleum more than 90 per cent of Venezuela's, and bananas 75 per cent of Ecuador's. Most Latin American countries export somewhere between 18 and 25 per cent of their total output, compared to only about 3 per cent in the United States.

As a result, the domestic economies of Latin American countries react directly and immediately to sudden price fluctuations in world commodity markets. During the Fifties, Latin America expanded its exports, but at the same time prices dropped steadily. The result was to wipe out gains resulting from the export expansion.

A method must be found whereby producers and consumers cooperate to avoid these harmful fluctuations. It is not easy to arrive at a solution that protects the interest of all concerned, but one must be found because trade expansion is vital to the development of all of Latin America.

The United States is continually supporting efforts to provide better and more favorable market opportunities for Latin American exports. President Kennedy's new trade program is directly designed to provide significant help. It would give the President wider authority to reduce or eliminate tariffs if the European Common Market agrees to take similar action.

520

I feel that Europe should take cognizance of the Latin Americas' need to expand and stabilize their export markets, and that European action on this matter -- in addition to expanded programs of direct aid -- would be of great benefit to the development of the free world. We would, of course, like to see European capital, both government and private, play an increasing role in hemisphere development. Expanding trade offers an excellent opportunity for the newly prosperous industrial nations to provide -- by their immediate efforts -- greater cooperation in this vital field.

In conclusion, I would like to emphasize once more the overwhelming urgency of the problems which the Alliance is designed to meet. I cannot think of a better way to describe this urgency than in the words of Teodoro Moscoso -- U. S. Coordinator for the Alliance -- who said of all the partners of the Alliance recently:

> "Like generals sending regiments into a decisive battle, we may not have the luxury of leisurely deployment of our troops, or of perfect textbook planning of how the battle should be fought. This means that in all probability we will make errors. But the one error we cannot afford to make is that of waiting, of letting the initiative slip out of our grasp. We must attack, massively, the enemies of poverty, injustice and hopelessness which still characterize the lot of so many in our hemisphere."

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TREASURY DEPARTMENT

WASHINGTON, D.C.

June 26, 1962

FOR IMMEDIATE RELEASE

TREASURY DECISION ON FUR FELT HOODS, BODIES, AND CAPS
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that fur felt hoods, bodies, and caps from Czechoslovakia are 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.

The dollar value of imports of the involved merchandise received during 1961 was approximately $50,000.

522

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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.

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 April 5, 1962, (91 days remaining until maturity date on October 4, 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 Banks on July 5, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 5, 1962. Cash

~~Exhibit 2~~

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5 47

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, June 27, 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 $2,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing July 5, 1962, in the amount of $1,801,102,000, as follows:

91-day bills (to maturity date) to be issued July 5, 1962, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated April 5, 1962, and to mature October 4, 1962, originally issued in the amount of $600,567,000, the additional and original bills to be freely interchangeable.

182-day bills, for $700,000,000, or thereabouts, to be dated July 5, 1962, and to mature January 3, 1963.

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 Daylight Saving time, Monday, July 2, 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

525

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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 April 5, 1962, (91-days remaining until maturity date on October 4, 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 Banks on July 5, 1962, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 5, 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.

June 28, 1962

RELEASE A.M. NEWSPAPERS
Friday, June 29, 1962

SWEDEN PAYS MARSHALL PLAN
OBLIGATION IN FULL

The Kingdom of Sweden today paid in full Sweden's entire remaining obligation to the United States arising out of loans under the Economic Cooperation Act known as the Marshall Plan. The payment received totalled $16,217,506.85 including $16,020,000.00 on principal and $197,506.85 on interest. Under terms of the agreement final payment would have been made on December 31, 1983. This is the only debt owed by the Kingdom of Sweden to the U.S. Government.

On behalf of the United States, Robert V. Roosa, Under Secretary of the Treasury for Monetary Affairs, expressed his appreciation to Mr. Krister Wickman, Under Secretary, Ministry of Finance of the Kingdom of Sweden. Under Secretary Roosa stated that this action is indicative of the strength of the Swedish economy and the important role that Sweden is playing in the development of international financial cooperation.

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D-532

527

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D-532